APPENDIX C

Performance Report - Quarterly Update
31 March 2012

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

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Section One – Market Update

Introduction

This summary covers the key market data for the three months to the end of March 2012.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	6.1	1.4
Overseas Equities	9.4	-0.3
USA	9.7	8.8
Europe	10.0	-11.8
Japan	7.9	0.9
Asia Pacific (ex Japan)	9.6	-6.3
Emerging Markets	10.6	-8.6
Property	0.9	6.6
Hedge Funds	4.2	-0.3
Commodities	3.0	-5.9
High Yield	4.5	5.5
Cash	0.1	0.6

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-4.4	22.6
Index-Linked Gilts (>5yrs)	-2.0	21.1
Corporate Bonds (>15yrsAA)	-0.4	13.7
Non-Gilts (>15 yrs)	0.5	12.3

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.8	-0.3
Against Euro	0.2	6.2
Against Yen	10.0	-1.0

Yields as at 31 March 2012	% p.a.
UK Equities	3.5
UK Gilts (>15 yrs)	3.3
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.6
Non-Gilts (>15 yrs)	4.9

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.3	-1.0
Index-Linked Gilts (>5 yrs)	0.1	-0.7
Corporate Bonds (>15 yrs AA)	-0.1	-0.9
Non-Gilts (>15 yrs)	0.1	-0.6

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	3.6
Price Inflation - CPI	0.4	3.5
Earnings Inflation *	0.2	1.6

* is subject to 1 month lag

Statistical highlights

- Twelve month CPI inflation has fallen to 3.5% in March, down from its recent peak of 5.2% in September 2011. The Bank of England ("BOE") stated that whilst the recent fall in CPI inflation had been as expected, the extent of any further decline is less certain. The Monetary Policy Committee ("MPC") maintained interest rates at 0.5%.
- Early indicators of consumer spending at the beginning of the year were mixed. Retail sales rose by 0.9% in January and by 1.3% over the last quarter. Other indicators were less positive, as consumer confidence had remained weak. The latest CBI Distributive Trades Survey reported that retail sales volumes were broadly flat in the year to February, although this represented a significant improvement on January.
- The Office for National Statistics ("ONS") reported another rise in unemployment although at it's slowest pace for a year. It reached 2.67 million during the three months to January 2012, taking the unemployment rate up to 8.4%. This figure compares favourably with the Euro zone area where the unemployment rate was10.8% as at February 2012.
- The European Central Bank ("ECB") benchmark interest rate remained unchanged at 1%. The US Federal Reserve made the unprecedented move of announcing that it expected to keep interest rates below 1% until at least 2014. In Asia, the Bank of Japan continues its policy of quantitative easing and the People's Bank of China has begun to cautiously loosen monetary policy by reducing bank reserve ratio requirements.
- The first round of the European Central Bank long-term refinancing operation (LTRO) in December 2011, totalled €489 billion. A second round in February 2012, totalled €529.5 billion. By providing liquidity to the banking system, and accepting collateral in the form of government bonds, the operation is expected to provide time for banks to repair their finances.
- The FTSE All Share Index produced a return over the quarter of 6.1%. European equities produced returns of 10.0%, despite the ongoing concerns regarding sovereign debt in the Eurozone. Emerging Markets were the strongest performers, producing returns of 10.6%. The US, Asia Pacific and Japan equity market all produced positive absolute returns over the quarter.
- UK long dated gilts produced negative returns over the quarter. Despite the slight increase in yields 3.3%, many still believe that gilt yields are at an unsustainable low level and that further increases are likely over time.

Section Two – Total Scheme Performance

Manager	Fund	Start of Quarter Value £	Start of Quarter Proportion of Total %	Net New Money £	End of Quarter Value £	End of Quarter Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	213,891,054	31.5	10,500,000	226,349,214	31.9
Schroder Investment Management Limited (Schroder)	Diversified Growth	200,939,975	29.6	10,500,000	220,342,394	31.1
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	31,271,700	4.6	-	34,190,632	4.8
Newton	Corporate Bond	100,454,207	14.8	4,500,000	106,365,810	15.0
Schroder	All Maturities Corporate Bond	93,156,795	13.7	4,500,000	100,766,889	14.2
L&G	Active Corporate Bond – All Stocks	14,785,469	2.2	-	15,208,696	2.1
Internal	Property	2,829,707	0.4		-	-
Schroders	Cash	397,253	0.1	-	406,965	0.1
Internal	Cash	21,150,078	3.1		5,246,367	0.7
ASSET SPLIT						
Growth assets		470,479,767	69.3	-	486,535,572	68.6
Bond assets		208,396,471	30.7	-	222,341,395	31.4
TOTAL		**678,876,238**	**100.0**	**-**	**708,876,967**	**100.0**

Source: Investment managers, bid values. Please note that the internal property amount is based on bid values. The Internal Property was fully disinvested during Q1 2012. The Internal Cash includes the proceeds of the property disinvestment and this amount is assumed to have earned no interest over the quarter. The Schroders Cash is assumed to be held in respect of the Growth portfolio.

Total Scheme Performance

	Portfolio Return Q1 2012 %	Benchmark Return Q1 2012 %
Total Scheme	2.7	-1.3*
Growth Portfolio		
Growth v Global Equity	2.5	7.4
Growth v RPI+5% p.a.	2.5	1.8
Growth v LIBOR + 4% p.a.	2.5	1.2
Bond Portfolio		
Bond v Over 15 Year Gilts	2.2	-4.4
Bond v Index-Linked Gilts (> 5 yrs)	2.2	-2.0

The Growth portfolio excludes internal Property and L&G equities, Global equity 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 16).

The Bond portfolio excludes L&G corporate bond fund.

The Total Scheme return excludes Property.

The total scheme return is shown against the liability benchmark return (see page 16), and excludes the internal property fund. 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.

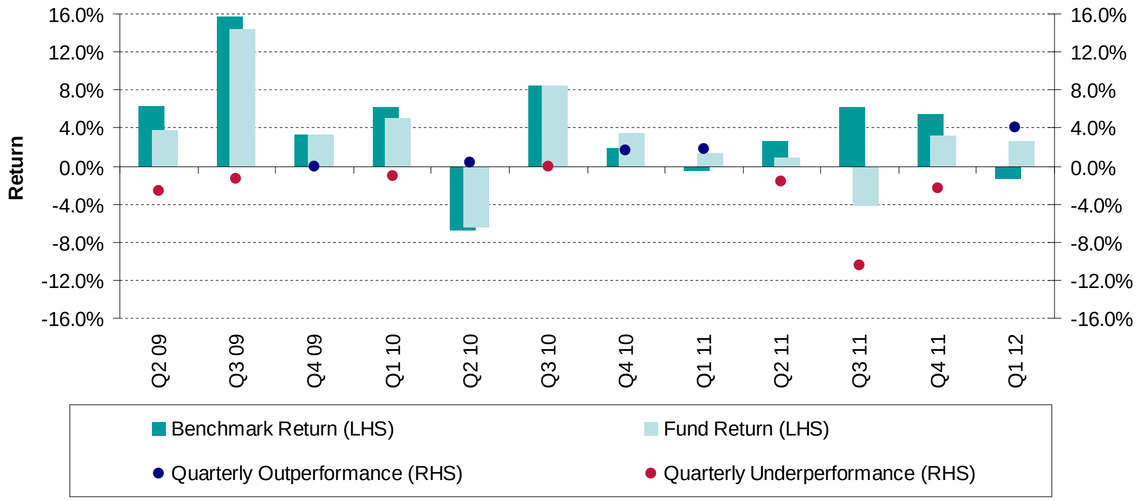
Individual Manager Performance

Manager/Fund	Portfolio Return Q1 2012 %	Portfolio Benchmark Q1 2012 %
Newton Real Return	0.9	1.2
Schroder Diversified Growth	4.2	1.8
L&G – Overseas Equity	9.3	9.3
Newton Corporate Bond	1.4	1.5
Schroder Corporate Bond	3.2	2.8
L&G – Corporate Bond	2.9	2.7

Source: Investment managers, Thomson Reuters. Performance is time-weighted. The Property return has been excluded from the performance report as the Scheme has redeemed the majority of its investment in this portfolio, the performance of which is estimated to have had minimum impact on the total scheme return over the year and the quarter given the relatively small holding.

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

Total Scheme - performance relative to liability benchmark



Source: Investment managers, Thomson Reuters.

The Scheme achieved a return of 2.7% over the quarter and outperformed the liability benchmark return of -1.3%.

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

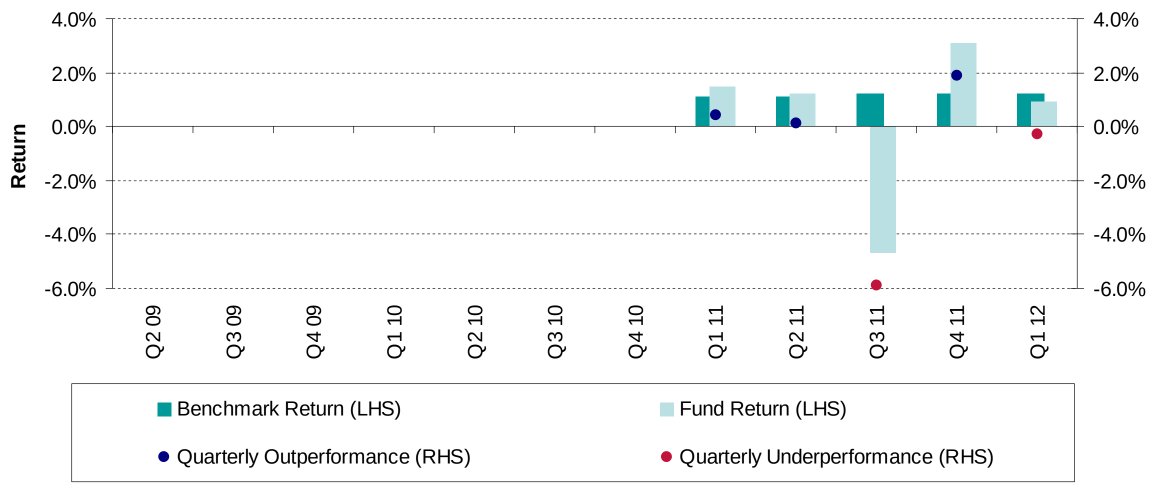
The absolute return was generated by positive returns across all portfolios.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 4.9%, as the DGF funds did not keep pace with the equity market rally. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned more than both of the LIBOR +4% and the RPI +5% target returns of the respective DGF funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed both the Over 15 Year Gilts Index (by 6.6%) and the Over 5 Years Index Linked Gilts Index (by 4.2%).

Section Three – Manager Performance

Newton - Real Return Fund- performance relative to portfolio benchmark



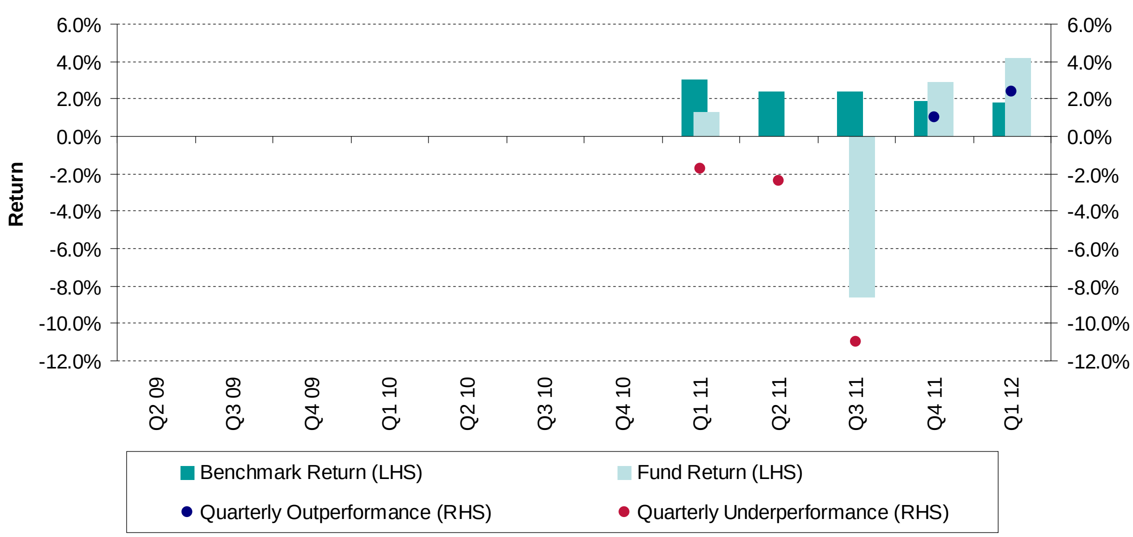
Source: Investment manager.

The portfolio return was 0.9% compared to its LIBOR + 4% p.a. benchmark return of 1.2% underperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed.

The Fund underperformed over a positive quarter for growth assets. Most of the return-seeking assets made a positive contribution, while the Fund's holdings in Norwegian and Australian government bonds and exposure to US dollar made a negative contribution to the Fund's return.

Over the year, the Fund returned 0.3% versus the benchmark return of 4.7%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

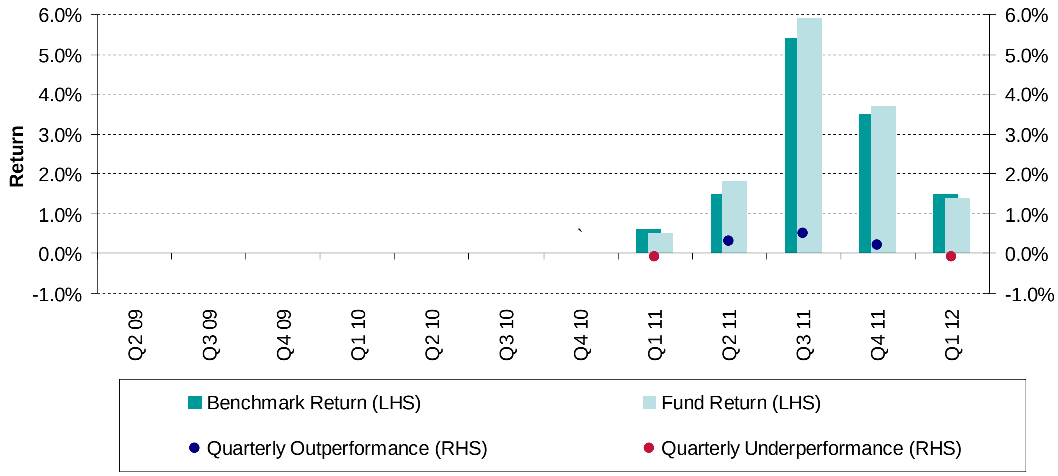
The portfolio return was 4.2% compared to its RPI + 5% p.a. portfolio benchmark return of 1.8% outperforming by 2.4%. Like the Newton Real Return Fund, the Schroder DGF underperformed global equities over the quarter. The Fund performed well in a "risk on" environment as most asset classes continued to rally over the quarter. Although Schroder increased the equity exposure, which helped performance, the Fund still underperformed the notional 60/40 global equity benchmark as global equities outperformed most other asset classes.

Over the year, the Fund returned -1.6% versus the benchmark return of 8.7%.

Asset allocation for growth managers: movement over the quarter

	Q1 '12 Newton %	Q1 '12 Schroder %	Q4 '11 Newton %	Q4 '11 Schroder %
UK Equities	13.1	3.5	15.2	2.1
Overseas Equities	38.1	39.3	33.7	28.5
Fixed Interest	22.6	-	7.3	-
Corporate Bonds	11.0	5.7	8.1	6.2
High Yield	-	19.8	-	21.2
Private Equity	-	1.2	-	4.4
Commodities	3.9	7.7	4.0	11.6
Absolute Return	-	8.0	-	8.8
Index-Linked	2.4	-	3.3	-
Property	-	4.3	-	2.8
Cash/Other	8.9	10.5	28.4	14.4

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

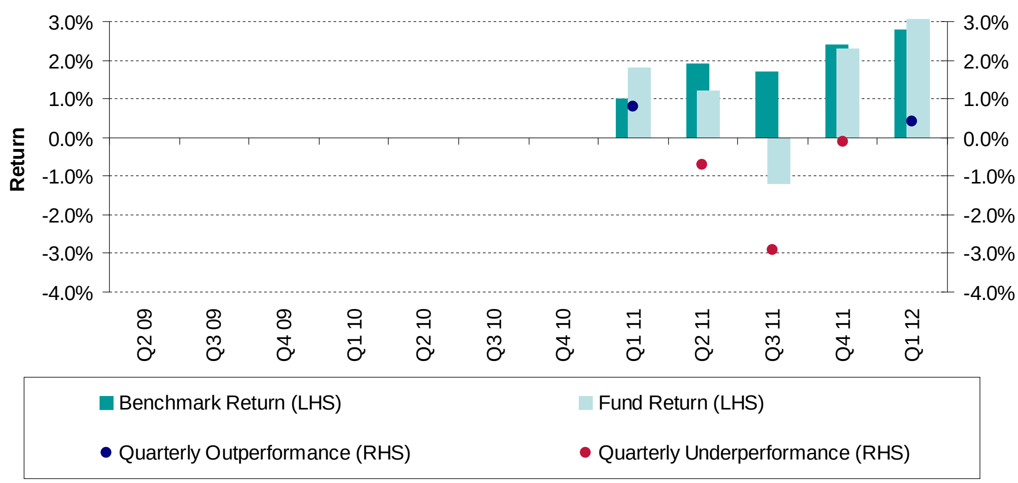


Source: Investment manager.

The Newton Corporate Bond portfolio marginally underperformed its benchmark, returning 1.4% versus the benchmark return of 1.5%. Performance was driven by the decline in the credit risk initiated from the quantitative easing by the ECB. The Fund underperformed its benchmark mainly because of its minimal exposure to peripheral European corporates. Around 1% of the portfolio is invested into Newton Global High Yield Fund.

Over the year, the Fund returned 13.3% versus the benchmark return of 12.3%.

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

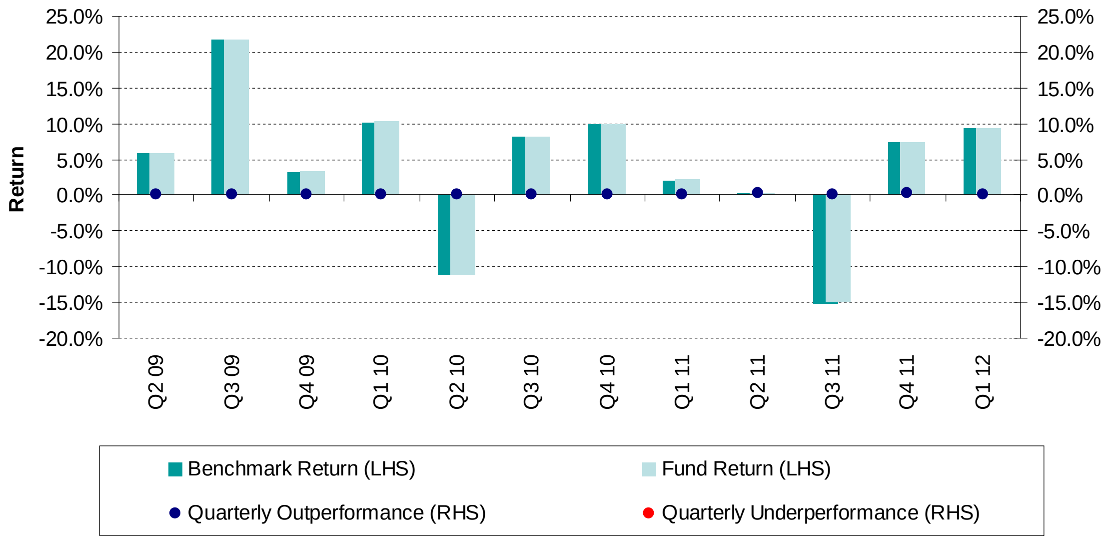


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed the benchmark by 0.4%, returning 3.2%. Overweight exposures to lower rated credits and higher yield spread bonds such as subordinated financials, contributed to the Fund's outperformance.

Over the year, the Fund returned 5.6% versus the benchmark return of 9.1%.

L&G – Equities



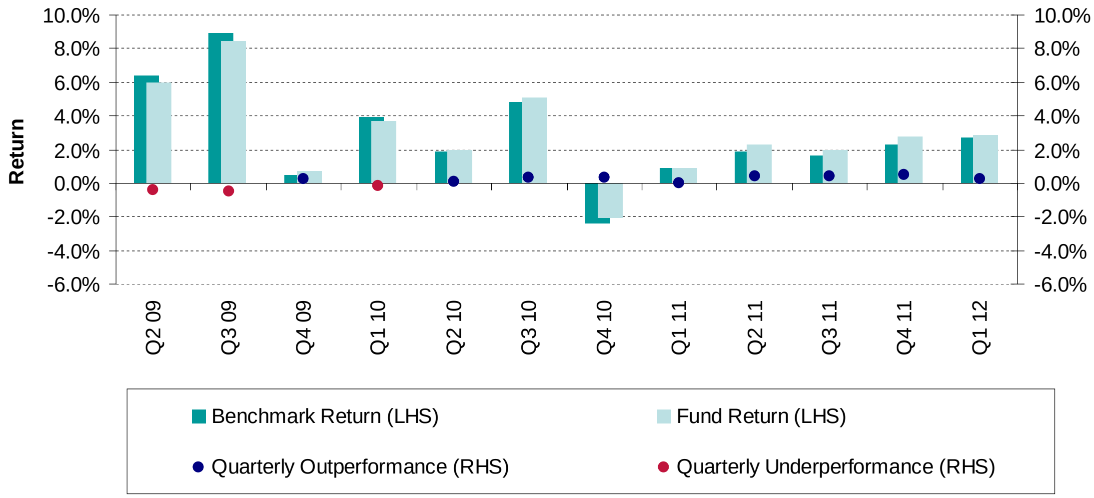
Source: Investment manager.

Over the first quarter of 2012, the Fund return was 9.3% in line with the benchmark return; all the equity regions performed broadly in line with their respective benchmarks.

Over the year, the Fund return was 0.4% outperforming the benchmark return by 0.7%.

This Fund has achieved its target of matching the relevant indices over both the quarter and year.

L&G – Fixed Interest



Source: Investment manager.

Over first quarter of 2012, the Fund return was 2.9% outperforming the benchmark return of 2.7%.

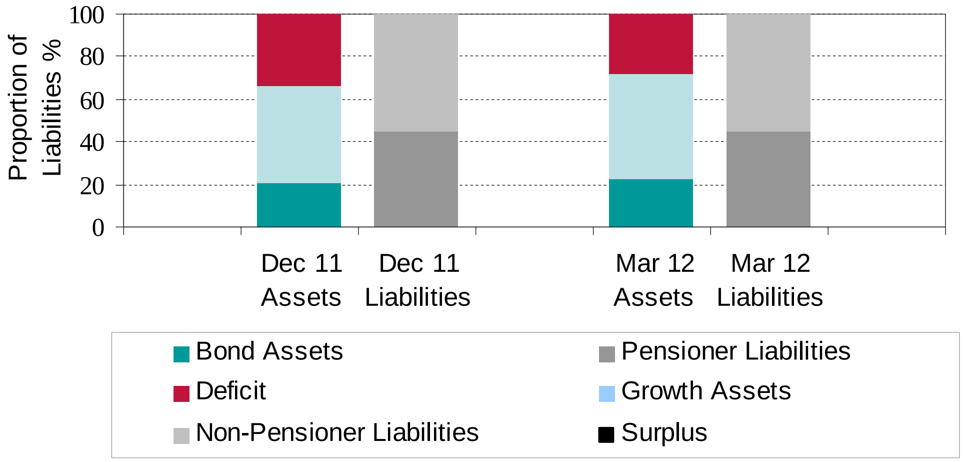
The Fund's positioning in financials and non-financials added value over the quarter.

Over the year, the Fund has performed well with a return of 10.3% compared with the benchmark return of 8.8%.

Section Four – Consideration of Funding Level

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

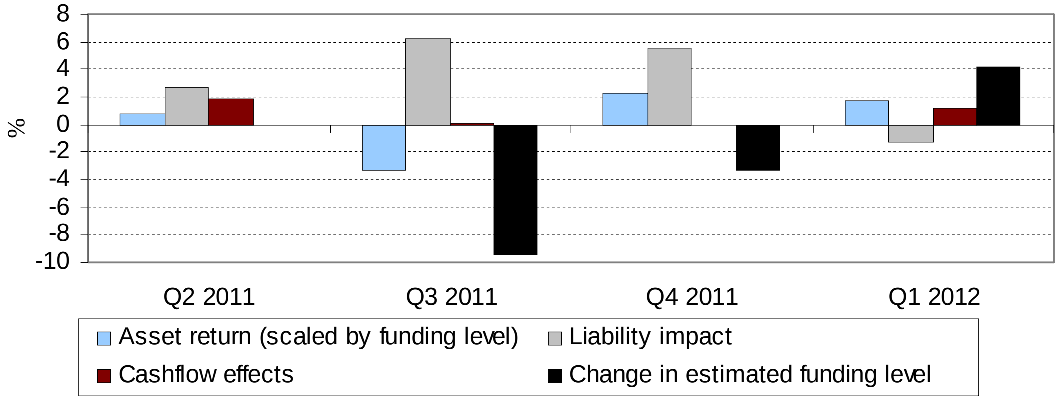
Allocation to Bond and Growth assets against estimated liability split



The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 2. These calculations do not take account of unexpected changes to Scheme membership and should not be construed as an actuarial valuation. However, by showing approximations to these liabilities, this chart should assist the Panel in making informed decisions on asset allocation.

The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities; a mismatch that leaves the Scheme exposed to interest rate risk.

Scheme performance relative to estimated liabilities



The above chart shows, for each quarter, how changes in the value of the assets and the liabilities, combined with the cashflow of the Scheme, have affected the funding level. As detailed earlier, the value of the liabilities has been estimated with reference to changes in the gilt yields underlying the Scheme Actuary's calculation of liabilities, as shown in the Market Statistics table.

Long-dated government bond yields rose (i.e. government bond prices fell) over the quarter and this is expected to have decreased the value of the liabilities (all else being equal).

In addition, the value of the Scheme's assets rose over the quarter which has led to a 4% improvement in the estimated funding level which was 70% as at 31 March 2012.

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

Section Five – Summary

Overall this has been a good quarter for the Scheme.

In absolute terms, the Scheme's assets produced a return of 2.7% over the quarter. All portfolios produced positive absolute performances.

In relative terms, the Scheme outperformed the liability benchmark return (see page 16) of -1.3%. Most portfolios either produced positive relative performances against their respective portfolio benchmarks or performed in line with the benchmark (as in the case of L&G overseas equity), with the exception for the Newton Real Return and corporate bond portfolios, which both underperformed.

Although the DGF portfolios produced positive relative returns they lagged equities over the quarter as we would expect.

The combined Growth portfolio underperformed a notional 60/40 global equity return driven by the relative performance of both the DGF funds. In a rising equity market it is usual to expect DGF funds to underperform equities due to the diversification factor which aims to reduce the impact of falling equity markets.

The combined Bond Portfolio outperformed the two indices that are used to measure the Bond portfolio performance, as government and index-linked bonds fell in value.

Over the quarter it is anticipated, other things being equal, that investment conditions had a positive impact (+4%) on the Scheme's estimated funding level which was 70% as at 31 March 2012.

Appendix

Liability benchmarking

An assessment of Scheme liabilities and how they change would require details of membership changes and actuarial valuation calculations to be carried out. However, by considering the changes in value of a suitable notional portfolio, based on your own liabilities, we can obtain an approximation to the changes in liabilities which will have occurred as a result of investment factors. In this report, when we refer to “liabilities” we mean the notional portfolio representing the actuarial liabilities disclosed in the actuarial valuation report dated 31 March 2010, adjusted approximately to reflect changes in investment factors. This will, therefore, not reflect any unanticipated member movements since the actuarial valuation. However, as a broad approximation it will allow more informed decisions on investment strategy. When we refer to the "liability benchmark" we mean the estimated impact on the liabilities (as referred to above) based on market movements alone.

Summary of current funds

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	December 2010	Active, pooled	1 month LIBOR plus 4% p.a.	To achieve significant real rates of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non Gilt Over 10 Years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	December 2010	Active, pooled	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	September 2008	Passive, pooled	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3

Summary of current funds (continued)

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
L&G	Active Corporate Bond – All Stocks	December 2008	Active, pooled	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years
Internal	Property	N/a	Active, property unit trust portfolio	UK IPD Property Index	Outperform the index
Newton Investment Management Limited (Newton)	Balanced	April 2006	Active, segregated	WM Local Authority Weighted Average	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period
Schroder Investment Management Limited (Schroder)	Balanced	1994	Active, segregated	WM Local Authority Weighted Average ex property, Japan and other international equities	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period

Glossary of Terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
Market stats indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE World Index Series (and regional sub-indices) UK Gilts: FTSE-A Gilt >15 Yrs Index Index Linked Gilts: FTSE-A ILG >5 Yrs Index Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index Property: IPD Property Index High Yield: ML Global High Yield Index Commodities: S&P GSCI GBP Index Hedge Funds: CSFB/Tremont Hedge Fund Index Cash: 7 day London Interbank Middle Rate Price Inflation: Retail Price Index (excluding mortgages), RPIX Earnings Inflation: Average Earnings Index

Market volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money-Weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Portfolio benchmark	The benchmark return of the each manager/fund.
Relative return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund *less* Return on Index or Benchmark.
Scheme investments	Refers only to the invested assets, including cash, held by your investment managers.
Standard deviation	A statistical measure of volatility. We expect returns to be within one standard deviation of the benchmark 2 years in every 3. Hence as the standard deviation increases so does the risk.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Time-Weighted rate of return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (gross redemption yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the discounted value of future cashflows.
3 Year return	The total return on the fund over a 3 year period expressed in percent per annum.

Manager Research Tier Rating System

Tier	Definition
Tier One	Significant probability that the manager will meet the client's objectives.
Tier Two	Reasonable probability that the manager will meet the client's objectives.
Tier Three	The manager may reach the client's objectives but a number of concerns exist.
Tier Four	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns.
Tier Five	Significant concerns exist and it is highly probable that the manager will not meet client's objectives.

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