Appendix B

Performance Report - Quarterly Update
30 June 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 June 2012.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	-2.6	-3.1
Overseas Equities	-3.7	-4.2
USA	-1.0	7.8
Europe	-7.2	-20.2
Japan	-5.5	-4.8
Asia Pacific (ex Japan)	-4.7	-10.6
Emerging Markets	-7.3	-13.6
Property	0.3	4.8
Hedge Funds	-1.6	-1.5
Commodities	-10.7	-8.6
High Yield	2.3	6.7
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.7	27.9
Index-Linked Gilts (>5yrs)	0.8	16.9
Corporate Bonds (>15yrsAA)	5.3	18.3
Non-Gilts (>15 yrs)	4.2	15.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.8	-2.3
Against Euro	3.0	11.6
Against Yen	-4.8	-3.5

Yields as at 30 June 2012	% p.a.
UK Equities	3.7
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.2
Non-Gilts (>15 yrs)	4.6

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.3	-1.3
Index-Linked Gilts (>5 yrs)	0.0	-0.6
Corporate Bonds (>15 yrs AA)	-0.4	-1.3
Non-Gilts (>15 yrs)	-0.3	-0.9

Change in inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.4	2.8
Price Inflation - CPI	0.1	2.4
Earnings Inflation *	1.0	1.7

* is subject to 1 month lag

Statistical highlights

- The Consumer Price Index ("CPI") stood at 2.8% in June 2012, down from 3.5% in March and significantly down from its peak of 5.2% in September 2011. The Retail Price Index ("RPI") stood at 3.1% in June 2012 down from 3.5% in March. The largest downwards pressures have been from fuel, food, and non alcoholic beverages.
- The Bank of England's ("BOE") Monetary Policy Committee ("MPC") maintained interest rates at 0.5%. But announced at its July meeting that it will inject a further £50 billion into the economy be extending its quantitative easing ("QE") programme to £375 billion.
- Britain's public finances sank deeper into the red as weaker tax receipts and increased Government borrowing further increased the budget deficit. Figures from the ONS showed that net borrowing, excluding financial help to Britain's banks, stood at almost £18bn in May. The ONS said income tax receipts were down more than 7% on May 2011 while government spending was up by 8%. This combination of worsening public finances and poor domestic output led the Government to introduce further QE in an attempt to stimulate economic growth.
- The UK banking industry is currently engulfed in a fresh scandal after Barclays Bank was fined a total of £290m, levied by UK and US authorities for its role in attempting to manipulate the London interbank offered rate ("LIBOR"), a benchmark rate that is used globally to set the price of everything from credit card fees to corporate loans
- The European Central Bank ("ECB") has cut interest rates to a new record low in a bid to boost economic growth. The headline figure for interest rates was cut from 1.00% to 0.75%, while the deposit rate has been cut from 0.25% to 0%.
- China's Central Bank cut its interest rates from 6.31% to 6.00%, while deposit rates fell from 3.25% to 3.00%. This is the second time in two months in a bid to boost slowing economic growth.
- After rallying into the end of April, the S&P 500 fell almost constantly during the first three weeks of May. The index made some gains early in June as the market began to price in the possibility of policy intervention.
- While the first three months of the year was characterized by steady global growth and elevated investor optimism, the second quarter brought a steady stream of negative news. UK gilts, having rallied sharply in May with the other favoured government bond markets of Germany and the US, posed a -1.0% return for the month, producing a 3.9% return for Q2 and 1.9% for the first half of 2012. Q2's performance was dominated by May's 4.4% return.
- Sterling investment grade corporate bonds were up 0.3% in June, 2.1% in Q2 and posted a return for the first half of 2012 of 5.0%. The average yield differential between Gilts and the whole of the investment grade corporate bond market fell from 2.89% to 2.74% in June, down from 3.13% at the end of 2011 but still above the 2.25% average over that year.

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	226,349,214	31.9	1,750,000	230,644,847	32.2
Schroder Investment Management Limited (Schroder)	Diversified Growth	220,342,394	31.1	1,750,000	216,903,474	30.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	34,190,632	4.8	-	32,956,378	4.6
Newton	Corporate Bond	106,365,810	15.0	750,000	111,066,646	15.5
Schroder	All Maturities Corporate Bond	100,766,889	14.2	750,000	103,423,975	14.4
L&G	Active Corporate Bond – All Stocks	15,208,696	2.1	-	15,563,025	2.2
Schroders	Cash	406,965	0.1	-	418,753	0.1
Internal	Cash	5,246,367	0.7		5,640,289	0.7
ASSET SPLIT						
Growth assets		486,535,572	68.6	-	486,563,741	67.9
Bond assets		222,341,395	31.4	-	230,053,646	32.1
TOTAL		**708,876,967**	**100.0**	**-**	**716,617,387**	**100.0**

Source: Investment managers, bid values. Please note that the internal property was fully disinvested during Q1 2012. The Internal Cash 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 Q2 2012 %	Benchmark Return Q2 2012 %
Total Scheme	0.3	1.9*
Growth Portfolio		
Growth v Global Equity	-0.7	-3.0
Growth v RPI+5% p.a.	-0.7	1.6
Growth v LIBOR + 4% p.a.	-0.7	1.2
Bond Portfolio		
Bond v Over 15 Year Gilts	2.8	6.7
Bond v Index-Linked Gilts (> 5 yrs)	2.8	0.8

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 17).

The Bond portfolio excludes L&G corporate bond fund.

The total scheme return is shown against the liability benchmark return (see page 17). 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.

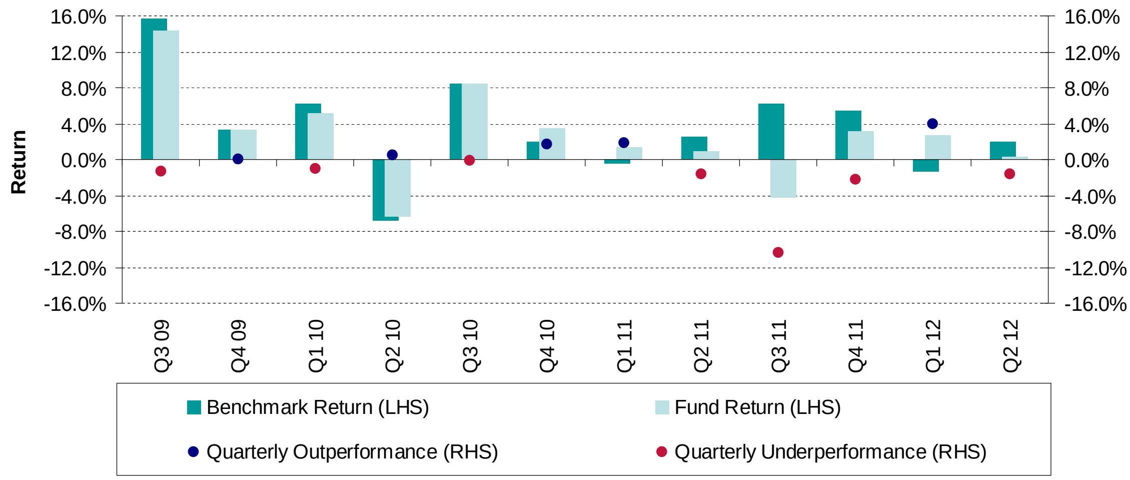
Individual Manager Performance

Manager/Fund	Portfolio Return Q2 2012 %	Portfolio Benchmark Q2 2012 %
Newton Real Return	1.1	1.2
Schroder Diversified Growth	-2.5	1.6
L&G – Overseas Equity	-3.6	-3.7
Newton Corporate Bond	3.7	3.6
Schroder Corporate Bond	1.9	2.1
L&G – Corporate Bond	2.3	2.1

Source: Investment managers, Thomson Reuters. Performance is money-weighted.

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 0.3% over the quarter but underperformed the liability benchmark return by 1.6%. This was due to a combination of weak equity markets and falling bond yields which caused the expected value of the liabilities to rise.

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.

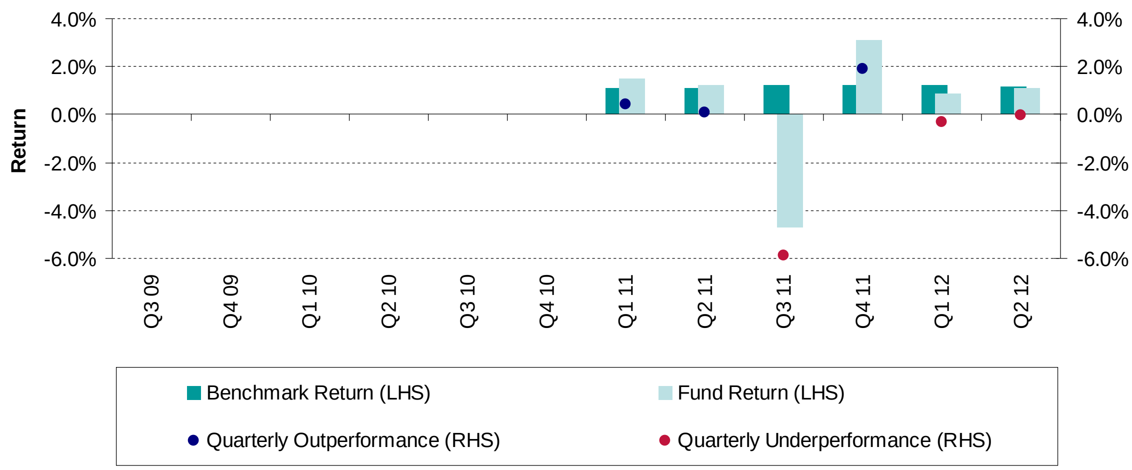
The positive absolute return was generated due to the positive absolute return of Newton Real Return fund and the bond portfolio.

The Growth Portfolio, comprising the two DGF funds, outperformed the notional 60/40 global equity benchmark, by 2.3%, as the DGF funds performed well compared to the equity market. It is usual to expect DGF funds to outperform equities in falling markets. The Growth portfolio returned less 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, underperformed the Over 15 Year Gilts Index (by 3.9%) and outperformed the Over 5 Years Index Linked Gilts Index (by 2.0%).

Section Three – Manager Performance

Newton - Real Return Fund- performance relative to portfolio benchmark



Source: Investment manager.

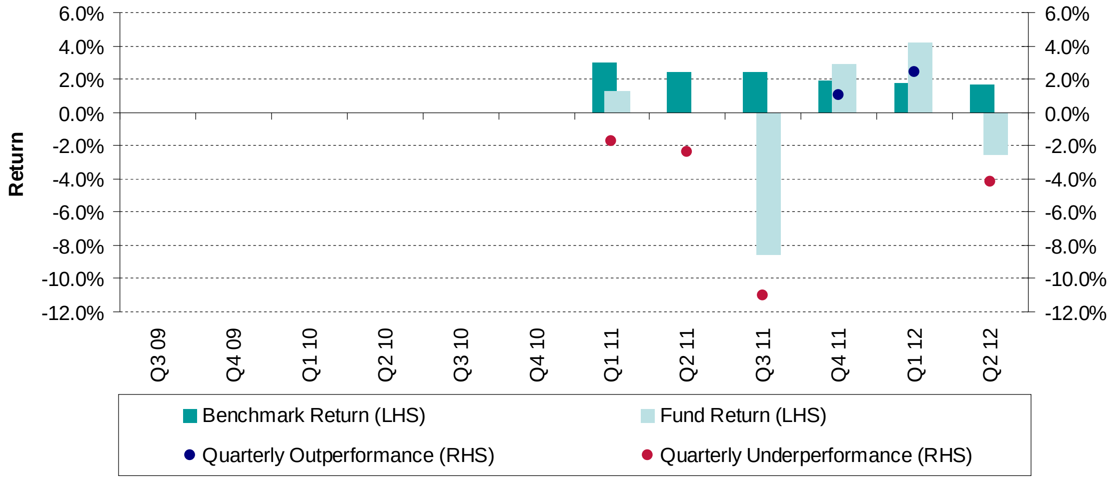
The portfolio return was 1.1% compared to its LIBOR + 4% p.a. benchmark return of 1.2% underperforming by 0.1%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 4.1%.

The Fund's holdings in New Zealand and Australian government bonds benefited from a slowdown in the Australasian region as a whole. Holdings in US TIPS (US index linked bonds) benefited from both the falling yield and the appreciation of the US dollar against sterling.

Equity holdings in the healthcare, telecommunications, utilities and consumer staples sectors all performed well amid investors' flight into the more defensive areas of the market. Notable contributions were made from the holdings in Reynolds American, Severn Trent, GlaxoSmithKline and Vodafone Group. Equity index options on the S&P 500 index provided effective downside protection. Broadly, the Fund's high-yield corporate debt holdings held up well.

Over the 12 month period, the Fund returned 0.2% versus the benchmark return of 4.7%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 3.3%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The portfolio return was -2.5% compared to its RPI + 5% p.a. portfolio benchmark return of 1.6%, underperforming by 4.1%. In comparison to a notional 60/40 global equity benchmark return the fund outperformed by 0.5%.

Like the Newton Real Return Fund, the Schroder DGF outperformed global equity comparator (60% FTSE All Share and 40% FTSE World ex UK hedged to GBP) which was down 3.0% over the quarter. The exposure to cyclical assets was a drag on performance as these assets produced negative results following an increase in market volatility. Exposure to UK, US and Europe equities detracted from performance as equity markets suffered over the period.

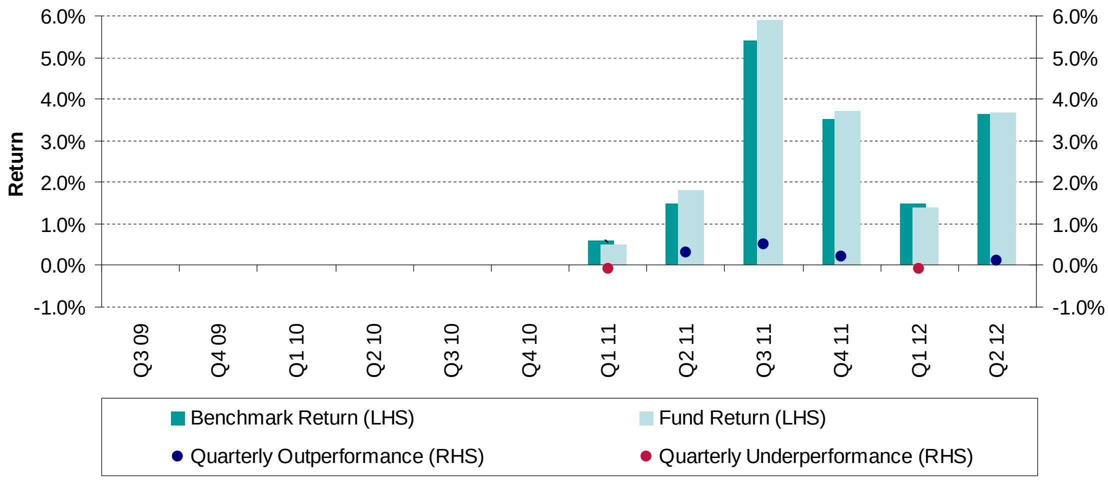
Over the 12 month period, the Fund returned -4.1% versus the benchmark return of 7.9%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 0.6%.

Asset allocation for growth managers: movement over the quarter

	Q2 '12 Newton %	Q2 '12 Schroder %	Q1 '12 Newton %	Q1 '12 Schroder %
UK Equities	13.3	2.2	13.1	3.5
Overseas Equities	37.2	38.1	38.1	39.3
Government Bonds	9.8	-	8.8	-
Corporate Bonds	9.7	6.1	9.4	5.7
High Yield	-	22.8	-	19.8
Private Equity	-	1.2	-	1.2
Commodities	3.6	7.0	3.9	7.7
Absolute Return	-	9.1	-	8.0
Index-Linked	3.3	-	2.4	-
Property	-	4.5	-	4.3
Cash/Other	23.1	9.0	24.3	10.5
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

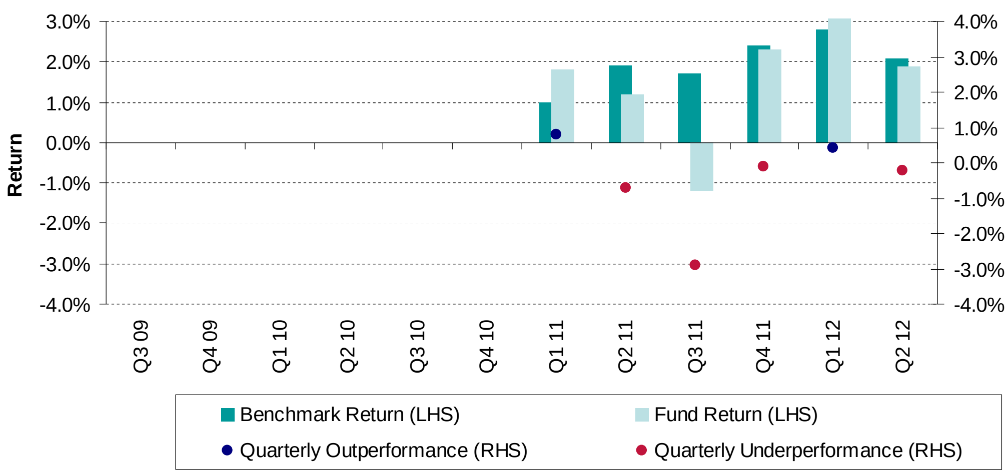


Source: Investment manager.

The Newton Corporate Bond portfolio marginally outperformed its benchmark, returning 3.7% versus the benchmark return of 3.6%. Performance was driven by slowing growth, falling inflation and bouts of anxiety concerning the Eurozone, which provided a favourable backdrop, for high quality long-dated bonds. The fund's sector allocation contributed to performance with its underweight positions in banks, utilities and telecommunications, and overweight positions in asset-backed and consumer noncyclical sectors.

Over the 12 month period, the Fund returned 15.4% versus the benchmark return of 14.7%.

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

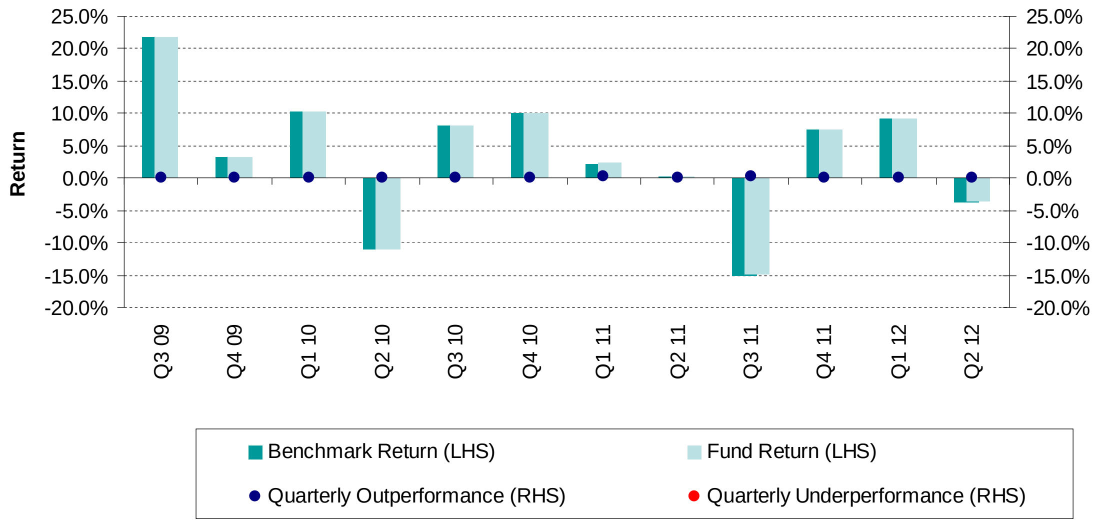


Source: Investment manager.

The Schroders Corporate Bond portfolio underperformed the benchmark by 0.2%, returning 1.9%. The underperformance was driven by the exposures to lower-rated credit securities and financials; two sectors which saw large increases in spreads, which in turn caused falls in values.

Over the 12 month period, the Fund returned 6.3% versus the benchmark return of 9.3%.

L&G – Overseas Equities



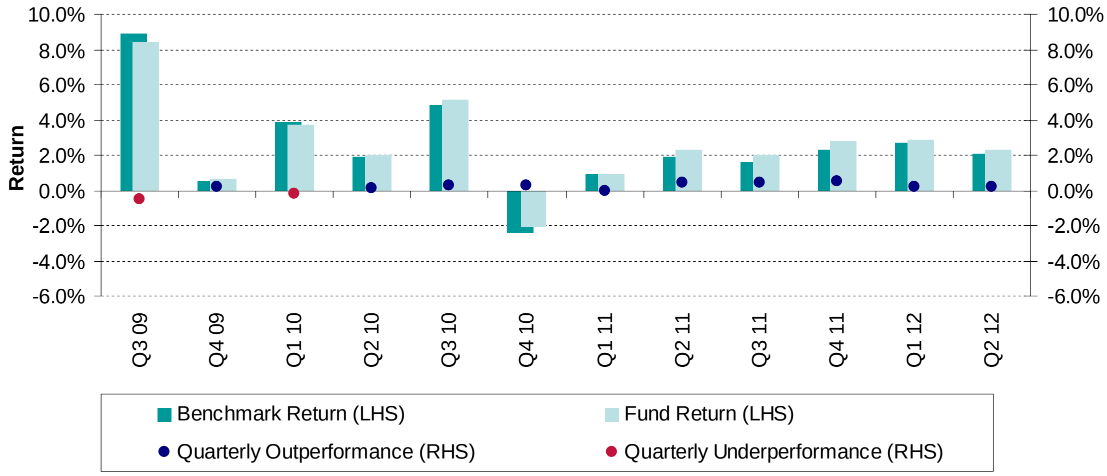
Source: Investment manager.

Over the second quarter of 2012, the Fund return was -3.6% against the benchmark return of -3.7%.

Over the 12 month period, the Fund return was negative at -3.5%, outperforming the benchmark return by 0.7%.

The Fund has performed broadly in line with its benchmark over the 3 year period.

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



Source: Investment manager.

Over the quarter the Fund return was 2.3% outperforming the benchmark by 0.2%.

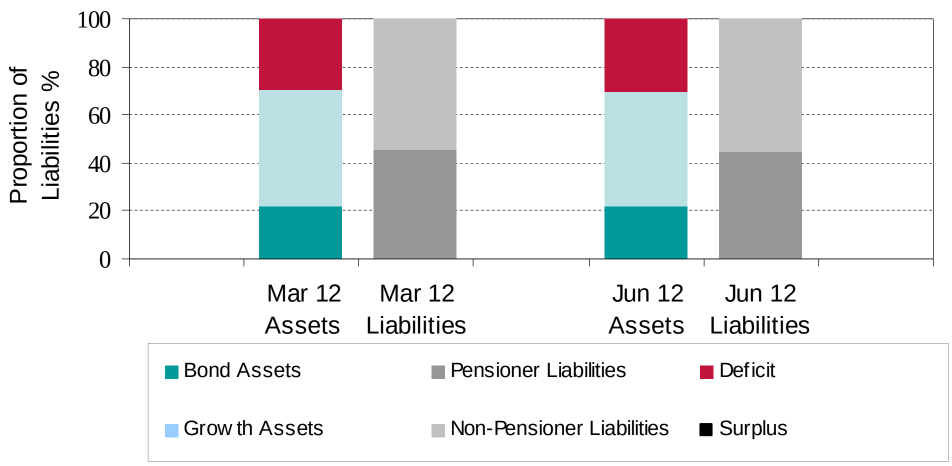
The drivers of the performance were good stock selection and a bias towards collateralised issues. The fund's cautious view towards credit risk and relatively large holdings in gilts underpinned the fund's return.

Over the 12 month period, the Fund has performed well with a return of 10.4% compared with the benchmark return of 9.0%.

Section Four – Consideration of Funding Level

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

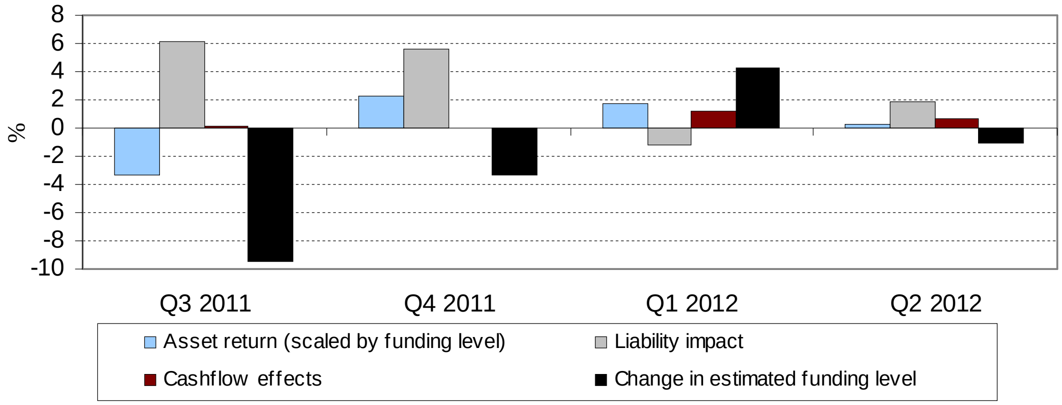
Allocation to Bond and Growth assets against estimated liability split



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

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

Although the value of the Scheme's assets rose marginally over the quarter, the estimated funding level fell by 1% over the quarter, to 69%, due to a rise in the expected value of the liabilities.

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

Section Five – Summary

Overall this has been a challenging quarter for the Scheme against a backdrop of weak equity markets and falling bond yields.

In absolute terms, the Scheme's assets produced a return of 0.3% over the quarter. All bond portfolios produced positive absolute returns as did the Newton Real Return Fund.

In relative terms, the Scheme underperformed the liability benchmark return (see page 17) by -1.6%. Of the funds, both the Schroders portfolios underperformed and Newton Real Return marginally underperformed.

The combined Growth portfolio outperformed a notional 60/40 global equity return but produced a return of -0.7%, underperforming the benchmarks which are cash-based.

The combined Bond Portfolio underperformed the Over 15 Year Gilts Index by 3.9% and outperformed the Index Linked Gilts (>5 Years) Index by 2.0%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a negative impact (-1%) on the Scheme's estimated funding level which was 69% as at 30 June 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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