London Borough of Barnet Pension Fund

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

Prepared By:

Andrew Elliott - Senior Investment Consultant
Phil Spencer - Associate Investment Consultant

For and on behalf of Hymans Robertson LLP

February 2016

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.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Investment Property Databank Limited data: © and database right Investment Property Databank Limited and its licensors 2016. All rights reserved. IPD has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2016

Executive Summary

Market Summary

Following the correction in markets towards the tail-end of summer, the final quarter of 2015 saw global equity markets reverse course to finish the year in low positive territory. Market volatility continued to be high over the quarter, with concerns remaining around the longer-term growth prospects for China and what this could in turn mean for global demand. However, towards the end of the quarter, markets gave back some of the gains as the ECB's stimulus measures were less than anticipated and oil prices continued to free fall.

Global bond yields reacted to diverging central banks' policy decisions over the quarter. In the US, where the Fed took the decision at its December 2015 meeting to raise underlying US interest rates from 0.25% p.a. to 0.50% p.a. Credit spreads narrowed slightly over the quarter, resulting in marginally positive returns on corporate bonds and outperformance over conventional gilts on a duration-adjusted basis, which suffered from a slight rise in interest rates across the curve.

Commodity prices remained under pressure over the quarter, with further sharp falls in the price of oil towards the end of the year. Demand for oil continues to grow (albeit modestly on the back of lacklustre global economic growth), but a continued glut of supply saw the price of a barrel of US Brent Crude continuing to trend lower over October and November before bottoming out at around $30 USD/barrel in December after Iran announced that it planned to increase exports and current production levels following the anticipated removal of international sanctions in early 2016.

Valuation and Performance Summary

Fund assets totalled c. £882m at the end of Q4 2015, an increase of c. £13m from the start of the quarter.

The Fund's assets returned 1.4% (net of fees) over the quarter, in line with the combined benchmark for the period and comfortably ahead of index-linked gilts by c. 4.3%.

The Fund's funding level, as estimated by Hymans Robertson's 3DAnalytics funding tool, increased over the quarter from 64.1% to 67.5%, measured on a gilts + 1.6% p.a. basis.

As part of the on-going move to the Fund's new long term investment strategy, new allocations were made to several LGIM passive equity funds over the period, as well as to Schroder's ISF Strategic Bond fund. The former benefitted from the equity rally over the quarter whilst the latter posted a small negative return for the month of December. Of the Fund's other growth mandates, both Newton Real Return and Schroder DGF outperformed their respective performance targets. The Fund's three corporate bond mandates all posted positive absolute returns but each lag their performance objectives over the longer term.

Over the 5 year period to 31 December 2015, the Fund has returned 4.8% p.a. underperforming the combined benchmark by 1.8% p.a. This is largely due to the Fund's absolute return mandates and their underperformance versus their ambitious outperformance targets which can be difficult to achieve during volatile market conditions.

Manager Ratings Summary

Manager	Fund Name	Rating				
Legal & General	World ex UK Equity Index Fund					●
Newton	Real Return Fund					●
Schroder	Diversified Growth Fund				●	
Schroder	ISF Strategic Bond Fund				●	
Schroder	All Maturities Corporate Bond Fund				●	
Newton	Corporate Bond Fund				●	
Legal & General	Active Corporate Bond All Stocks Fund					●

Actions and Recommendations

Over the quarter, the Fund started its transition to a new long term investment strategy which is to continue into 2016. Whilst this is ongoing we would not suggest any rebalancing is considered since the Fund's target asset allocation is naturally changing during this period.

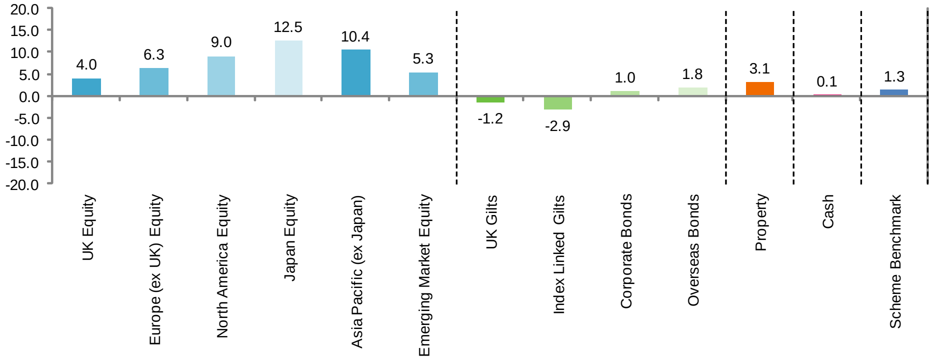
Once the Committee has completed moving the Fund to the new long term investment strategy, we would suggest a rebalancing process is formally agreed with appropriate rebalancing ranges for each of the Fund's asset classes.

All of the Fund's investment managers are currently rated either a '4 – Retain' or '5 – Preferred strategy'. There were no significant changes over the quarter to warrant any changes in rating. That said, the performance of the three active corporate bond mandates versus their long term performance targets is a little disappointing and we will therefore look to monitor this more closely over the next few quarters. Since the Fund's overall corporate bond allocation is being reduced, however, the impact of this on overall relative Fund performance will lessen.

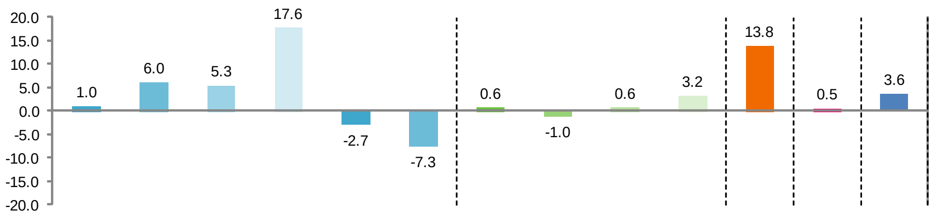
Historic Returns for World Markets to 31/12/2015

Historic Returns [1] [i]

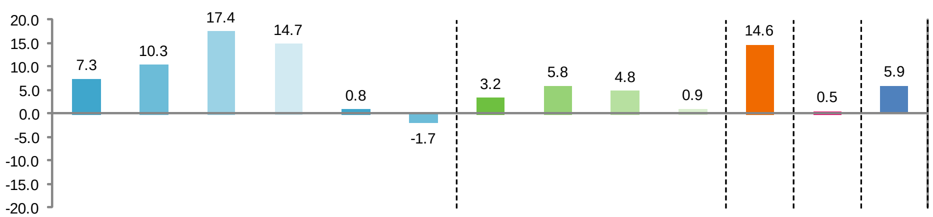
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

Global equity markets rebounded strongly from the setback of Q3, with the FTSE All World index returning 8.1%. In the UK the FTSE All Share index rose by 4.0%; in the US, the S&P 500 index increased by 10.0%. The defensive qualities of government bonds were in less demand and they delivered negative returns over the period.

Economic news was varied. The US and China appeared to be slowing, while Japan and Eurozone showed signs of improvement. There was no relief for oil exporting countries as oil prices fell to their lowest level in seven years. Brent crude finished the year just above $35 per barrel, less than one-third of its mid-2014 highs.

There was growing divergence in the policies of major central banks. In response to stubbornly low inflation, the European Central Bank extended its monthly €60bn quantitative easing programme by six months and cut its overnight deposit rate from -0.2% p.a. to -0.3% p.a. Many had expected more drastic measures. After almost a decade of no change, the Federal Reserve raised US interest rates from 0.25% p.a. to 0.50% p.a. Continuing labour market strength had made this all but inevitable and market reaction was muted. In the UK, the Bank of England hinted that a rise in UK interest rates was unlikely until much later this year.

Key events during the quarter included:

Global Economy
- December's rise in US interest rates was the first for nearly 10 years.
- In November's Inflation Report, the Bank of England indicated that UK interest rates were unlikely to rise until late 2016.
- Oil prices fell to their lowest levels in seven years, finishing the year just above $35 per barrel.
- Slowdown in the Chinese economy continued with GDP growth falling below 7% for the first time since 2009.
- Cyclical commodities such as industrial metals and energy have particularly suffered from China's slowdown.

Equities
- The strongest sectors relative to the FTSE All World Index were Technology (+3.2%) and Health Care (+2.0%); the weakest were Oil & Gas (-2.0%) and Utilities (-3.9%).
- Japan was the strongest performer during the quarter; while Emerging Markets were again the weakest.

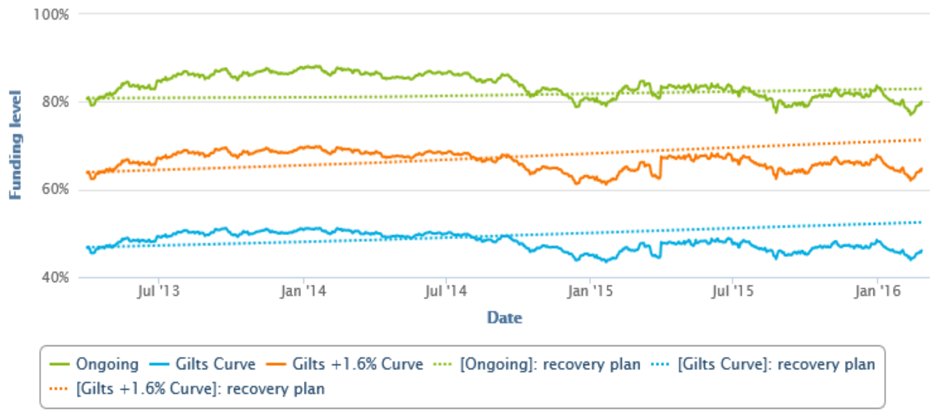
Bonds and currencies
- Sterling was broadly flat against the Euro but weakened against the Dollar and Yen.
- UK gilts fell (yields rose) as equity markets rallied and investors switched to higher risk assets.

[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.

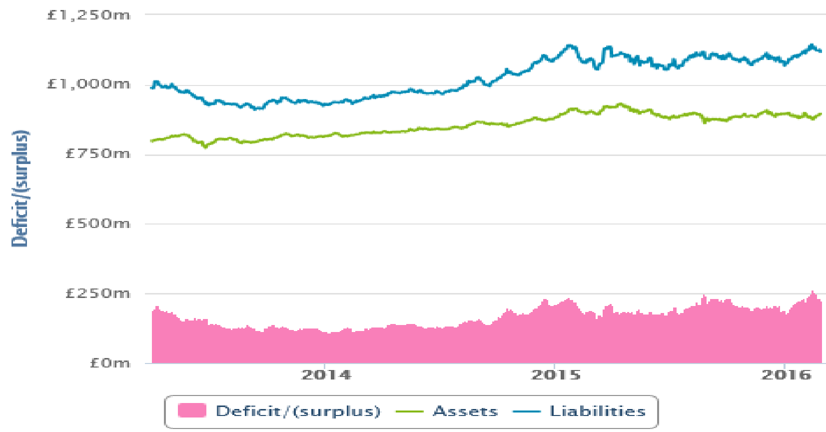
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Funding update

Progression of funding level (on different bases)



Funding position (gilts + 1.6% p.a. basis)



Comments

We have estimated the progression of the Fund's funding position (on different bases) since the last actuarial valuation at 31 March 2013. The analysis is based on the 2013 actuarial valuation report and subsequent funding updates provided by the Fund actuary. The liabilities have been "rolled forward" allowing for changes in gilt yields over time.

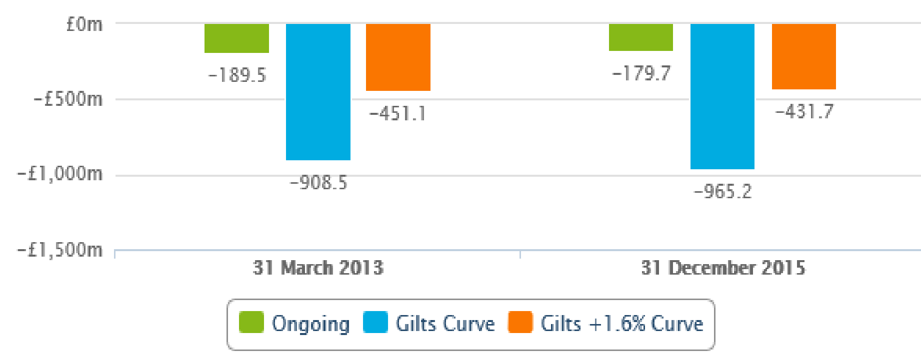
We estimate that since 31 March 2013 the Fund's funding level (on a gilts + 1.6% p.a. basis) has increased from c. 64% to c. 68% as at 31 December 2015.

As at 31 December 2015, we estimate that the Fund's deficit on a gilts + 1.6% p.a. basis is around £432m, a decrease of c. £19m since 31 March 2013.

Since the end of 2015, we estimate the Fund's funding level (on a gilts + 1.6% p.a. basis) has fallen to c. 65% as at 25 February 2016.

Please note that the Fund's funding position estimated here will differ from that calculated by the Fund Actuary, Barnett Waddingham. This is due primarily to the roll forward of the Fund's liabilities and also due to differences in our assumptions used to calculate the funding level.

Surplus / deficit (on different bases)

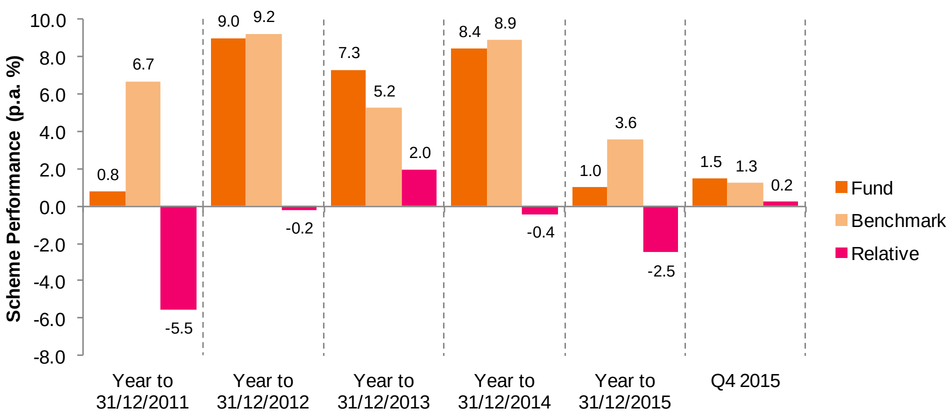


Fund Summary

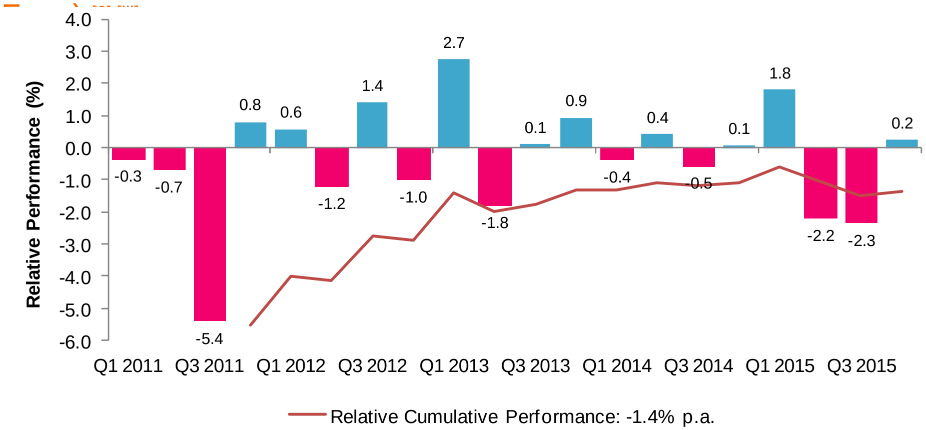
Valuation Summary [1] [i]

	Values (£m)				
Asset Class	Q3 2015	Q4 2015	Actual Proportion %	Target Proportion %	Difference %
Global Equity	46.6	150.6	17.1	17.0	0.1
Absolute Return Funds	532.9	440.5	49.9	51.0	-1.1
Multi-Credit	0.0	60.0	6.8	7.0	-0.2
Corporate Bonds	289.6	230.9	26.2	25.0	1.2
Total Client	**869.1**	**882.0**	**100.0**	**100.0**	

Performance Summary [2] [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of



[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 Global Equity	Passive	FTSE World 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				●	
Schroder ISF Strategic Bond Fund	Active	3 month £ LIBOR + 2% p.a.	52				●	

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

Key:- Replace - On-Watch - Retain

Manager Valuations [1] [i]

Manager	Value (£m) Q3 2015	Net Investment	Q4 2015	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	46.6	+100.0	150.6	17.1	17.0	0.1
Newton Real Return Fund	265.3	-50.0	216.9	24.6	25.0	-0.4
Schroder Life Diversified Growth Fund	267.6	-50.0	223.5	25.3	26.0	-0.7
LGIM Active Corporate Bond All Stocks Fund	19.3	-	19.4	2.2	2.0	0.2
Newton Corporate Bond Fund	142.1	-60.0	82.5	9.4	8.0	1.4
Schroder All Maturities Corporate Bond Fund	128.1	-	129.0	14.6	15.0	-0.4
Schroder ISF Strategic Bond Fund	0.0	+60.0	60.0	6.8	7.0	-0.2
Total	**869.1**	**-**	**882.0**	**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 [i]

		LGIM Global Equity	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	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	5.7	1.1	2.1	0.2	0.0	0.6	-0.2	1.4
	Benchmark	5.7	1.1	1.4	0.4	0.3	0.5	0.3	1.3
	Relative	0.0	0.0	0.7	-0.2	-0.3	0.1	-0.5	0.1
12 Months (%)	Absolute	1.9	1.2	-0.0	0.5	0.3	0.4	N/A	0.6
	Benchmark	2.0	4.6	6.1	0.5	-0.3	0.8	N/A	3.6
	Relative	-0.1	-3.2	-5.8	0.0	0.6	-0.3	N/A	-2.9
3 Years (% p.a.)	Absolute	11.8	3.5	5.8	4.5	5.2	4.8	N/A	5.1
	Benchmark	11.9	4.5	6.9	4.4	5.3	4.5	N/A	5.9
	Relative	-0.1	-1.0	-1.0	0.1	-0.1	0.3	N/A	-0.7
Since Inception (% p.a.)	Absolute	7.9	2.9	3.8	7.0	8.2	6.5	-0.2	4.8
	Benchmark	8.0	4.6	7.5	6.6	8.4	6.7	0.3	6.7
	Relative	-0.1	-1.6	-3.5	0.4	-0.2	-0.2	-0.5	-1.8

Long term performance returns for LGIM Global includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015. 3 month performance for Schroder ISF Strategic Bond Fund is since inception on 30 November 2015. Total Fund performance for the quarter has been approximated given the transition of monies over the period.

Source: [i] DataStream, Fund Manager

LGIM Global Equity

HR View Comment & Rating

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

There were no further business changes at LGIM since our last report.

Relative Quarterly and Relative Cumulative Performance [i]

Fund Commentary

As part of the agreed move to the Fund's new long term investment strategy, LGIM's global equity mandate increased in size over the quarter from c. 5.4% of Fund assets to c. 17% at the end of the fourth quarter.

Long term performance shown has been retained to include the performance of the World (ex UK) Equity Index fund since 31 December 2010.

LGIM's global equity mandate has been set up to broadly hedge 50% of its overseas currency exposure.

The final quarter of 2015 was positive for equity markets, with the Fund's overall equity portfolio returning 5.7%, in line with the benchmark as expected of a passive manager.

Performance Summary (Gross of fees) [1] [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	5.7	2.0	12.0	8.1
Benchmark	5.7	2.0	11.9	8.0
Relative	0.0	0.0	0.0	0.0

* Inception date 31 Dec 2010.

[1] Long term performance returns includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015.

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

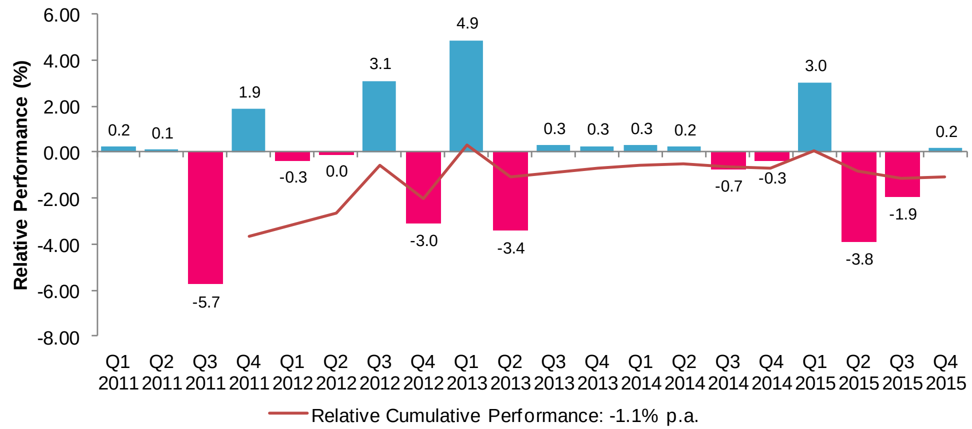
Newton Real Return Fund

HR View Comment & Rating

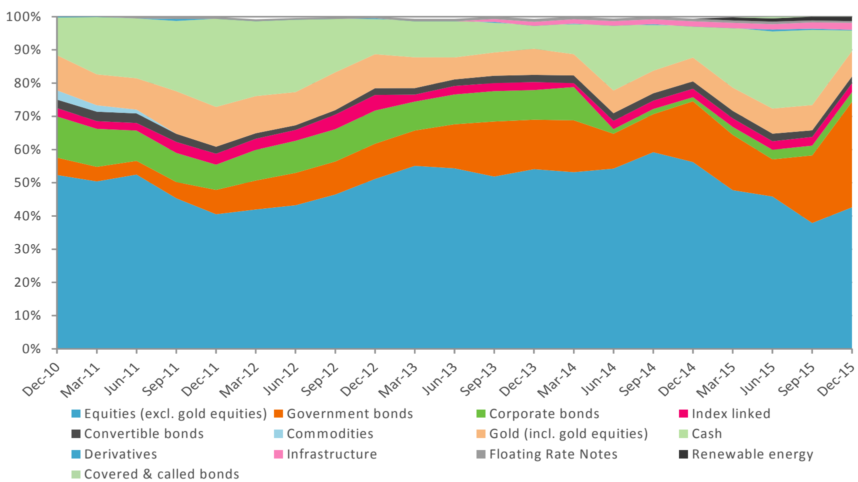
During Q4 2015, Newton announced the departure of James Harries, the alternate lead manager for the Real Return strategy. Suzanne Hutchins, one of the senior investment managers in the team, rejoined Newton in 2010 after 5 years away and will take over Harries' responsibilities.

In our view we do not think this warrants a downgrade of our manager rating, and maintain the fund's rating at '5 - Preferred strategy'. Firstly, we still view Iain Stewart as the key decision maker for the Real Return strategy and secondly, we believe there is a 'Newton' approach to investing and that is demonstrated throughout the investment process and by all members of the team. However, we are well aware that Harries' departure is a set back to the succession planning for the Real Return fund. We intend to monitor developments closely and have set up a meeting for Q1 2016 with Suzanne Hutchins, the now alternative manager for the Real Return Fund and Aron Pataki, a senior investment manager within the Real Return team. We will update our views accordingly.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

The fund was up 1.3% (gross of fees) over the quarter resulting in a return of 1.2% (net of fees) over the past 12 months. Despite outperforming its performance target of LIBOR + 4% over the final quarter, the fund continues to lag over long term periods.

The fund's return-seeking core, of which equities form the majority, provided a significant positive contribution. There was strong performance from the technology, tobacco and pharmaceutical sectors, where Microsoft, Japan Tobacco, Merck, Roche and Reynolds American performed strongly. The fund's exposure to alternative assets, along with convertible bonds, was also beneficial. Exposure to gold and other precious metals generated a small positive contribution. As the quarter was generally a buoyant one for risk assets, the risk-offsetting and hedging positions in the portfolio proved a negative contributor towards the overall fund return.

The most significant headline change during the quarter was a marked reduction in cash levels, along with an increase in government bond weighting. Since the end of September, gross equity exposure has increased by around 5%, with a subsequent increase in the fund's gross return-seeking core. Newton believes downside volatility is more likely to develop, and so throughout 2015 has been de-risking the strategy. Newton believes the ability for the strategy to remain patient, and not to be fully invested, will prove beneficial. Going into 2016, the management team remain cautious and highly selective. The team do not believe that inflation will pick up significantly and do not expect an aggressive US Federal Reserve tightening cycle, and have positioned the portfolio accordingly.

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

Schroder Diversified Growth Fund

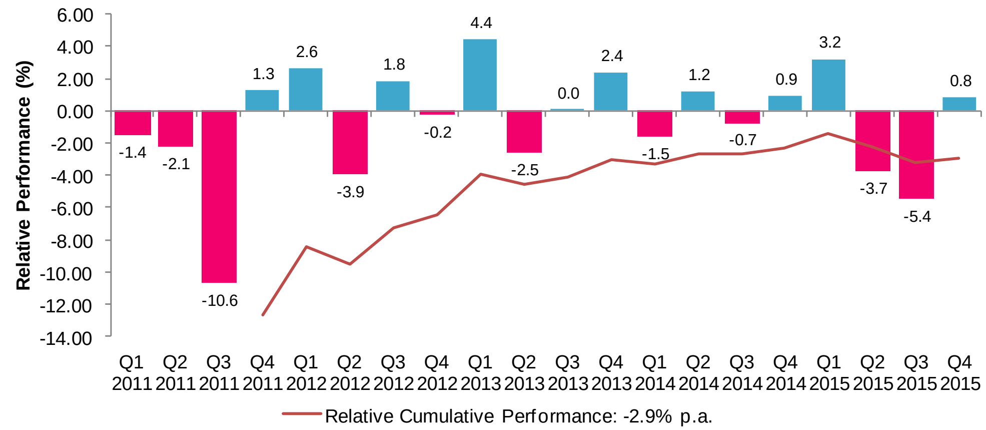
HR View Comment & Rating

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

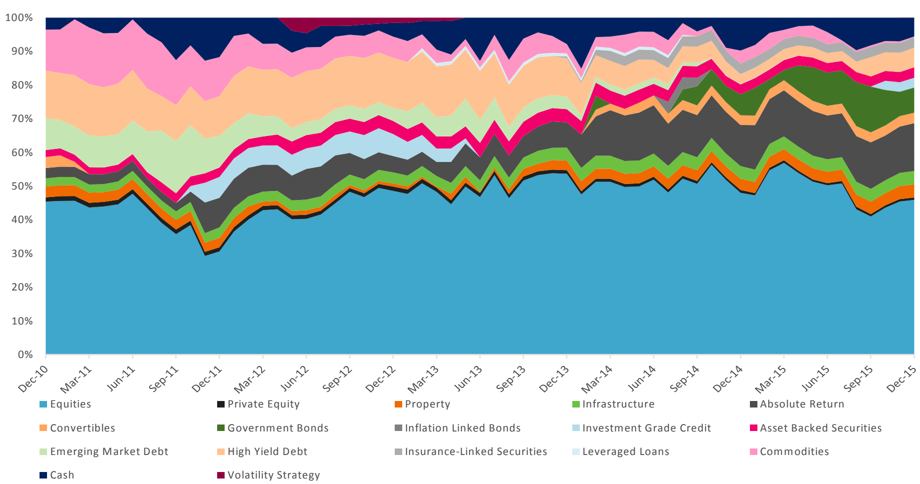
As a large, long-established multi-asset manager, Schroder is well placed to manage a mandate of this type. The Diversified Growth Fund (DGF) was one of the first of its kind to gain traction in the institutional market, albeit largely amongst small pension funds. The product has a dual objective – on-going 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.

There were no significant changes over the fourth quarter to the end of 2015.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

Over the final quarter of 2015, the Schroder DGF fund outperformed its RPI + 5% p.a. target by 0.5% as global equities recovered from their falls over Q3.

Equities were naturally the greatest contributor to performance over the quarter although the majority of the fund's alternative growth assets also performed well. Over the quarter, the big news was the decision by the Federal Reserve to raise short term interest rates; however, the overall impact on the fund and indeed the wider market was, perhaps surprisingly, relatively muted implying such a move had already been accounted for by markets in the run up to the decision. Having commented last quarter that the manager was now seeing some attractive entry points within emerging market currencies, the decision was taken at the beginning of Q4 to initiate positions in the Brazilian real, Mexican peso and Indian rupee. The manager also continued to hold short positions in Asian currencies versus long positions in safe haven currencies such as the Yen and US dollar; the latter position, in particular, we would expect to have benefitted the fund since year end.

The manager acknowledges that focus for the last few years has been on areas that are key beneficiaries of quantitative easing. This is expected to change, however, over 2016 as the manager starts to look, albeit cautiously, towards more cyclically exposed value opportunities.

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

Schroder ISF Strategic Bond Fund

HR View Comment & Rating

We rate Schroder's ISF Strategic Bond fund at '4 - Retain'.

Over the quarter the Fund made a new allocation to Schroder's ISF Strategic Bond fund as part of a move towards the Fund's new long term investment strategy. The allocation was funded from the Fund's corporate bond holding with Newton.

There was no significant business news to report over Q4 2015.

Performance Summary (Gross of fees) [i]

	Since Inception* (% p.a.)
Fund	-0.2
Benchmark	0.3
Relative	-0.5

* Inception date 30 Nov 2015.

Fund Commentary

The fund has a stated performance target of LIBOR + 4% p.a. over a market cycle which is typically c. 5 years. We view this performance target as ambitious given the type of strategy being employed. For the purposes our reporting, we have therefore chosen to measure the fund against a benchmark of LIBOR + 2% p.a., at least over the shorter term, as we believe this level of outperformance to be a more realistic target for the fund to achieve.

Since implementation on 30 November 2015 to the end of 2015, the fund underperformed its performance target of LIBOR + 2% p.a. by 0.5%, delivering a small negative absolute return of -0.2%. Rising yields over Q4 will have had a negative impact on bond prices, however, the fund's active duration positioning will have helped dampen the effect of this slightly.

More detailed performance commentary will be provided in our Q1 2016 report.

Source: [i] Fund Manager

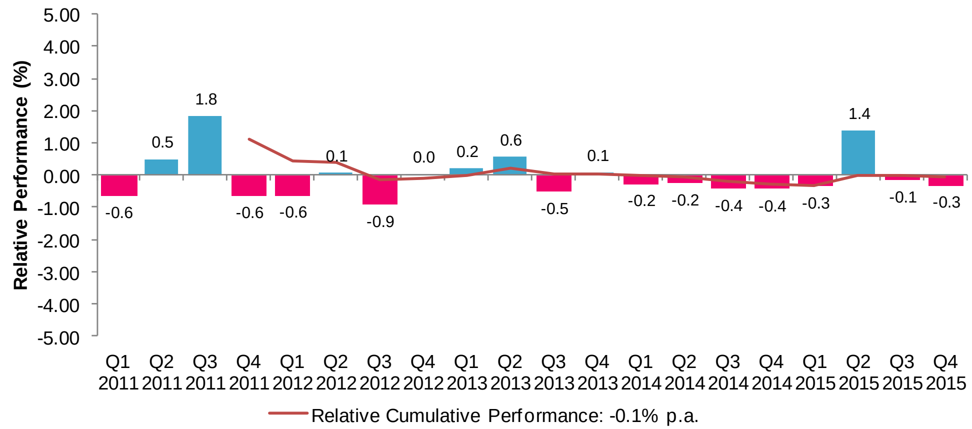
Newton Corporate Bond Fund

HR View Comment & Rating

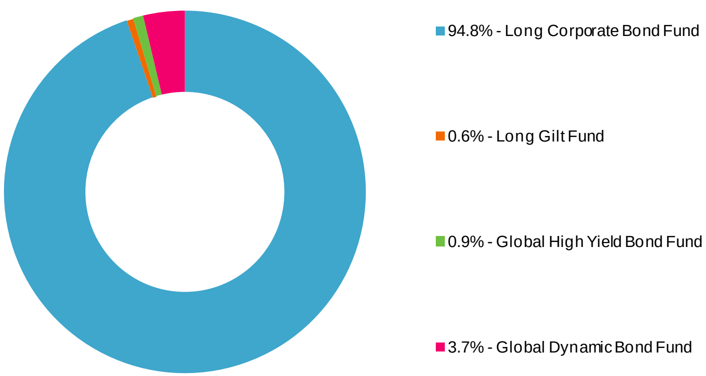
We rate Newton's fixed income capabilities at '4 - Retain'.

There was no significant business news to report over Q4 2015.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Holding as at 31 December 2015



Fund Commentary

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

Returns were flat over the quarter to end December 2015 with the fund underperforming its benchmark by 0.3%.Over the last 5 years, the fund has delivered solid absolute performance but only just in line with benchmark. It is therefore disappointing that the manager has not managed to achieve any outperformance over this longer term period.

The Newton Long Corporate Bond fund, in which c. 93% of assets are currently invested in, lagged its benchmark for a second consecutive quarter as the fund's shorter duration position detracted, together with a slight cash drag from monies being returned from gains achieved over November. The fund's underweight to long-dated financials was also a notably detractor as financials proved to be one of the best performing sectors over the quarter.

The Fund's small allocations to Newton's Long Gilt fund and Global High Yield Bond fund both managed to outperform their respective benchmarks over the period. The latter, in particular, was up nearly 2% on the index as a defensive stance away from the energy sector and commodities benefitted the fund considerably.

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

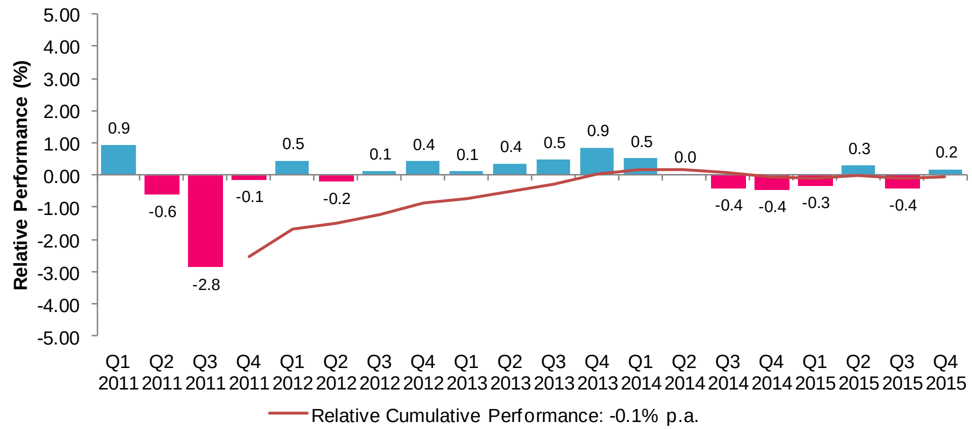
Schroder Corporate Bond Fund

HR View Comment & Rating

We rate Schroder's corporate bond fund at '4 - Retain'.

There was no significant business news to report over Q4 2015.

Relative Quarterly and Relative Cumulative Performance [i]



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.

The fund delivered an absolute return of 0.7% over the final quarter of 2015, outperforming its benchmark by 0.2% and thus finishing the year broadly in line with benchmark. Whilst the fund has managed to perform in line with the benchmark since inception, no outperformance has been delivered over this 5 year period.

Credit sector allocation was the main contributor to relative outperformance over the period with the majority of performance coming from the financials sector. Credit selection, however, particularly within the basic industries sector, detracted for a second consecutive sector. With the outlook for commodity prices and emerging markets remaining very uncertain, the manager is choosing to focus on corporate bonds with greater domestic exposure. The largest overweight positions at the end of the quarter were to utilities and subordinated financials.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	0.6	5.0	6.7
Benchmark	0.5	0.8	4.5	6.7
Relative	0.2	-0.1	0.5	-0.1

* Inception date 31 Dec 2010.

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

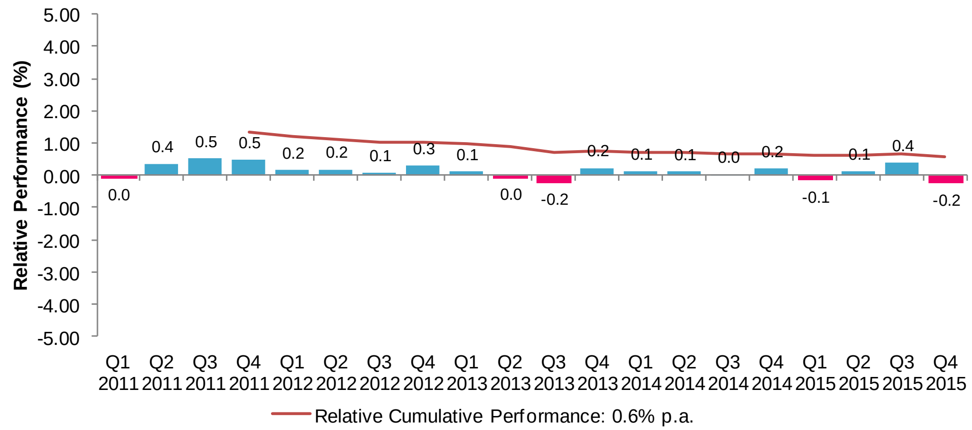
LGIM Corporate Bond Fund

HR View Comment & Rating

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

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

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 31 December 2015, the fund delivered a small positive return but underperformed its benchmark by 0.2% as an overweight position to collateralised bonds detracted. Exposure to high yield also contributed to relative underperformance on concerns over liquidity and the potential for rising defaults, particularly within the energy sector. Positive contributors to performance came from an underweight position to utilities and an overweight to selected lower tier two and senior bank bonds.

Since 31 December 2010, the fund has outperformed its benchmark by 0.6% p.a. which, whilst positive, continues to lag its overall performance objective. The manager continues to position the fund cautiously, with a preference for financials over non-financials and collateralised bonds which offer stable, high quality cashflows backed by high quality assets.

Performance Summary (Gross of fees) [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.2	0.7	4.7	7.2
Benchmark	0.4	0.5	4.4	6.6
Relative	-0.2	0.2	0.3	0.6

* Inception date 31 Dec 2010.

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

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.