Performance Report - Quarterly Update
31 December 2012

London Borough of Barnet Superannuation Fund

JLT INVESTMENT CONSULTING

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Head of Investment Consulting - South
March 2013

Section One – Market Update

Introduction

The tables below summarise the various market returns to 31 December 2012, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 31 December 2012	% p.a.
UK Equities	3.57
UK Gilts (>15 yrs)	3.00
Real Yield (>5 yrs ILG)	-0.07
Corporate Bonds (>15 yrs AA)	4.07
Non-Gilts (>15 yrs)	4.22

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.07	0.05	0.37
UK Gilts (>15 yrs)	0.10	0.06	-1.40
Index-Linked Gilts (>5 yrs)	-0.16	0.18	-0.75
Corp Bonds (>15 yrs AA)	0.05	-0.61	-1.59
Non-Gilts (>15 yrs)	-0.03	-0.60	-1.47

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	%
UK Gilts (>15 yrs)	-0.2	2.9	12.2
Index-Linked Gilts (>5 yrs)	5.0	0.5	10.6
Corp Bonds (>15 yrs AA)	0.5	9.9	11.2
Non-Gilts (>15 yrs)	1.6	13.1	11.5

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	%
UK Equities	3.8	12.3	7.5
Overseas Equities	2.4	12.1	6.9
USA	-0.9	11.2	10.6
Europe	7.9	17.4	2.1
Japan	5.1	3.3	2.3
Asia Pacific (ex Japan)	5.5	17.5	7.4
Emerging Markets	5.1	12.8	4.4
Property	0.5	2.4	8.2
Hedge Fund	2.0	8.1	5.6
Commodities	-3.9	-4.3	2.3
High Yield	3.9	14.1	11.5
Emerging Market Debt	2.8	17.4	12.3
Senior Secured Loans	2.1	10.9	6.2
Cash	0.1	0.5	0.5

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	0.7	4.6	0.2
Against Euro	-1.8	3.0	3.1
Against Yen	11.9	17.5	-2.2

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	%
Price Inflation - RPI	1.1	3.1	4.2
Price Inflation - CPI	1.2	2.7	3.5
Earnings Inflation *	-0.3	1.2	1.9

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

Asset Class	What Happened?	
	Positive Factors	**Negative Factors**
UK Equities	• UK equities were one of the better performing asset classes over the quarter, with the smaller and medium sized companies performing particularly well. Reasonable earnings growth, coupled in many cases with attractive yields, offset the relatively gloomier macro environment.	• Activity in the UK's dominant services sector shrank at the fastest pace for more than three and a half years in December, adding to fears that GDP may have contracted in the final quarter of 2012. The Purchasing Managers' Index for the services sector registered a worse than expected fall in December and is now at the lowest level since April 2009.
	• CPI inflation remained within the Bank of England's target range over the quarter; the latest figure for CPI inflation is 2.7%.	• The number unemployed, 2.51m remains high although the unemployment rate has fallen from 8.0% to 7.8% over recent months. Increases in wages continue to be lower than the rate of inflation, putting further pressure on consumers.
	• The UK Bank Rate remained at 0.5% over the quarter although there was no change to the level of QE, £375bn.	
Overseas Equities		
North America	• Revised figures showed that US GDP grew at an annualised rate of 3.1% during the third quarter compared with the initial estimate of 2.0%.	• Towards the end of the quarter uncertainty set in as the 'fiscal cliff' loomed. The recent elections resulted in a Democratic Senate, but a Republican House of Representatives – a recipe for deadlock and partisan politics. To the surprise of no-one a 'compromise' on the fiscal cliff was negotiated at the very last minute, but leaves several major questions postponed or unasked.
	• Signs of a recovery, an improvement in consumer confidence, increased housing demand and very easy monetary policy all combined to produce a positive backdrop.	• The cuts in spending, roughly $110 billion, due to be implemented on 1st January have only been delayed for two months and not cancelled. There is a view that the Republicans conceded defeat on the tax issue ('protecting millionaires' – an unwinnable argument) to prepare for the far more important fight on spending where the Democrats are on less favourable ground.

Asset Class	What Happened?	
	Positive Factors	Negative Factors
Europe	• The ECB maintained interest rates over the quarter and announced a series of positive policy statements over the quarter in an attempt to stabilise investor confidence and improve liquidity in markets.	• Unemployment remains high - particularly in the peripheral Eurozone countries as austerity measures impact on confidence. Countries such as Spain and Greece are seeing unemployment in certain sections of the population in excess of 50%.
	• The European Central Bank's commitment to do 'whatever it takes' to preserve the euro and some signs that Germany was willing to be more flexible in its attitude towards austerity packages across the region, have led to a strong 'relief' rally in prices in the last few months. Although the losses in 2011 have been recovered, European equity markets are still a long way off their previous highs.	• Most analysts expect the Eurozone as a whole to remain in recession throughout 2013 (the 'official' forecast from the ECB is for growth of only 0.1%) with even Germany now thought to be heading into recession. The peripheral countries – the original cause of the Eurozone problems – are seeing an improvement in competitiveness (not surprisingly given the fall in labour costs) but at the expense of potentially explosive social disorder.
Japan	• Following the election of Shinzo Abe, there is a chance of radical measures emanating from the Bank of Japan. Whether these measures will be sufficient to satisfy investors, particularly foreign investors, only time will tell. In the past, a lower yen has been the trigger for improved stock market performance. As a result of exchange rate movements, the valuations of many high quality companies have fallen to attractive levels.	• Mr. Abe has promised to put pressure on the traditionally ultra-conservative Bank of Japan to raise inflation and target recovery. There is a risk in this that Mr Abe tries to be too radical with the Japanese economy and further deepens existing structural problems.
Asia Pacific	• Asian Equities ticked up this quarter, after a year in which worries over the slowdown in China and the problems in Europe were uppermost in investors' minds. However, the recent relaxation of fiscal and monetary policy in China following the change in leadership has alleviated some of these concerns.	• Until there is clarification regarding the new regime's policies, there will inevitably be some concerns about the outlook for the Chinese economy.
	• Most central banks held their interest rate strategy, helping market confidence. The recovery that appears to have begun in China in the latter part of last year should continue, albeit at lower rates of growth than in the past. There will be no double-digit growth again for the foreseeable future. However 7% is the generally accepted figure for 2013.	• Exports to Europe and the US remain a concern as long as doubts about economic growth continue.

Asset Class	What Happened?	
	Positive Factors	Negative Factors
Emerging Markets	• Emerging markets equities have started to outperform in the last few months after two years of underperformance. With, in many cases, above average growth expectations coupled to relatively low valuations, there are obvious attractions to this asset class.	• Emerging Market equities over recent months have seen the lowering of earnings expectations (given what has been happening globally) – thus putting a question mark over valuations.
	• Emerging market equities do not look expensive, but prices are likely to remain volatile affected by policy pronouncements elsewhere in the world.	• Political instability is the main investor concern at present with the political leadership of China changing and the increasing uncertainties in Latin America proving a drag on growth.
Gilts	• Despite Government bond yields remaining at near record lows, the demand for Gilts has proved resilient as the UK continues to be seen as a 'safe haven' relative to other issuers of sovereign debt. In addition, the rate of CPI inflation is now within the Bank of England's target range. However expensive Gilts may look, until there is perceived to be a resolution to the problems of the Eurozone, this situation may continue for some time.	• Towards the end of the quarter, yields rose slightly as revised UK GDP figures and other economic data suggested that the worst of the economic downturn might be over. Gilt yields are at an unsustainably low level and, at some stage, are likely to rise significantly as interest rates are raised to limit inflationary pressures as the economy recovers.
Index Linked Gilts	• With limited supply and investors continuing to seek inflation protection, demand for Index Linked Gilts remains high, thus supporting prices. Real yields remained slightly positive in Q4 as investors nervously awaited the review by the Office of National Statistics into the calculation of RPI. However, contrary to market expectations, the calculation basis for the RPI has been left unchanged which means that it will not be changed in order to bring RPI closer to CPI.	• A negative real yield on long-dated index-linked stocks is unsustainable over the longer term in an environment in which central banks are able to successfully control inflation within a target range.
Corporate Bonds	• Sterling Corporate Bonds produced a positive return, benefiting from the strength of corporate balance sheets and the higher yields relative to gilts. Investors also approved of the Eurozone's efforts to support the sovereign bond markets.	• The Corporate Bond Market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they have done throughout 2012.	• The well established trend of overall void levels increasing in tandem with the lowering of capital values as well as falling rental yields continued through Q4. The lack of growth in the economy compounded these issues.

Section Two – Total Scheme Performance

		Start of Quarter		Net New Money	End of Quarter	
Manager	Fund	Value £	Proportion of Total %	£	Value £	Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	240,437,389	32.1	2,520,000	238,091,682	31.4
Schroder Investment Management Limited (Schroder)	Diversified Growth	224,871,995	30.0	-	229,188,025	30.3
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	34,250,574	4.6	-	35,001,968	4.6
Newton	Corporate Bond	117,822,476	15.7	1,080,000	121,414,584	16.0
Schroder	All Maturities Corporate Bond	109,281,817	14.6	-	112,043,508	14.8
L&G	Active Corporate Bond – All Stocks	16,456,231	2.2	-	16,855,754	2.2
Schroders	Cash	428,159	0.1	-	438,548	0.1
Internal	Cash	5,264,306	0.7	n/a	4,498,608	0.6
ASSET SPLIT						
Growth assets		505,252,423	67.5	-	507,218,832	67.0
Bond assets		243,560,524	32.5	-	250,313,846	33.0
TOTAL		**748,812,947**	**100.0**	**3,600,000**	**757,532,679**	**100.0**

Source: Investment managers, bid values. Please note that 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 Q4 2012 %	Benchmark Return Q4 2012 %
Total Scheme	0.8	0.5
Growth Portfolio		
Growth v Global Equity	-0.1	3.2
Growth v RPI+5% p.a.	-0.1	2.3
Growth v LIBOR + 4% p.a.	-0.1	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	2.3	-0.2
Bond v Index-Linked Gilts (> 5 yrs)	2.3	5.0

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.

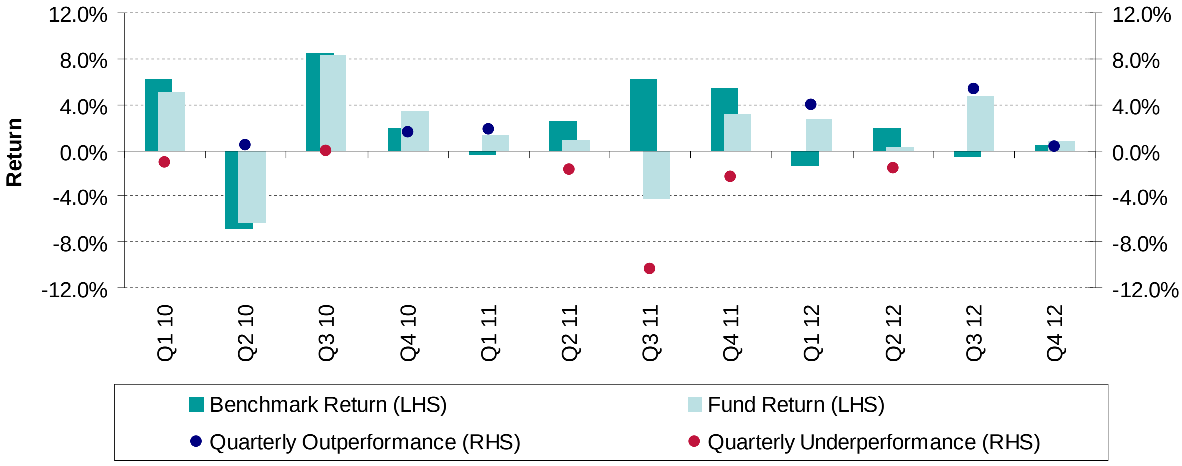
Individual Manager Performance

Manager/Fund	Portfolio Return Q4 2012 %	Portfolio Benchmark Q4 2012 %
Newton Real Return	-2.0	1.1
Schroder Diversified Growth	1.9	2.3
L&G – Overseas Equity	2.2	2.4
Newton Corporate Bond	2.1	2.0
Schroder Corporate Bond	2.5	2.2
L&G – Corporate Bond	2.4	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 0.8% over the quarter and outperformed the liability benchmark return by 0.3%. This was due to a combination of rebounding equity markets, good corporate bond returns and an expected fall in the estimated value of the liabilities.

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.

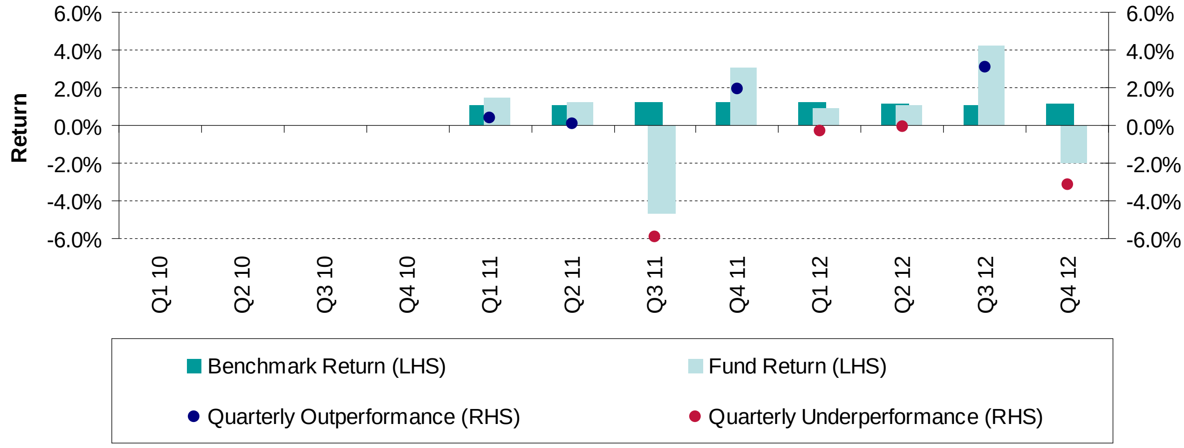
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns except the Newton Real Return Fund. On a relative basis, only the corporate bond funds outperformed their respective benchmarks.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 3.4%, as the equity markets performed well compared to the DGF funds. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned less than both of the LIBOR +4% and the RPI +5% target returns of the respective DGF funds. The Growth portfolio's negative absolute (and relative) return over the quarter was driven by the Newton Real Return Fund.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed the Over 15 Year Gilts Index (by 2.5%) and underperformed the Over 5 Years Index Linked Gilts Index (by 2.7%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

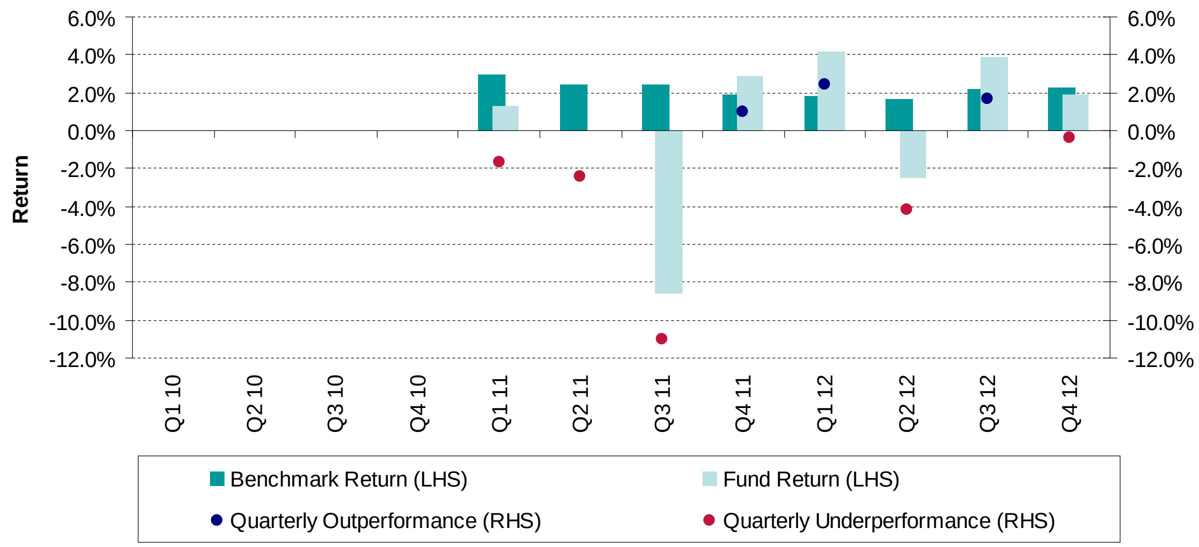
The Newton Real Return Fund return was -2.0% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby underperforming by 3.1%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 5.2%.

The Newton Real Return Fund produced a negative absolute return during a quarter; the negative performance was a result of the Fund's defensive positioning. The Fund’s equity allocation was impacted negatively by both sector selection and stock specific events.

At a stock level, Newcrest Mining and Barrick Gold (mining stocks) were the largest detractors from performance.

Over the 12 month period, the Fund returned 4.2% versus the benchmark return of 4.7%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 8.0%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 1.9% compared to its RPI + 5% p.a. portfolio benchmark return of 2.3%, underperforming by 0.4%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 1.3%.

The significant position in equities was the largest contributor to performance over the quarter. Other notable contributions were made from High Yield and foreign exchange. At an asset class level, the main detractor to performance over the quarter was the allocation to commodities.

Schroder believe that 'safety' is looking expensive with negative real yields on cash and bonds, thus increasing the incentive to take on more risk. They believe that there are opportunities in value equities and an improving macro picture has meant that they have increased their exposure to US small caps and banks.

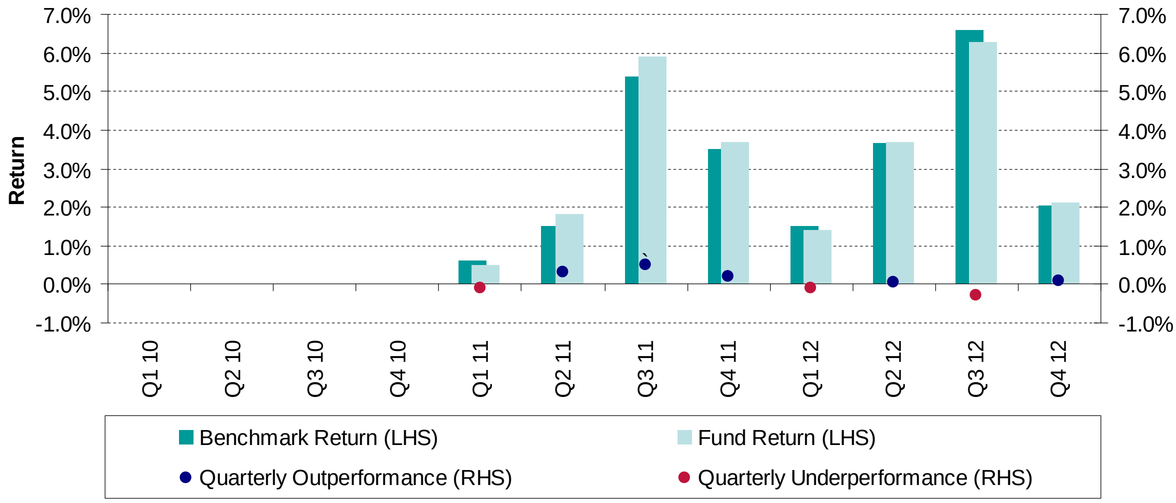
Over the 12 month period, the Fund returned a strong absolute return of 7.5% versus the benchmark return of 8.3%. In comparison to a notional 60/40 global equity benchmark return the fund underperformed by 4.7%.

Asset allocation for growth managers: movement over the quarter

	Q4 '12 Newton %	Q4 '12 Schroder %	Q3 '12 Newton %	Q3 '12 Schroder %
UK Equities	15.3	0.1	13.2	2.2
Overseas Equities	40.8	48.4	39.0	46.1
Fixed Interest	10.6	-	10.0	-
Corporate Bonds	10.8	10.4	9.8	6.4
High Yield	-	18.8	-	18.7
Private Equity	-	1.3	-	1.1
Commodities	3.8	6.3	3.9	6.3
Absolute Return	-	4.9	-	6.4
Index-Linked	4.7	-	4.4	-
Property	-	0.9	-	4.0
Cash/Other	14.0	8.9	19.7	8.8
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

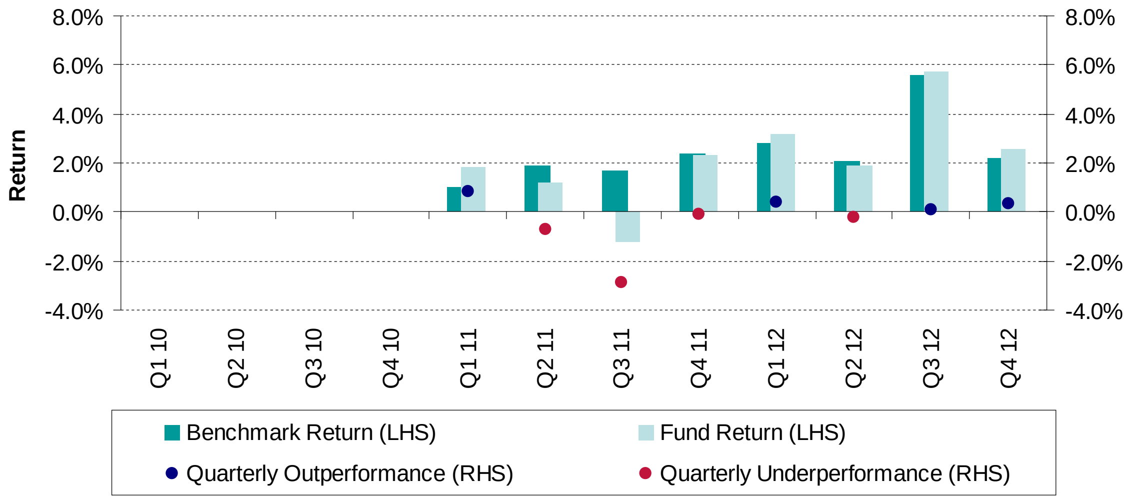


Source: Investment manager.

The Newton Corporate Bond portfolio marginally outperformed its benchmark, returning 2.1% versus the benchmark return of 2.0%. The outperformance was attributable to the Fund's strong stock selection and a well-timed move to shorten the funds duration.

Over the 12 month period, the Fund returned 13.9% versus the benchmark return of 14.5%.

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

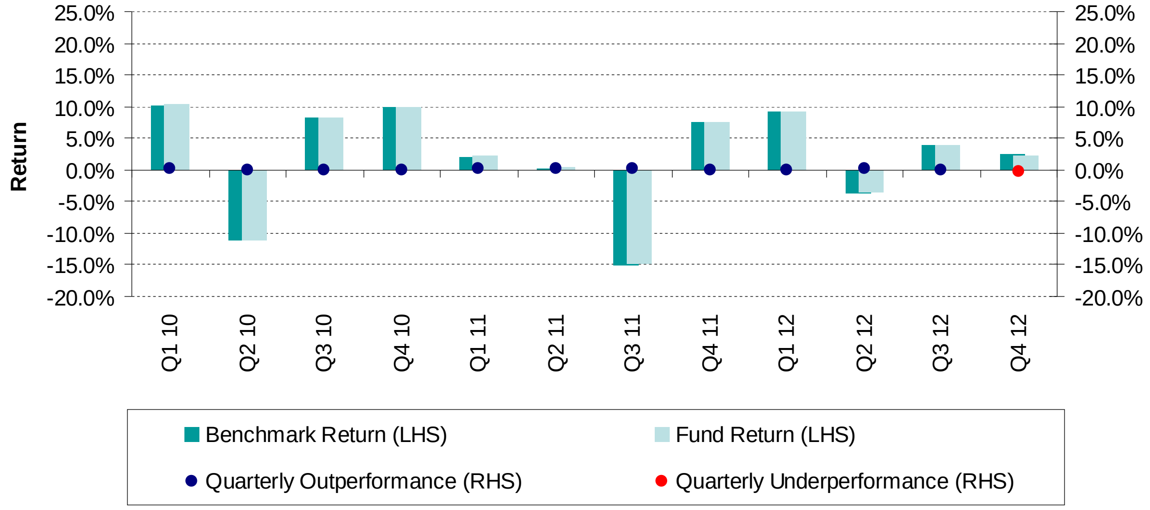


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed the benchmark by 0.3%, returning 2.5%. The Fund's positions in lower-rated credits and subordinated financials benefitted as these were the best performing bonds.

Over the 12 month period, the Fund returned 13.9% versus the benchmark return of 13.2%.

L&G – Overseas Equities



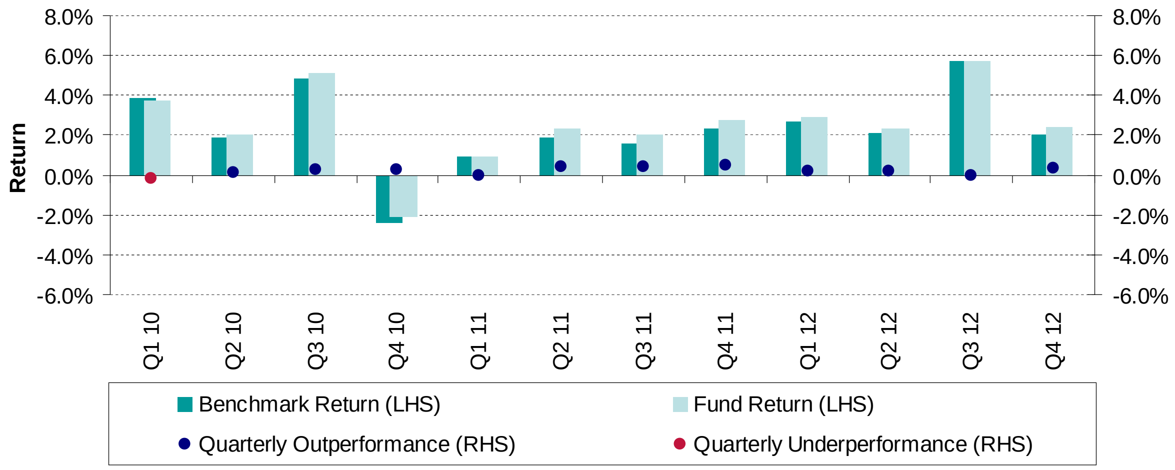
Source: Investment manager.

Over the fourth quarter of 2012, the Fund underperformed its benchmark by 0.2% and generated positive absolute return of 2.2%.

Over the 12 month period, the Fund return was 11.9%, and underperformed its benchmark by 0.2%.

The Funds 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 outperformed its benchmark by 0.3% and generated positive absolute return of 2.4%.

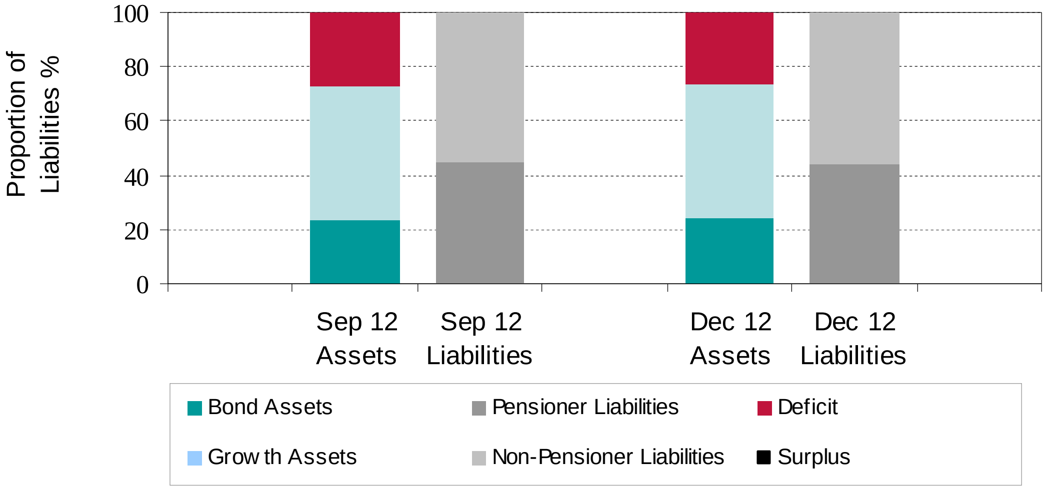
Stock selection and sector exposures were the main positive drivers of performance, the overweight exposure to financials was supportive as financials outperformed significantly during the quarter.

Over the 12 month period, the Fund has performed well with a return of 14.0% compared with the benchmark return of 13.1%.

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

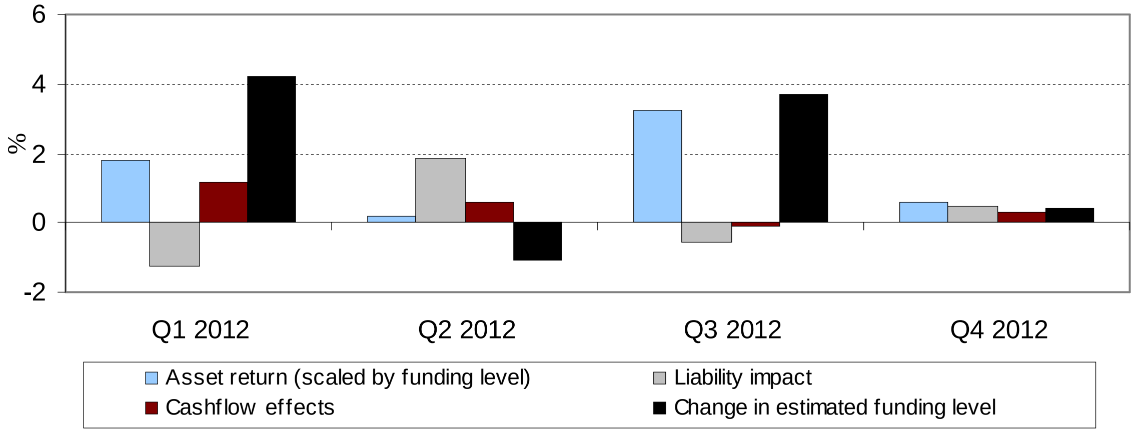


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the 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.

Over the quarter, the funding position improved by 0.4%, led by an increase in the value of assets by £8.7 million coupled with positive cashflow which was partially offset by an increase in the estimated value of the liabilities by £6.2 million. The Scheme was approximately 73.4% funded as at 31 December 2012.

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.

Over the quarter, the estimated funding level increased by 0.4%, from 73.0% to stand at 73.4%, due to an increase in the assets due to the positive absolute returns coupled with positive cashflow which was partially offset by an increase in the expected value of the liabilities.

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.

Overall, Q4 2012 has been a positive quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a good quarter for the Scheme in improving equity markets.

In absolute terms, the Scheme's assets produced a return of 0.8% over the quarter. All the growth and bond portfolios produced positive absolute returns (except Newton Real Return Fund).

In relative terms, the Scheme outperformed the liability benchmark return (see page 17) by 0.3%. Of the funds, only the corporate bond funds outperformed their respective benchmarks; the DGF's underperformed their respective benchmarks.

The combined Growth portfolio underperformed a notional 60/40 global equity return and produced a negative absolute return of 0.1%, also, underperforming the benchmarks which are cash-based.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 2.5% and underperformed the Index Linked Gilts (>5 Years) Index by 2.7%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a positive impact (0.4%) on the Scheme's estimated funding level which was 73.4% as at 31 December 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.

JLT Manager Research Tier Rating System

Tier	Definition
BUY	Significant probability that the manager will meet the client's objectives.
HOLD	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
REVIEW	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
SELL	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

JLT Investment Consulting

St James's House, 7 Charlotte Street,
Manchester, M1 4DZ
Fax +44 (0)161 253 1169

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Authorised and regulated by the Financial Services Authority.
Registered in England: 6 Crutched Friars, London EC3N 2PH
Tel +44 (0)20 7528 4000 Fax +44 (0)20 7528 4500. www.jltgroup.com.
Registered in England Number 02240496. VAT No. 244 2321 96

CONTACTS

Julian Brown, PhD IMC
JLT Investment Consulting
Tel: +44 (0) 207 528 4024
Email: julian_brown@jltgroup.com

Jignasha Patel, MMath (Hons) IMC
JLT Investment Consulting
Tel: +44 (0) 161 253 1163
Email: jignasha_patel@jltgroup.com