The Royal Borough of Kensington and Chelsea pension fund

Investment performance review

Second quarter 2012

Northern Trust

Executive Report

Appendix

Fund Objective

The objective of the Fund is to be fully funded with the assets matching the liabilities within 10 years of the 2010 Actuarial Valution.
The Fund's actuaries, Barnet Waddingham, use a smoothing methodology for both assets and liabilities to stabilise the anticipated contribution rate
Hence, the asset figures below are not the actual figures reported to the Committee, but are smoothed over a six month period spanning the valuation date
The intention is to remove the underlying short-term volatilaty of asset values from the assessment of the Fund's funding position.

	31-Mar-07 £'000	31-Mar-08 £'000	31-Mar-09 £'000	31-Mar-10 £'000	31-Mar-11 £'000	31-Mar-12 £'000	30-Jun-12 £'000
Assets	410,361	404,101	335,302	450,626	515,217	533,851	524,546
Liabilities	480,549	504,687	497,697	508,631	560,597	589,929	587,968
Surplus/Deficit	**-70,188**	**-100,586**	**-162,395**	**-58,005**	**-45,380**	**-56,078**	**-63,422**
Implied Funding Level	85%	80%	67%	89%	92%	90%	89%
Annual Return Required to Restore Funding Level	7.0%	7.9%	8.6%	7.8%	7.2%	7.1%	7.3%
Stable Contribution Deficit Recovery Period (Years)	13.0	15.5	22.1	10.0	7.2	8.7	9.9

Source: Barnett Waddingham Funding Update Report as at 30th June 2012

Scheme Performance

The fund asset value as calculated by the actuary stands at £524.5m versus the liabilities calculation of £588m making an 89% implied funding level given the six month smoothing process undertaken. This figure is slightly down from 90% at the end of March 2012 under the same smoothing methodology. The custodial valuation of your master record keeper for the quarter to the end of June 2012 resulted in a depreciation in the total value of the fund of £5.5m to £536.2m, including income received of £1.5m.

The fund has reported figures net of fees since the 1st April 2011 and on that basis underperformed the strategic benchmark by 0.5% (-2% vs -1.5%) over the quarter. Although the fund remains behind over most longer term periods reported, it is still ahead since the inception date of 31st December 1982, with a 0.2% pa excess. The fund has grown on an absolute basis in nine of the last twelve quarters increasing in value in real terms over the three year period. Relative to the benchmark the fund has underperformed in nine of those quarters. Barings, Pyrford, Longview and Baillie Gifford have now all posted a full year of performance each and account for roughly 70% of fund value. Over that term only Longview has beaten its benchmark and that remains the main factor in explaining the underperformance of the pension fund over the twelve month period. Over three months it is the underperformance of Baillie Gifford and Barings despite a strong period from Adams Street that is responsible for the fund trailing its benchmark.

Baillie Gifford Global Alpha

Baillie Gifford (Global Alpha Pension Fund - pooled). This Baillie Gifford mandate began 11th November 2010. Over the second quarter of 2012 the portfolio returned -5.7% vs -3.3% from the MSCI ACWI +2% pa benchmark. This fund return is based on the valuations of your custodian, Northern Trust, and those are calculated using an independent pricing source. There was a difference of 0.8% vs the return calculated by Baillie Gifford (which was -4.9%) based on their own valuation (using internal prices). Since inception the fund has returned 1% vs the benchmark return of 3.6%. The portfolio ended June 2012 valued at £99.7m after depreciation of £6m.

Longview

Longview (Global Equity Strategy - segregated). The Longview portfolio also started 11th November 2010. The quarter two fund return was -2% vs -2.8% from the MSCI World local TR ND +2% pa benchmark. Northern Trust and Longview are in accordance regarding returns and valuations over the three months to the end of June 2012. Since inception Longview have returned 7.8% for the fund vs 5% from the benchmark based on the custodial valuation. The portfolio ended the quarter valued at £110.6m after income receipts of £1.1m and depreciation of £3.3m.

LGIM

LGIM (World Equity Index Fund (MSCI) - pooled). The LGIM global equity portfolio tracked its benchmark over quarter two as expected returning -3.1%. The portfolio was valued at £103.3m at the end of June following depreciation of £3.3m. The portfolio represents 19.3% of total fund asset value.

Adams Street

Adams Street (Private equity). The private Equity portfolio managed by Adams Street ended the second quarter with a value of £26m. The manager returned 4.3% vs the MSCI World +2% pa target benchmark return of -2.6% over the three months. The portfolio has outperformed in five of the last twelve quarters and trails the benchmark over all the longer term periods over one year. Equity markets (and therefore the index) have been especially turbulent over the last year at least, diverging significantly from the performance of these assets. Since the inception date of 31st March 2007 the fund has returned 10% pa vs 10.7% pa from the benchmark.

Scheme Performance

Barings

Barings (Dynamic Asset Allocation Fund - pooled). The Barings portfolio returned -0.9% vs 1.4% from the 3 month LIBOR +4% pa benchmark, an underperformance of 2.4%. This is a return to underperformance following two consecutive quarters of beating the benchmark , making a -2.3% excess in relative terms over the second quarter of 2012. Since the inception date of March 2011 the manager trails by 2.4% and that is in line with the returns submitted to Northern Trust by Barings for reconciliation purposes, gross of fees. The fund ended June valued at £79.5m.

Pyrford

Pyrford (Global Total Return (Sterling) Fund - pooled). The Pyrford portfolio began managing funds during April 2011, the assets returned 0.8% over quarter two vs the benchmark RPI +5% pa return of 1.7% for the same period. The manager return sign off reconciliation is in line based on the returns submitted to Northern Trust by Pyrford. Since inception, the fund has returned 3.7% vs the benchmark target RPI +5% pa return of 8.1%. The fund ended the quarter valued at £80.1m.

RBKC Client Cash Account

As at 30th June 2012 £9.8m was held in the Cash account. The L&G Index Linked Gilts portfolio was valued at £4.3m at the end of the second quarter.

Manager Objectives

The objective of the managers is specified in the Statement of Investment Principles
The information contained below changes whenever the Statement of Investment Principles or the Benchmarks are updated
Listed for each manager below is their % target asset allocation, individual benchmark and performance target

Investment Manager	% Target Asset Allocation	Benchmarks	Performance Target
Baillie Gifford (Global Alpha Pension Fund - pooled)	20%	MSCI World ACWI	To outperform by 2% pa on a rolling three year basis
Longview (Global Equity Strategy - segregated)	20%	MSCI World ND	To outperform by 2% pa on a rolling three year basis
LGIM (World Equity Index Fund (MSCI) - pooled)	20%	MSCI World GD	To match the benchmark
Adams Street (Private Equity)	5%	MSCI World GD	To outperform by 2% pa on a rolling three year basis
CBRE Global Investors (Osiris Property Fund - pooled)	5%	IPD UK All Balanced Funds	To outperform by 0.5% pa on a rolling three year basis
Barings (Dynamic Asset Allocation Fund - pooled)	15%	3 Month LIBOR	To outperform by 4% pa on a rolling three year basis
Pyrford (Global Total Return (Sterling) Fund - pooled)	15%	RPI	To outperform by 5% pa on a rolling three year basis

Source: Hymans as at 31st March 2012

Performance reconciliation

The below summarises the reasons for any valuation differences that occur between Northern Trust and the Investment Managers employed by the Royal Borough of Kensington and Chelsea pension fund.
Varying valuations result in differing rates of return between Northern Trust and the managers, therefore the discrepancies are reconciled as part of the audit.

L&G Investment Management are reporting rates of return in line with Northern Trust as are Longview, Barings and Pyrford. ING and Adams Street are yet to submit quarter one returns.

Baillie Gifford

Over quarter two 2012 the Northern Trust calculated rate of return net of fees is -5.7% and the Baillie Gifford calculated rate of return also net is -4.9%, a difference of 0.8%.
The Baillie Gifford fund invested in by the Pension Scheme is valued at Northern Trust using a price taken from an external information vendor as at 30th June.
That price is available to the market at large and can be traded at when investing in the fund.
The valuation made using that price forms the basis of the calculation used to arrive at the rate of return on your investment with Baillie Gifford quoted in the Northern Trust reports.
The investment manager calculates an internal price based on their own asset valuations as at the close of business and determines the rate of return from investing in the fund using that value.
That price is not available in the market and therefore Northern Trust are unable to obtain it independently.
As with your investment in CBRE we have the option in future of taking the price directly from Baillie Gifford but that would mean the reporting would no longer be independent.
Over the second quarter the pricing differences result in an overvaluation at the beginning of April of £802,651 and an overvaluation at the end of June of £1,612,342 at Baillie Gifford.
Those differences explain the 0.8% between the Northern Trust and Baillie Gifford returns along with a difference in the way fees and fee rebates are accrued for on the respective systems.

Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Target	Three Months Excess Return	Fiscal Year To Date Portfolio	Fiscal Year To Date Target	Fiscal Year To Date Excess Return	Year To Date Portfolio	Year To Date Target	Year To Date Excess Return
RB of Kensington and Chelsea	536.2	100.00	-1.97	-1.47	-0.50	-1.97	-1.47	-0.50	4.13	4.80	-0.67

By Manager

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Target	Three Months Excess Return	Fiscal Year To Date Portfolio	Fiscal Year To Date Target	Fiscal Year To Date Excess Return	Year To Date Portfolio	Year To Date Target	Year To Date Excess Return
Baillie Gifford Global Alpha	99.7	18.60	-5.69	-3.31	-2.38	-5.69	-3.31	-2.38	2.56	5.72	-3.16
Longview	110.6	20.64	-1.97	-2.81	0.84	-1.97	-2.81	0.84	9.28	5.98	3.30
LGIM	103.3	19.27	-3.06	-3.08	0.02	-3.06	-3.08	0.02	5.36	5.32	0.04
Adams Street	26.0	4.86	4.28	-2.59	6.87	4.28	-2.59	6.87	4.16	6.36	-2.20
CBRE Global Investors	22.5	4.19	-0.08	0.43	-0.51	-0.08	0.43	-0.51	1.53	1.35	0.17
Barings	79.5	14.82	-0.93	1.42	-2.35	-0.93	1.42	-2.35	2.37	2.86	-0.49
Pyrford	80.1	14.94	0.76	1.65	-0.89	0.76	1.65	-0.89	1.04	3.49	-2.45
L&G Index Linked Gilts	4.3	0.80	0.79	-	-	0.79	-	-	-1.19	-	-
RBKC Client Cash Account	9.8	1.83	-2.51	-	-	-2.51	-	-	-2.28	-	-

Note

The target of the scheme as a whole is to outperform the overall benchmark by 2.3% pa on a rolling three year basis. That target is derived from the strategic policy weights and the mandated outperformance target of each of the investment managers. All performance has been reported net of fees since 31st March 2011.

Scheme Performance

	One Year			Three Years				Inception To Date		
	Portfolio	Target	Excess Return	Portfolio	Target	Excess Return	Inception Date	Portfolio	Target	Excess Return
RB of Kensington and Chelsea	0.36	1.34	-0.97	13.44	13.99	-0.55	31/12/82	10.13	9.96	0.17

By Manager

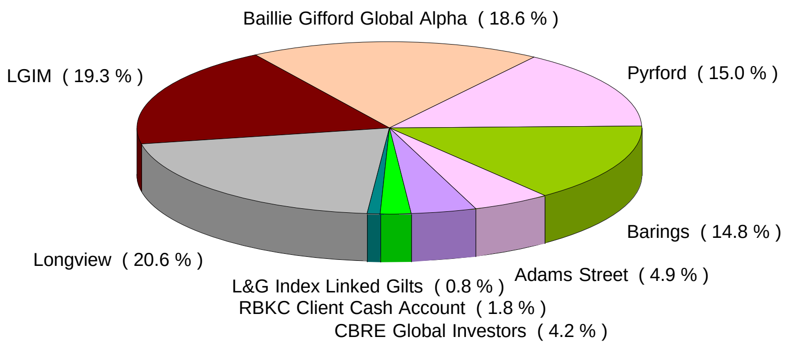
	Portfolio	Target	Excess Return	Portfolio	Target	Excess Return	Inception Date	Portfolio	Target	Excess Return
Baillie Gifford Global Alpha	-5.12	-2.36	-2.76	-	-	-	10/11/10	1.03	3.61	-2.58
Longview	2.11	-0.79	2.90	-	-	-	10/11/10	7.75	5.01	2.75
LGIM	-2.21	-2.16	-0.05	-	-	-	30/11/09	6.82	6.91	-0.09
Adams Street	9.15	-0.20	9.35	10.41	15.65	-5.25	31/03/07	10.00	10.73	-0.72
CBRE Global Investors	5.41	4.68	0.74	12.07	10.50	1.57	30/09/06	-2.38	-1.81	-0.58
Barings	2.46	5.58	-3.12	-	-	-	31/03/11	2.96	5.30	-2.35
Pyrford	2.49	7.93	-5.44	-	-	-	31/03/11	3.68	8.05	-4.37
RBKC Client Cash Account	-1.32	-	-	0.00	-	-	31/03/05	2.86	-	-

Note

The target of the scheme as a whole is to outperform the overall benchmark by 2.3% pa on a rolling three year basis. That target is derived from the strategic policy weights and the mandated outperformance target of each of the investment managers. All performance has been reported net of fees since 31st March 2011.

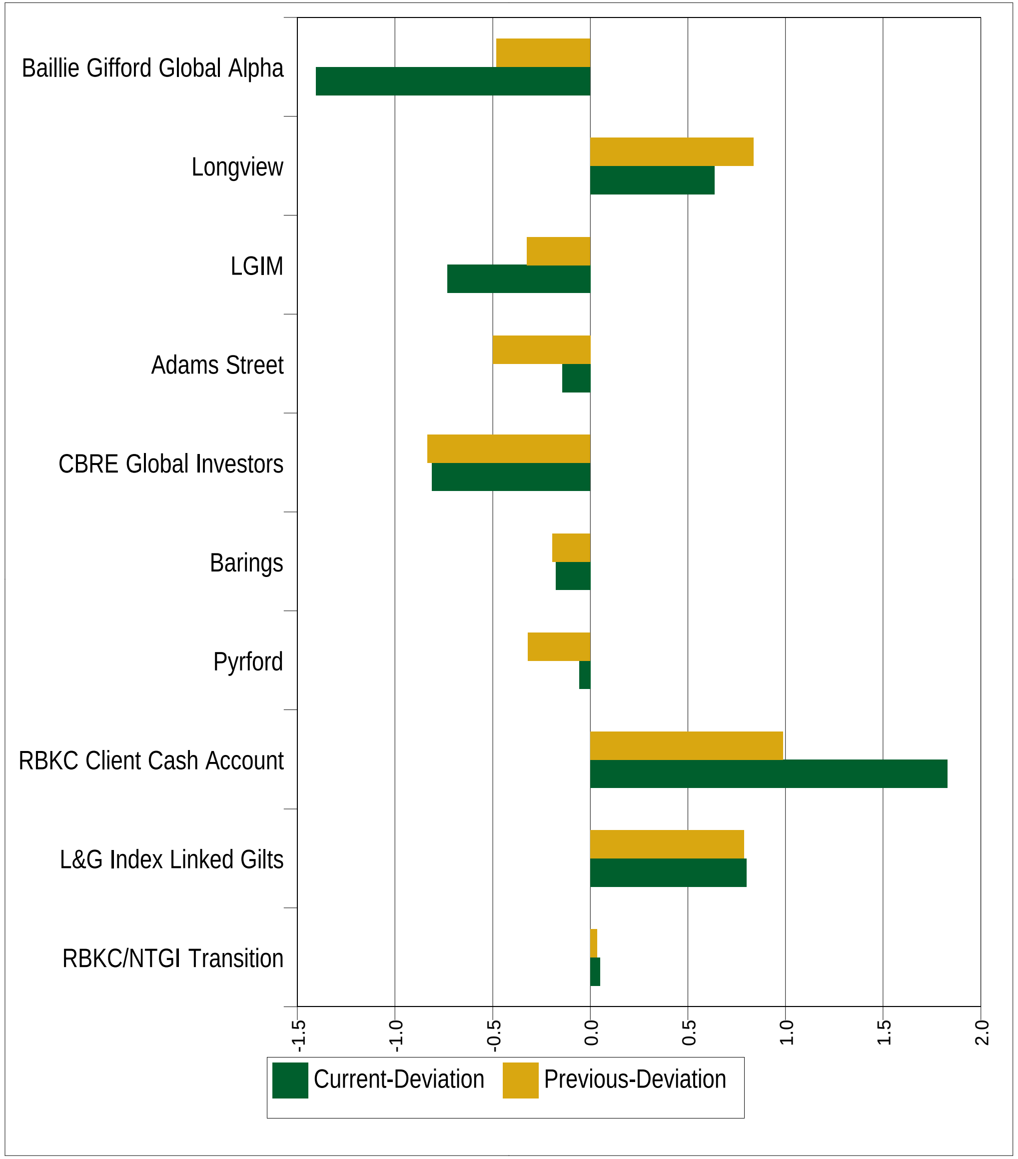
RB of Kensington and Chelsea Balance Sheet

Portfolio weighting at quarter end



	Opening Market Value £ (000)	% of Fund	Net Investment inc fees & rebates £ (000)	Appreciation £ (000)	Income Received £ (000)	Closing Market Value £ (000)	% of Fund
RB of Kensington and Chelsea	541,693	100.00	5,135	-12,099	1,460	536,189	100.00
Baillie Gifford Global Alpha	105,739	19.52		-6,020		99,719	18.60
Longview	112,874	20.84	-0	-3,343	1,119	110,649	20.64
LGIM	106,581	19.68		-3,264		103,317	19.27
Adams Street	24,386	4.50	613	1,045		26,044	4.86
CBRE Global Investors	22,715	4.19	-231	-261	242	22,465	4.19
Barings	80,213	14.81	10	-745		79,478	14.82
Pyrford	79,522	14.68		604		80,126	14.94
L&G Index Linked Gilts	4,258	0.79		34		4,292	0.80
RBKC Client Cash Account	5,210	0.96	4,743	-149	13	9,818	1.83
RBKC/NTGI Transition	196	0.04	0	1	86	282	0.05

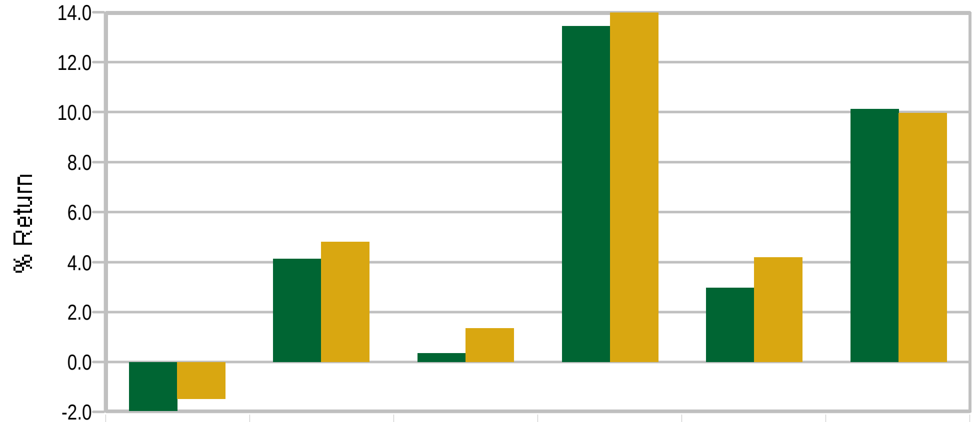
RB of Kensington and Chelsea Asset Allocation



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Baillie Gifford Global Alpha	18.60	19.52	20.00	-1.40	20.00	-0.48
Longview	20.64	20.84	20.00	0.64	20.00	0.84
LGIM	19.27	19.68	20.00	-0.73	20.00	-0.32
Adams Street	4.86	4.50	5.00	-0.14	5.00	-0.50
CBRE Global Investors	4.19	4.17	5.00	-0.81	5.00	-0.83
Barings	14.82	14.81	15.00	-0.18	15.00	-0.19
Pyrford	14.94	14.68	15.00	-0.06	15.00	-0.32
RBKC Client Cash Account	1.83	0.99		1.83		0.99
L&G Index Linked Gilts	0.80	0.79		0.80		0.79
RBKC/NTGI Transition	0.05	0.04		0.05		0.04

RB of Kensington and Chelsea

Historical Plan Performance



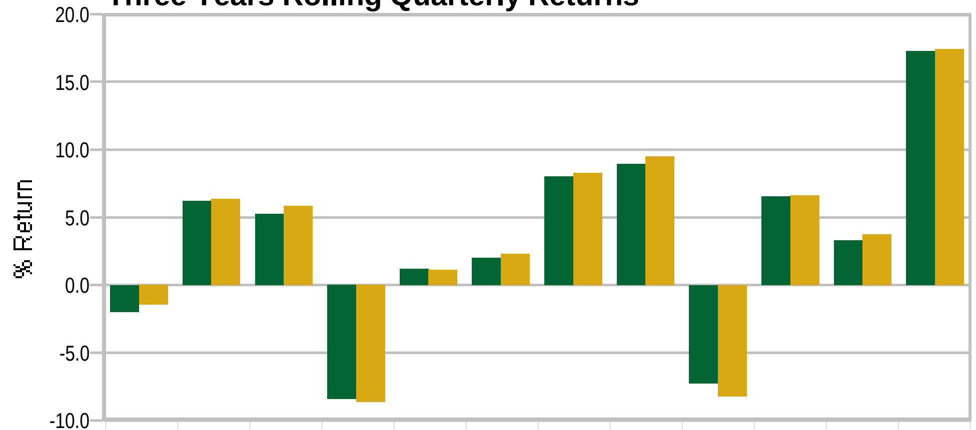
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.97	4.13	0.36	13.44	2.97	10.13
Benchmark	-1.47	4.80	1.34	13.99	4.20	9.96

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	13.44	13.99
Standard Deviation	9.65	10.20
Relative Return	-0.48	
Tracking Error	1.56	
Information Ratio	-0.35	
Beta	0.94	
Alpha	0.26	
R Squared	0.98	
Sharpe Ratio	1.26	1.25
Percentage of Total Fund	100.0	
Inception Date	Dec-1982	
Opening Market Value £ (000)	541,693	
Net Investment £ (000)	5,135	
Income Received £ (000)	1,460	
Appreciation £ (000)	-12,099	
Closing Market Value £ (000)	536,189	

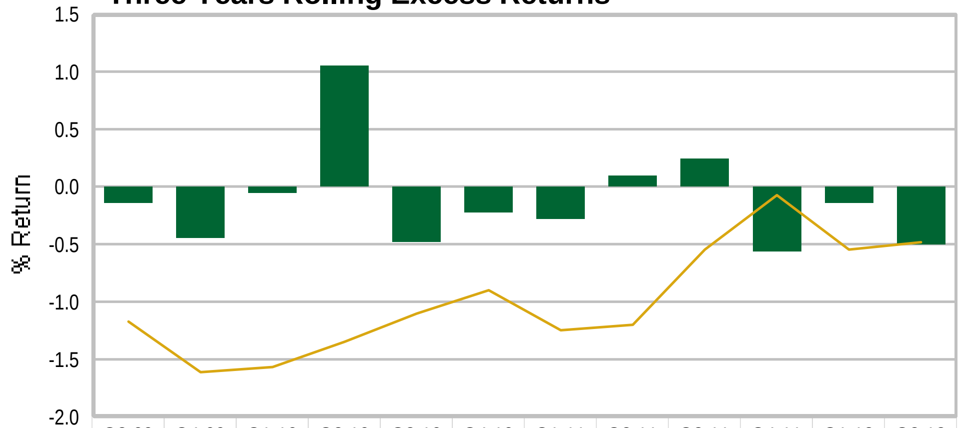
Explanations provided in glossary - pages 36 to 37

Three Years Rolling Quarterly Returns



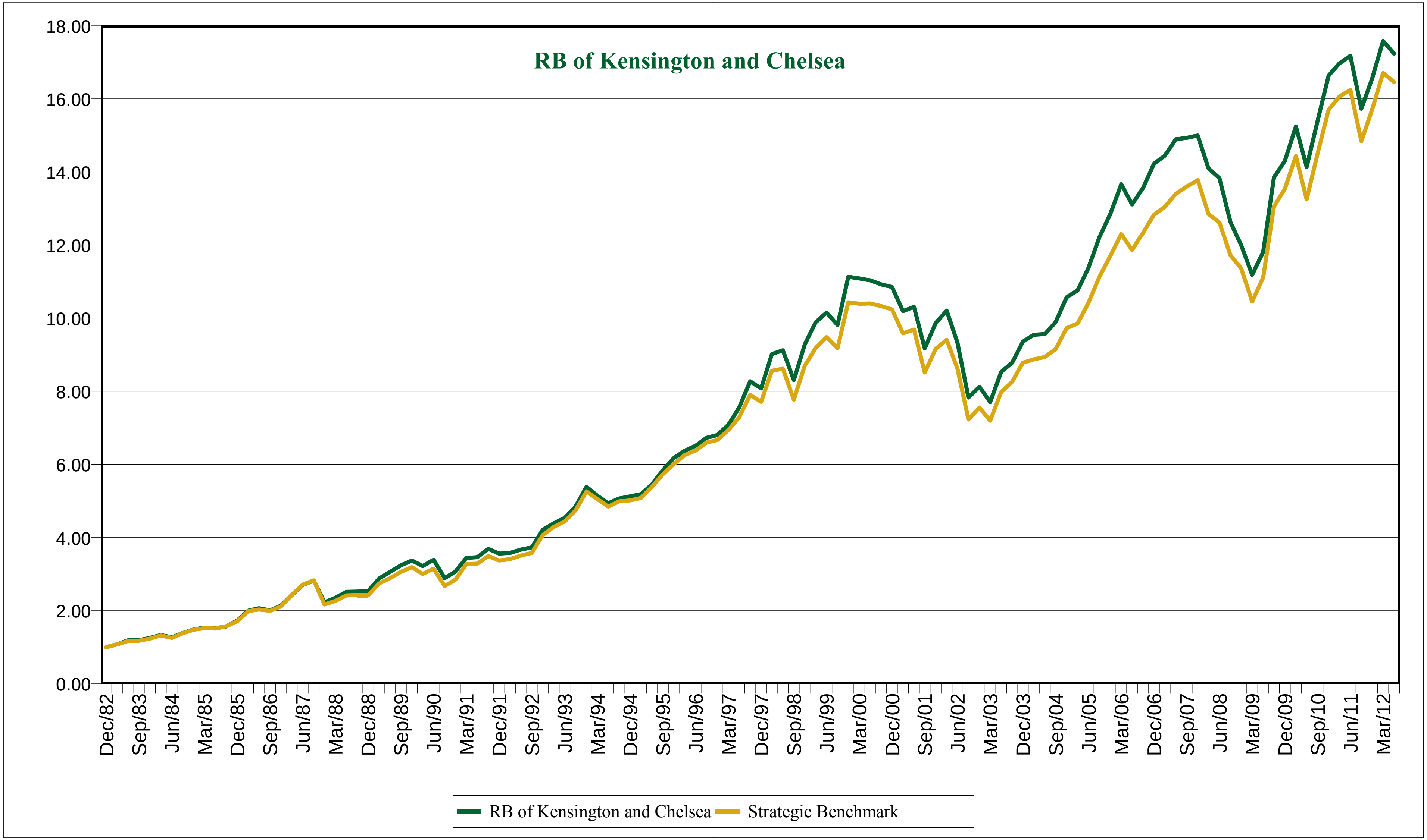
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-1.97	6.22	5.24	-8.42	1.21	2.01	8.01	8.95	-7.26	6.56	3.30	17.26
Benchmark	-1.47	6.37	5.84	-8.64	1.12	2.29	8.26	9.48	-8.23	6.62	3.76	17.43

Three Years Rolling Excess Returns



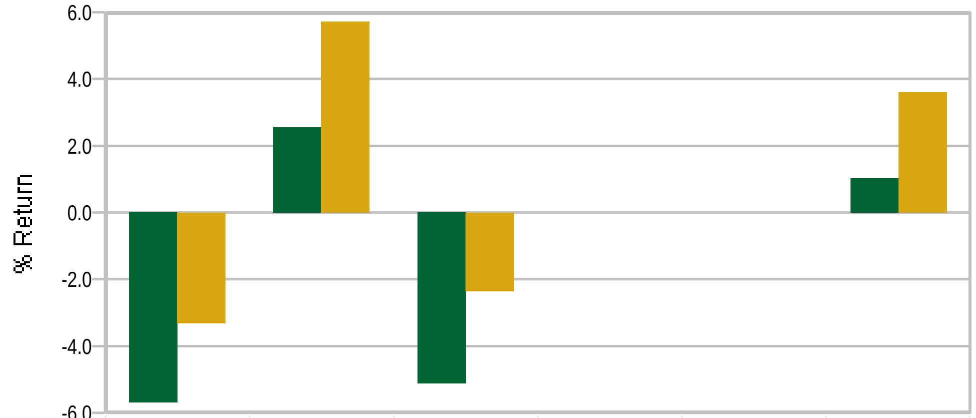
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-0.14	-0.44	-0.05	1.05	-0.48	-0.22	-0.28	0.09	0.24	-0.56	-0.14	-0.50
3Y Relative	-1.17	-1.61	-1.57	-1.35	-1.11	-0.90	-1.25	-1.20	-0.55	-0.07	-0.55	-0.48

Growth over time of a single unit



Baillie Gifford Global Alpha

Historical Plan Performance

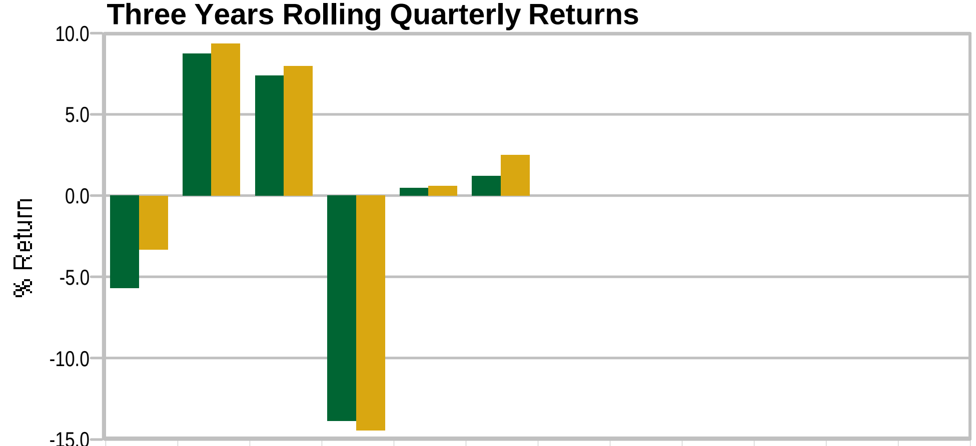


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-5.69	2.56	-5.12	-	-	1.03
Benchmark	-3.31	5.72	-2.36	-	-	3.61

Risk Statistics - 3 years

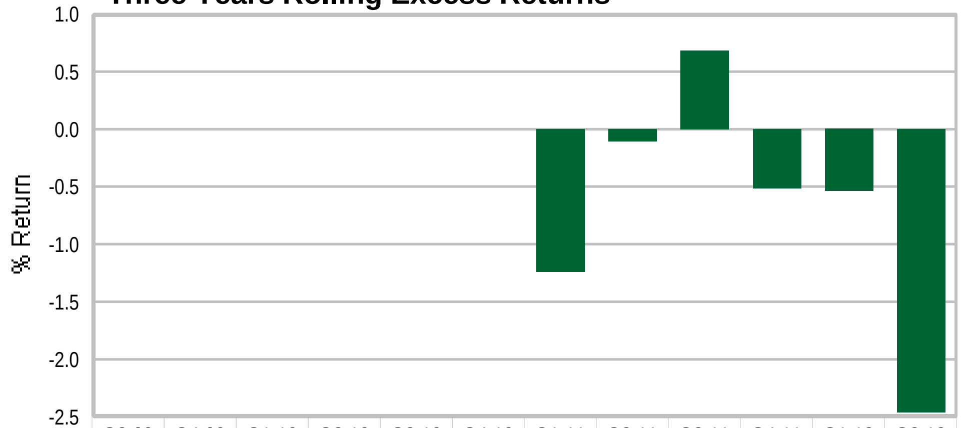
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	18.6	
Inception Date	Nov-2010	
Opening Market Value £ (000)	105,739	
Net Investment £ (000)	0	
Income Received £ (000)	0	
Appreciation £ (000)	-6,020	
Closing Market Value £ (000)	99,719	

Three Years Rolling Quarterly Returns



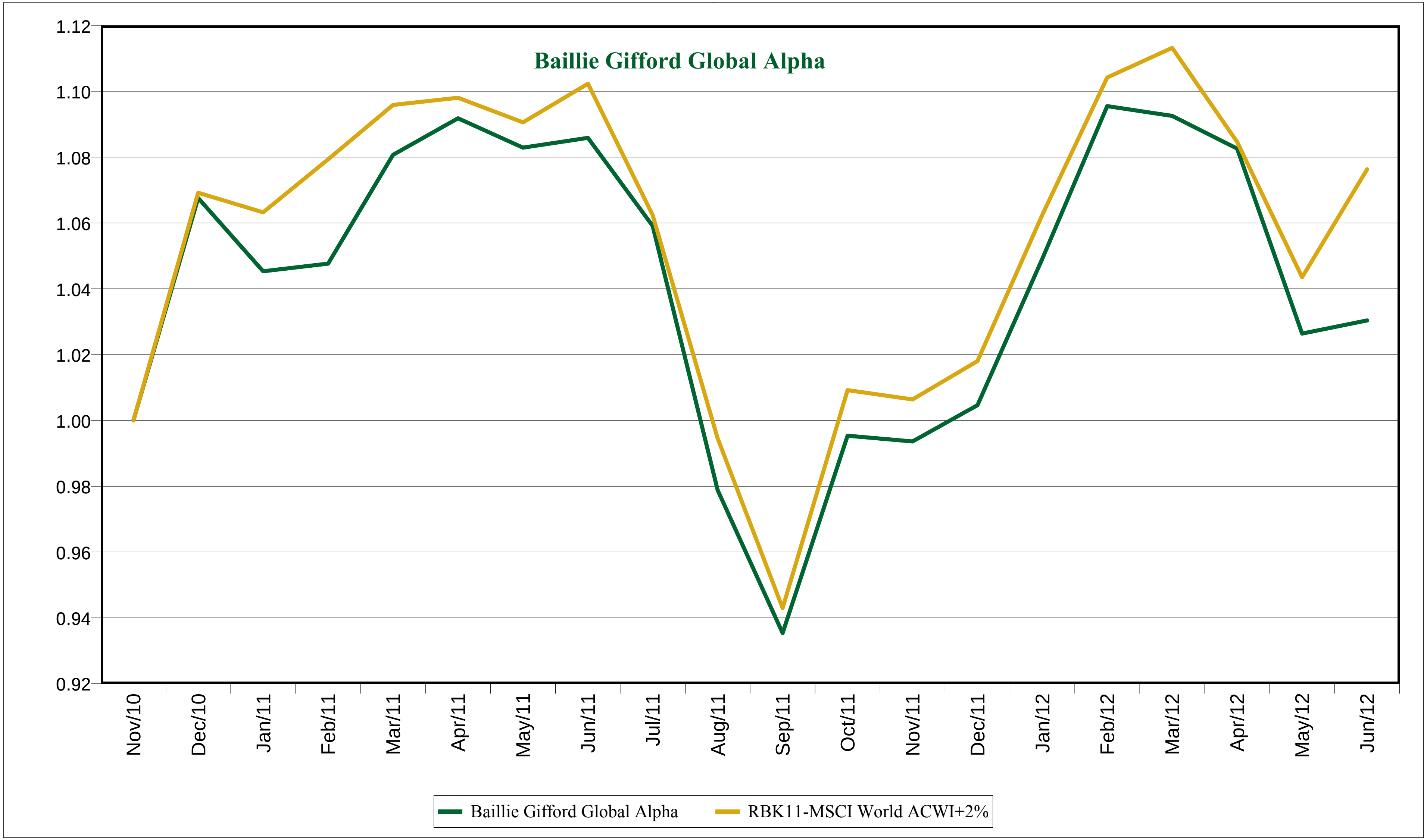
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-5.69	8.76	7.40	-13.87	0.48	1.22	-	-	-	-	-	-
Benchmark	-3.31	9.35	7.96	-14.45	0.59	2.50	-	-	-	-	-	-

Three Years Rolling Excess Returns



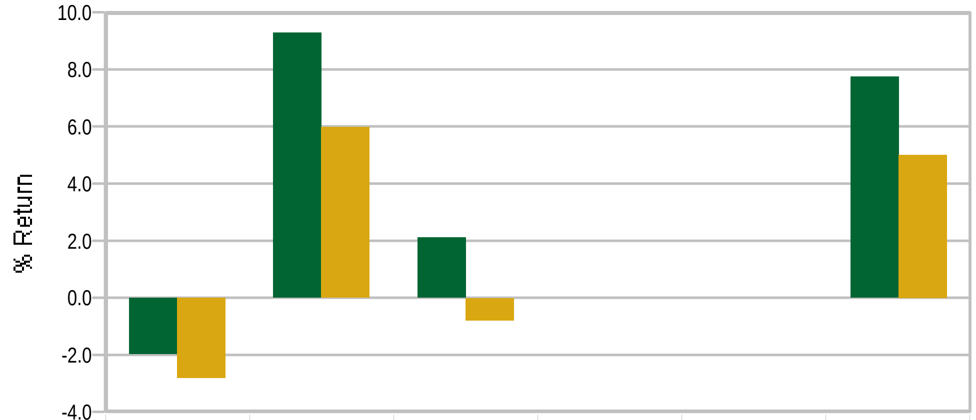
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-	-	-	-	-	-	-1.24	-0.11	0.68	-0.51	-0.54	-2.46
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Growth over time of a single unit



Longview

Historical Plan Performance

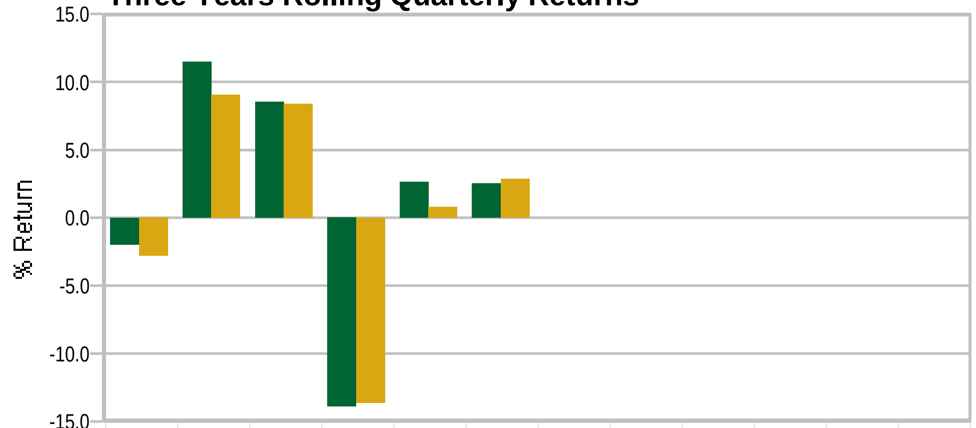


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.97	9.28	2.11	-	-	7.75
Benchmark	-2.81	5.98	-0.79	-	-	5.01

Risk Statistics - 3 years

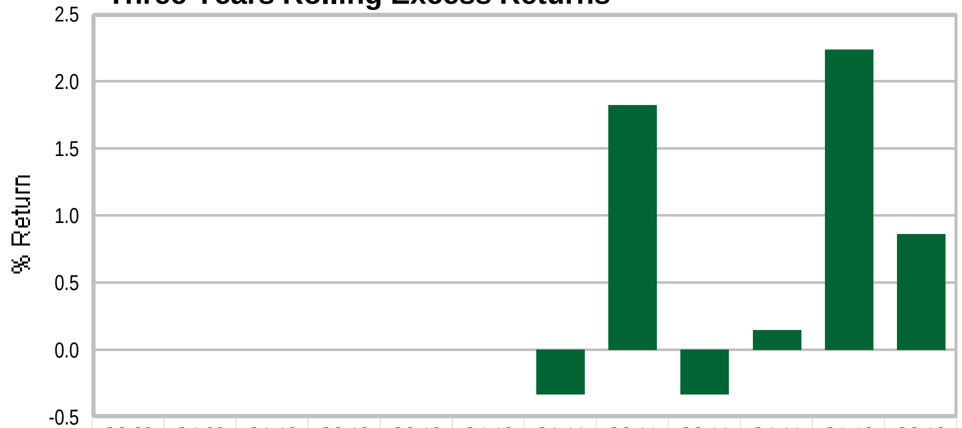
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	20.6	
Inception Date	Nov-2010	
Opening Market Value £ (000)	112,874	
Net Investment £ (000)	-0	
Income Received £ (000)	1,119	
Appreciation £ (000)	-3,343	
Closing Market Value £ (000)	110,649	

Three Years Rolling Quarterly Returns



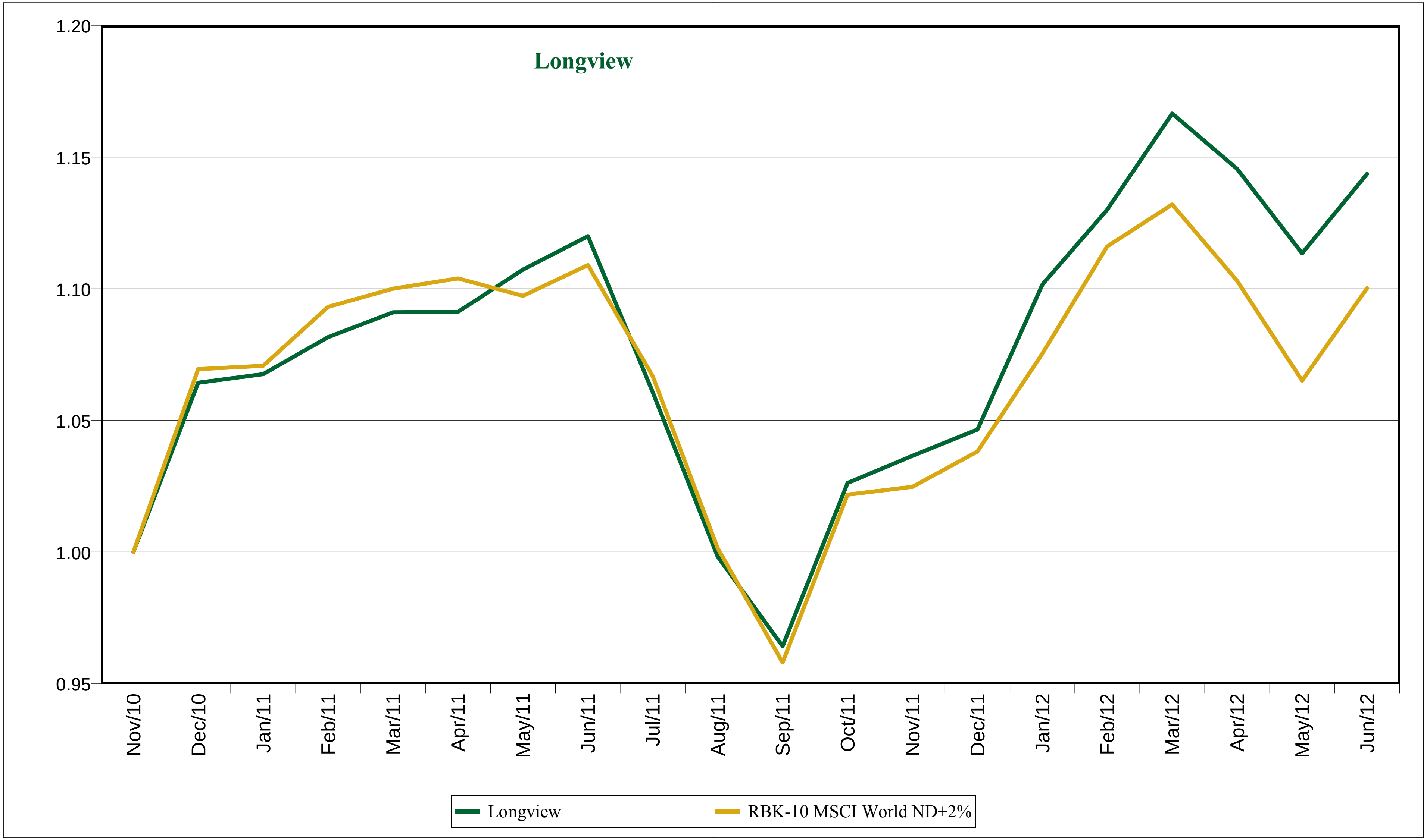
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-1.97	11.48	8.53	-13.90	2.65	2.52	-	-	-	-	-	-
Benchmark	-2.81	9.04	8.37	-13.61	0.81	2.86	-	-	-	-	-	-

Three Years Rolling Excess Returns



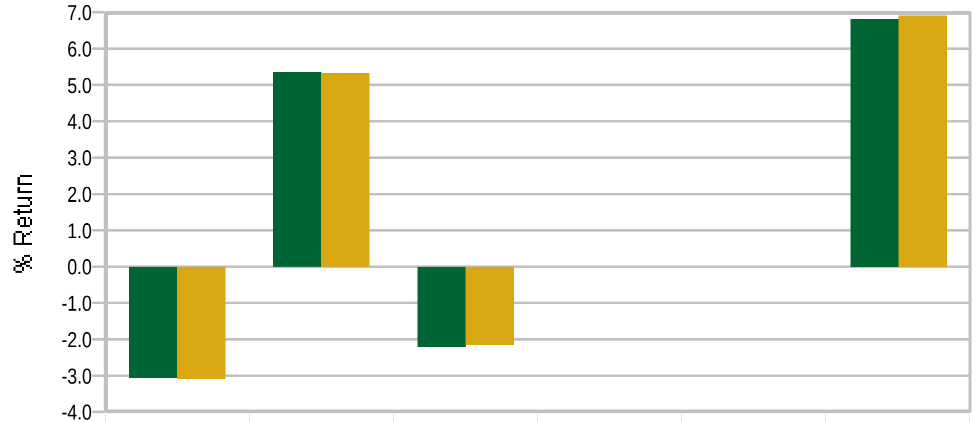
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-	-	-	-	-	-	-0.34	1.82	-0.34	0.15	2.24	0.86
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Growth over time of a single unit



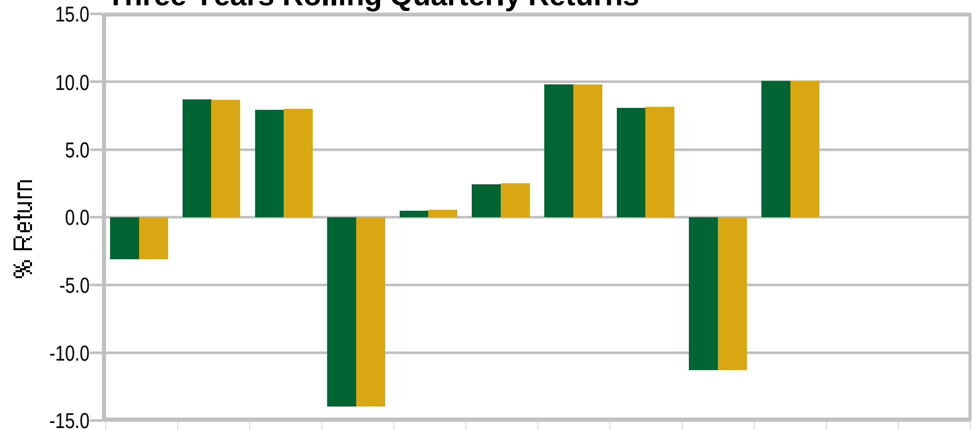
LGIM

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.06	5.36	-2.21	-	-	6.82
Benchmark	-3.08	5.32	-2.16	-	-	6.91

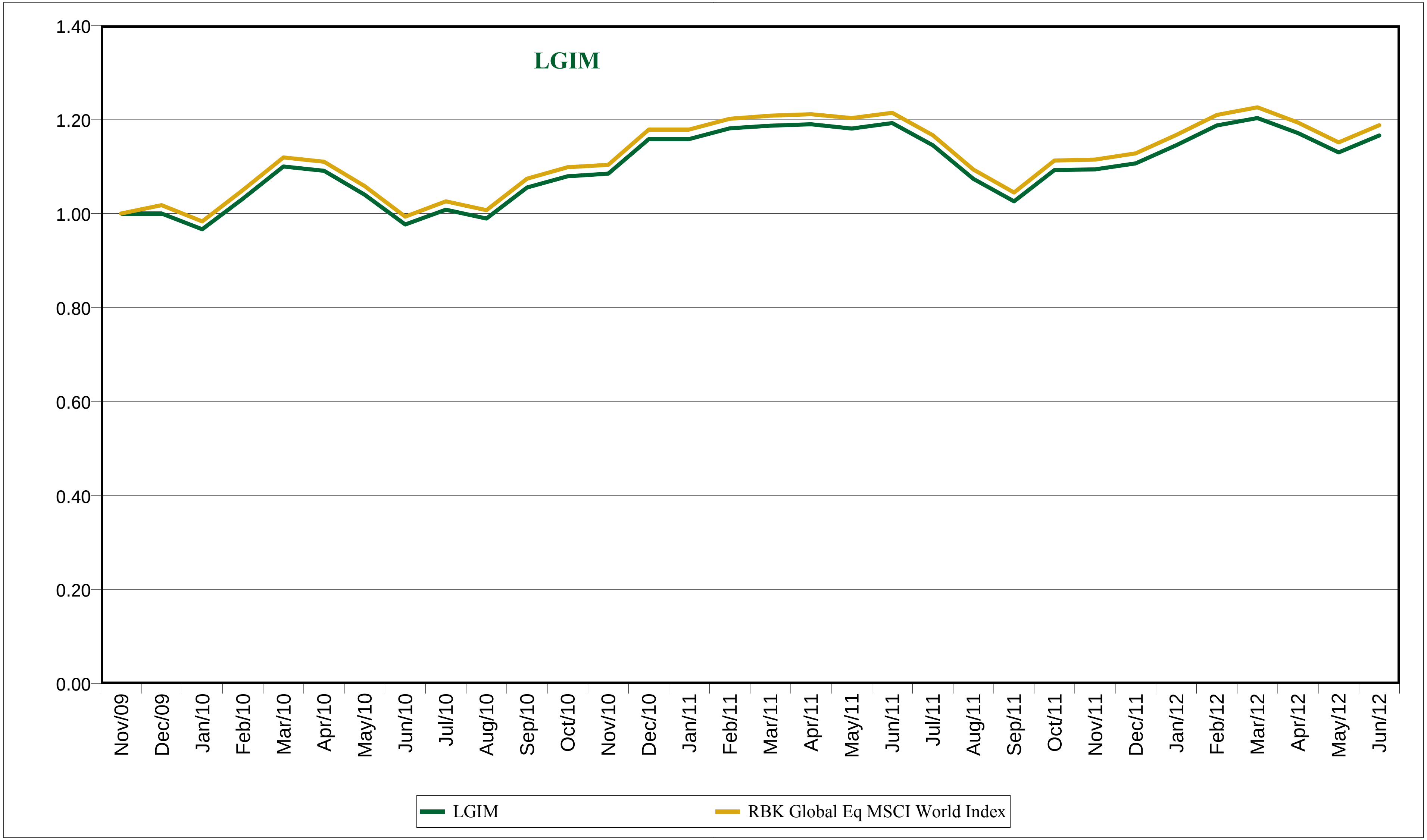
Three Years Rolling Quarterly Returns



	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-3.06	8.68	7.90	-13.98	0.47	2.45	9.79	8.08	-11.26	10.06	-	-
Benchmark	-3.08	8.66	7.98	-13.96	0.52	2.47	9.77	8.13	-11.28	10.03	-	-

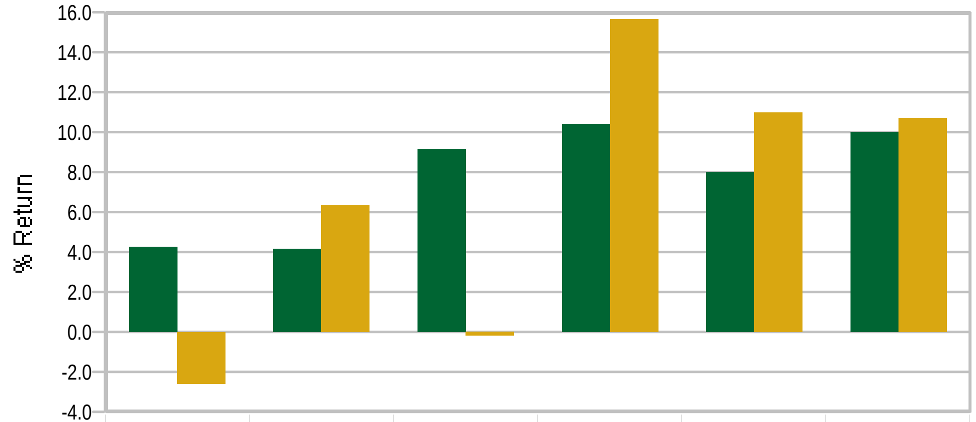
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.3	
Inception Date	Nov-2009	
Opening Market Value £ (000)	106,581	
Net Investment £ (000)	0	
Income Received £ (000)	0	
Appreciation £ (000)	-3,264	
Closing Market Value £ (000)	103,317	

Growth over time of a single unit



Adams Street

Historical Plan Performance

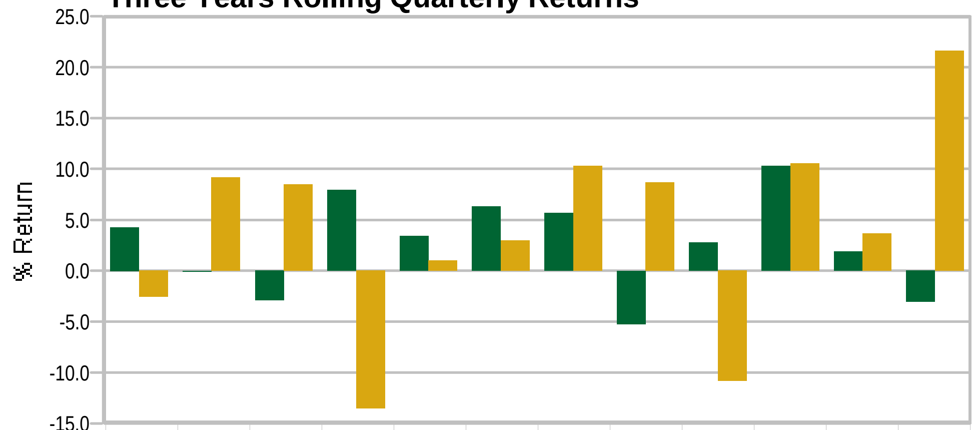


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.28	4.16	9.15	10.41	8.00	10.00
Benchmark	-2.59	6.36	-0.20	15.65	10.99	10.73

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	10.41	15.65
Standard Deviation	15.45	14.07
Relative Return	-4.54	
Tracking Error	22.24	
Information Ratio	-0.24	
Beta	-0.15	
Alpha	12.71	
R Squared	0.02	
Sharpe Ratio	0.59	1.03
Percentage of Total Fund	4.9	
Inception Date	Mar-2007	
Opening Market Value £ (000)	24,386	
Net Investment £ (000)	613	
Income Received £ (000)	0	
Appreciation £ (000)	1,045	
Closing Market Value £ (000)	26,044	

Three Years Rolling Quarterly Returns

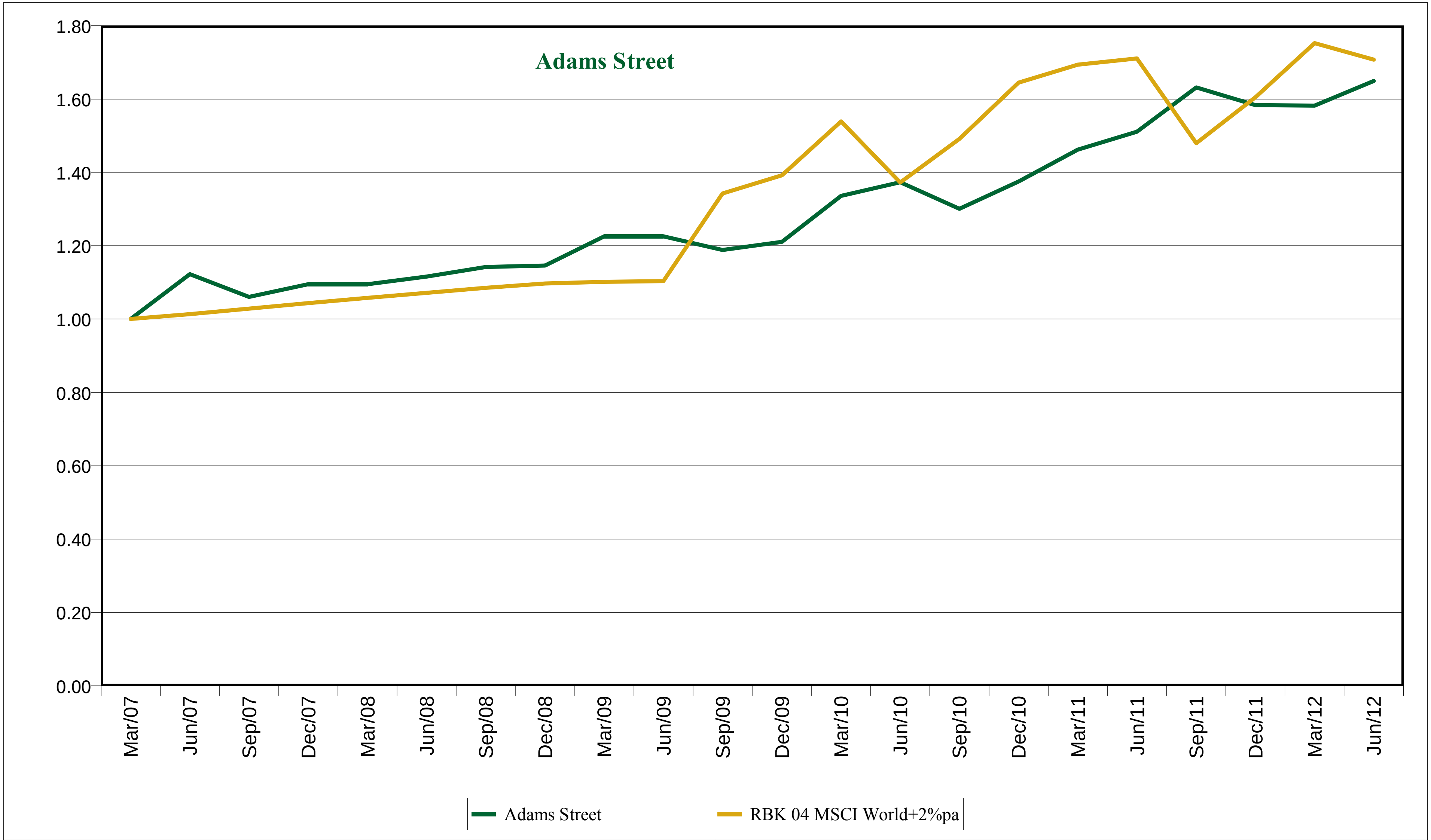


	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	4.28	-0.12	-2.92	7.95	3.40	6.29	5.70	-5.26	2.80	10.32	1.90	-3.06
Benchmark	-2.59	9.19	8.50	-13.52	1.02	2.98	10.29	8.65	-10.82	10.56	3.68	21.62

Three Years Rolling Excess Returns

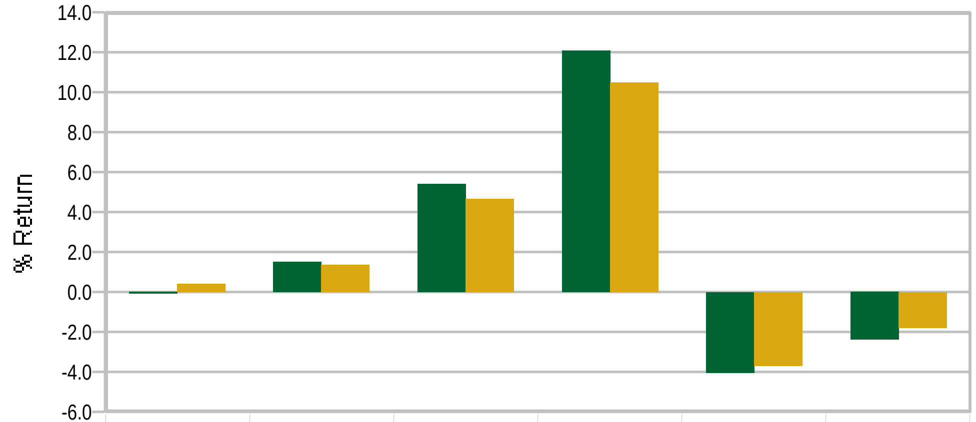
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-20.29	-1.72	-0.22	15.27	-12.81	-4.16	3.22	2.36	24.82	-10.53	-8.52	7.05
3Y Relative	-	-	-4.60	-3.33	-5.41	-7.28	-5.87	-5.34	1.57	-1.88	-6.74	-4.54

Growth over time of a single unit



CBRE Global Investors

Historical Plan Performance

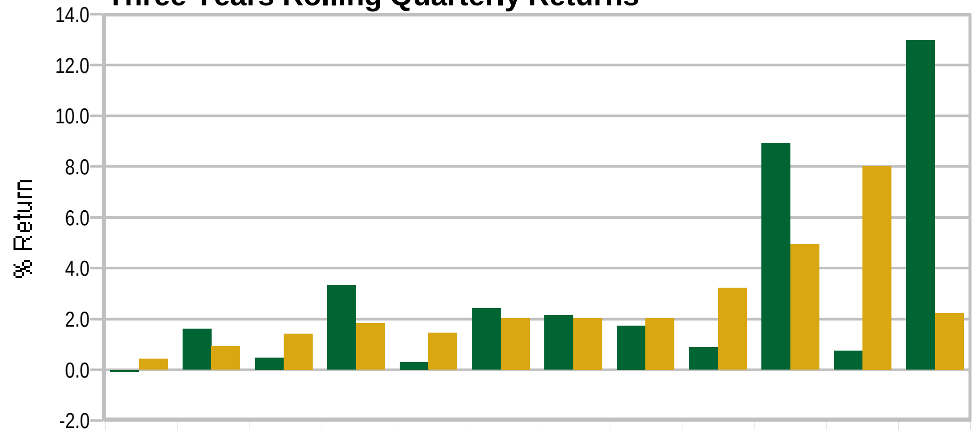


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.08	1.53	5.41	12.07	-4.06	-2.38
Benchmark	0.43	1.35	4.68	10.50	-3.69	-1.81

Risk Statistics - 3 years

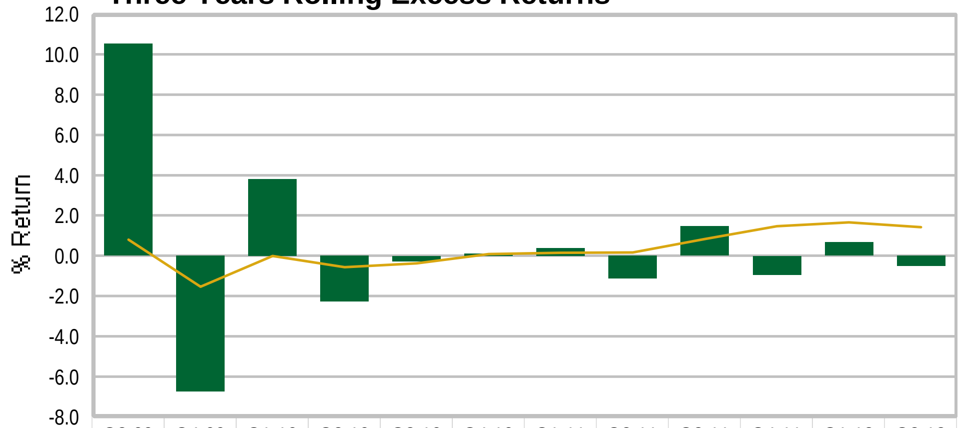
	Fund	B'mark
Performance Return	12.07	10.50
Standard Deviation	8.05	2.35
Relative Return	1.42	
Tracking Error	8.38	
Information Ratio	0.19	
Beta	-0.02	
Alpha	11.27	
R Squared	0.00	
Sharpe Ratio	1.35	3.95
Percentage of Total Fund	4.2	
Inception Date	Sep-2006	
Opening Market Value £ (000)	22,715	
Net Investment £ (000)	-231	
Income Received £ (000)	242	
Appreciation £ (000)	-261	
Closing Market Value £ (000)	22,465	

Three Years Rolling Quarterly Returns



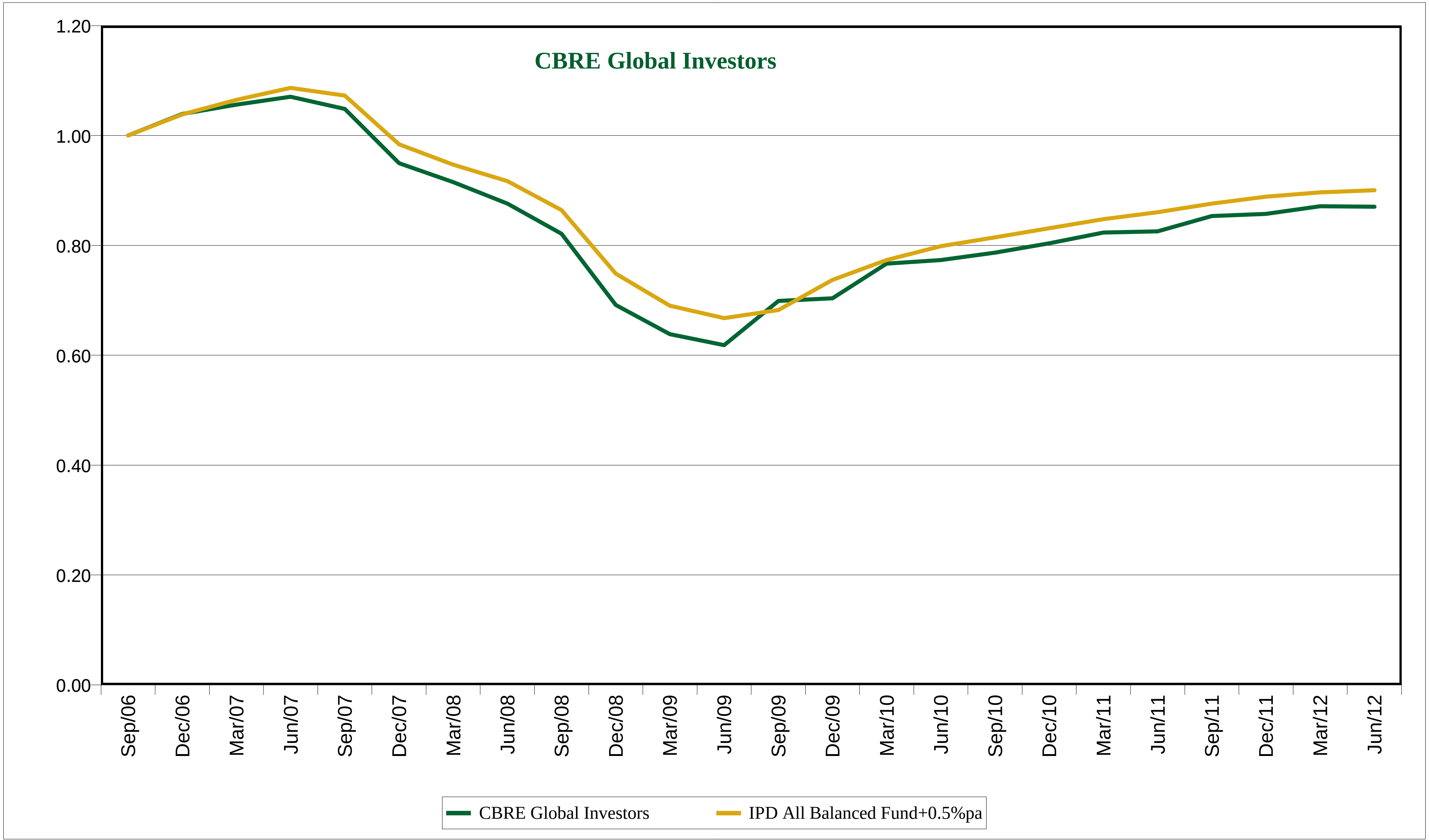
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-0.08	1.61	0.48	3.33	0.31	2.41	2.15	1.74	0.88	8.92	0.74	12.98
Benchmark	0.43	0.93	1.43	1.83	1.46	2.03	2.03	2.03	3.23	4.93	8.03	2.23

Three Years Rolling Excess Returns



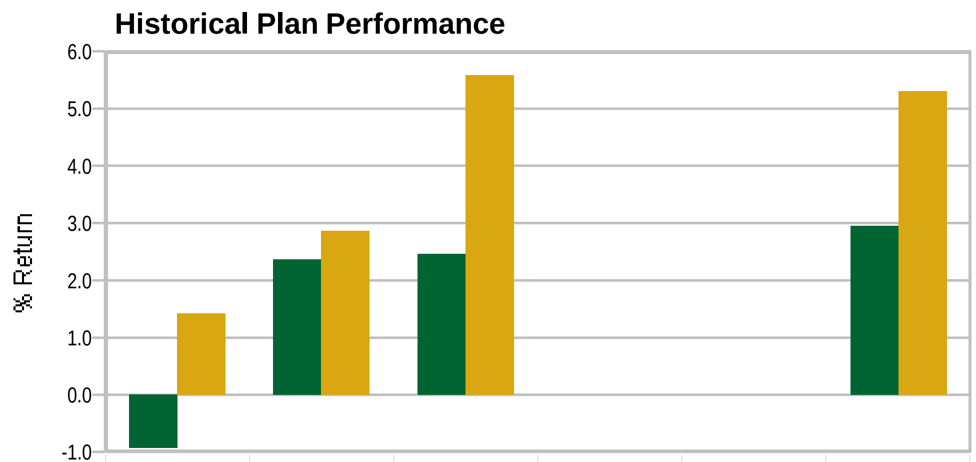
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	10.52	-6.74	3.81	-2.28	-0.28	0.12	0.38	-1.13	1.48	-0.93	0.68	-0.51
3Y Relative	0.80	-1.55	-0.02	-0.57	-0.39	0.09	0.16	0.16	0.83	1.47	1.66	1.42

Growth over time of a single unit



Barings

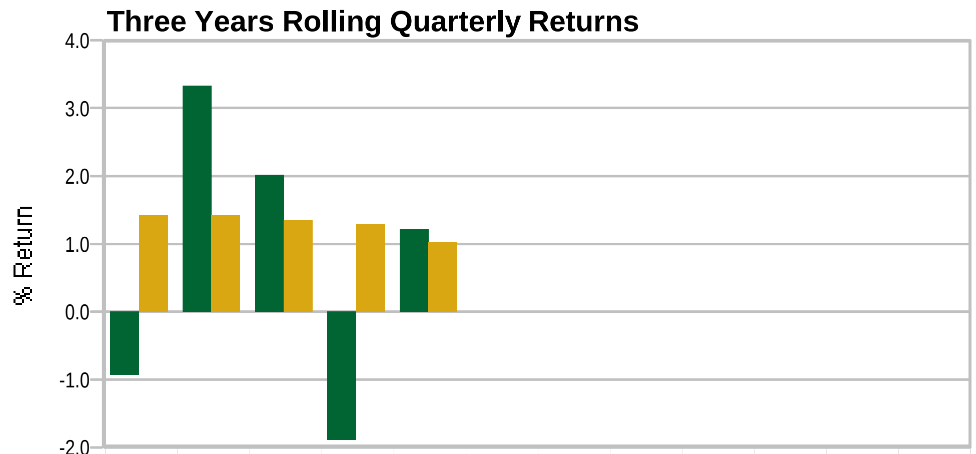
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.93	2.37	2.46	-	-	2.96
Benchmark	1.42	2.86	5.58	-	-	5.30

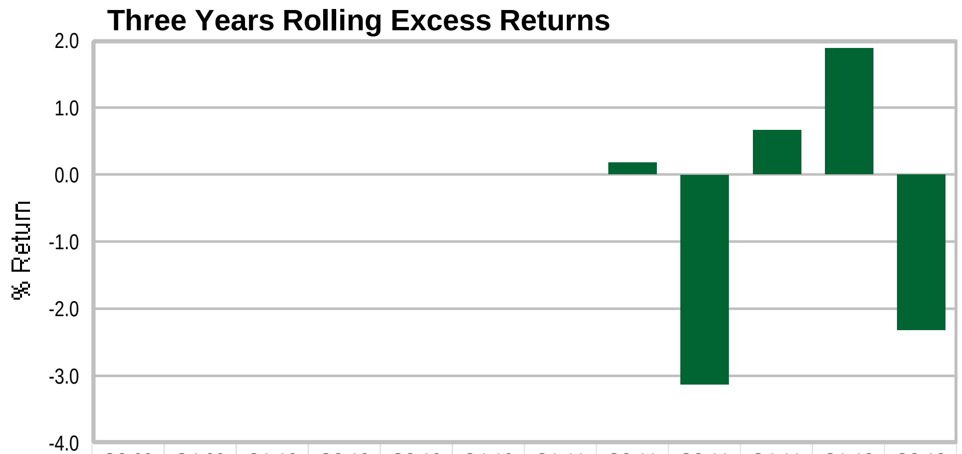
Risk Statistics - 3 years	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	14.8	
Inception Date	Mar-2011	
Opening Market Value £ (000)	80,213	
Net Investment £ (000)	10	
Income Received £ (000)	0	
Appreciation £ (000)	-745	
Closing Market Value £ (000)	79,478	

Three Years Rolling Quarterly Returns



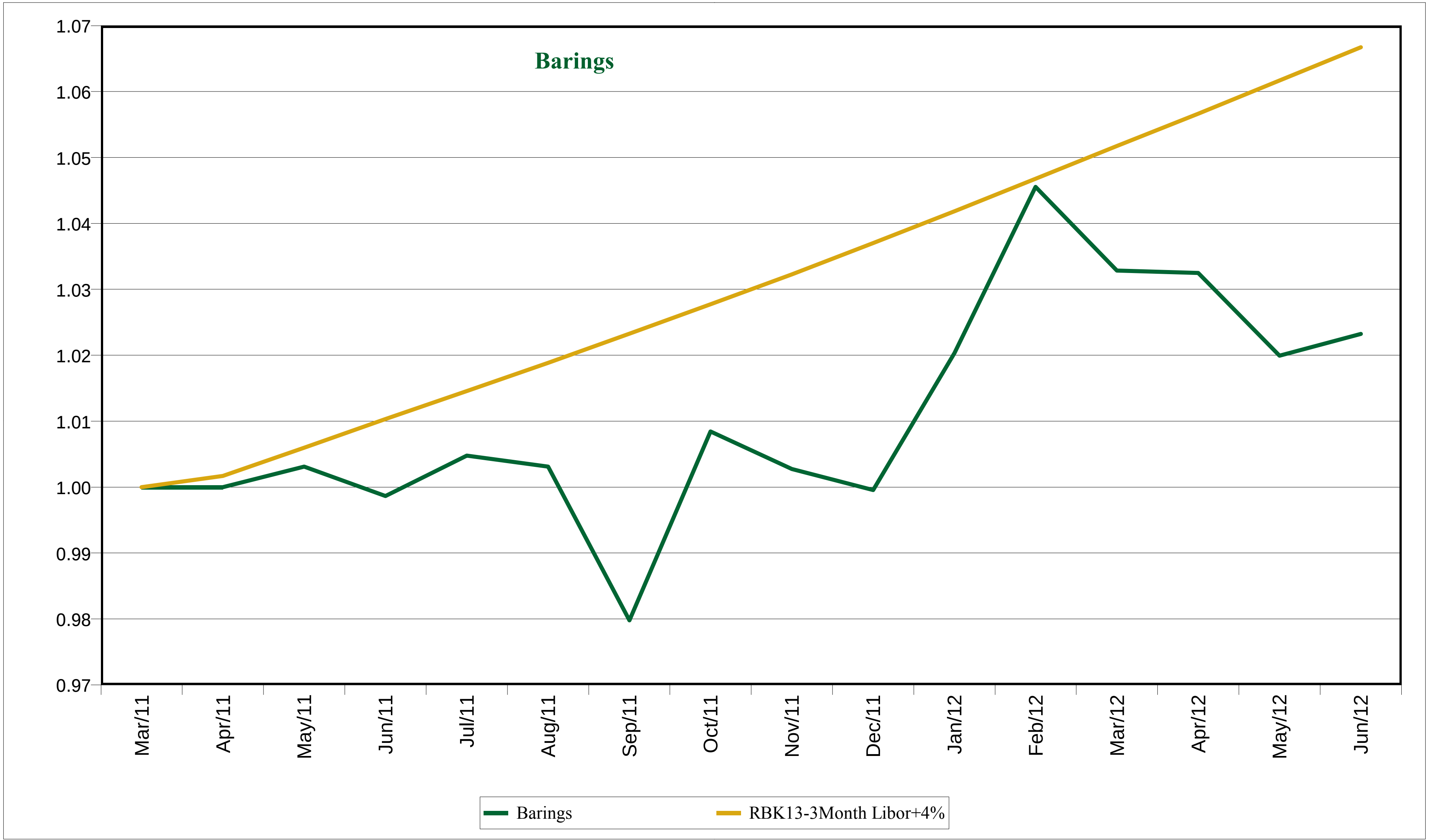
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-0.93	3.33	2.02	-1.89	1.21	-	-	-	-	-	-	-
Benchmark	1.42	1.42	1.34	1.28	1.03	-	-	-	-	-	-	-

Three Years Rolling Excess Returns



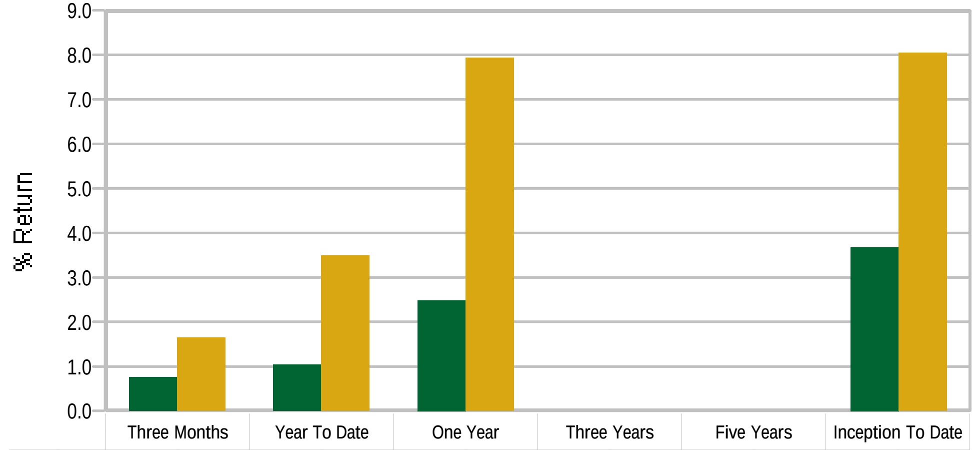
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-	-	-	-	-	-	-	0.18	-3.13	0.66	1.88	-2.32
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Growth over time of a single unit



Pyrford

Historical Plan Performance

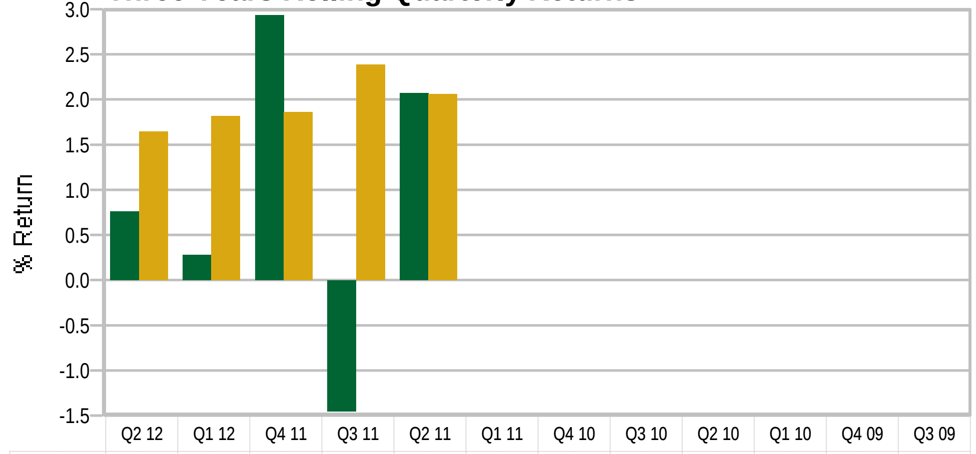


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.76	1.04	2.49	-	-	3.68
Benchmark	1.65	3.49	7.93	-	-	8.05

Risk Statistics - 3 years

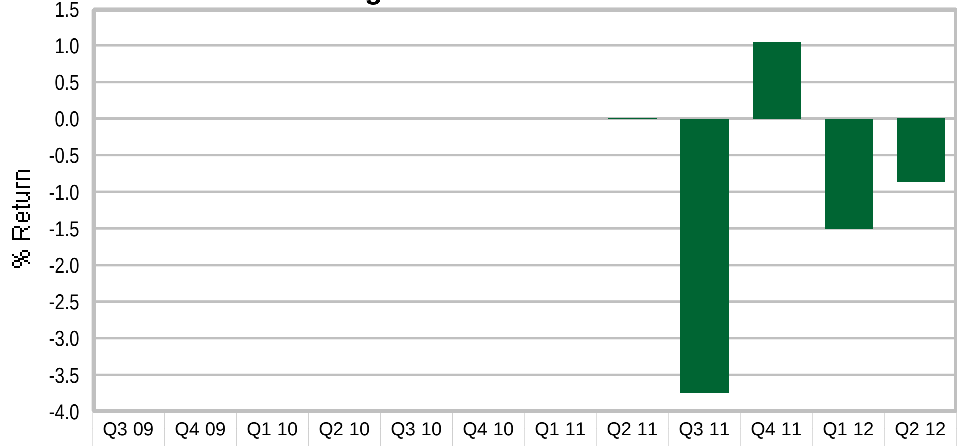
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	14.9	
Inception Date	Mar-2011	
Opening Market Value £ (000)	79,522	
Net Investment £ (000)	0	
Income Received £ (000)	0	
Appreciation £ (000)	604	
Closing Market Value £ (000)	80,126	

Three Years Rolling Quarterly Returns



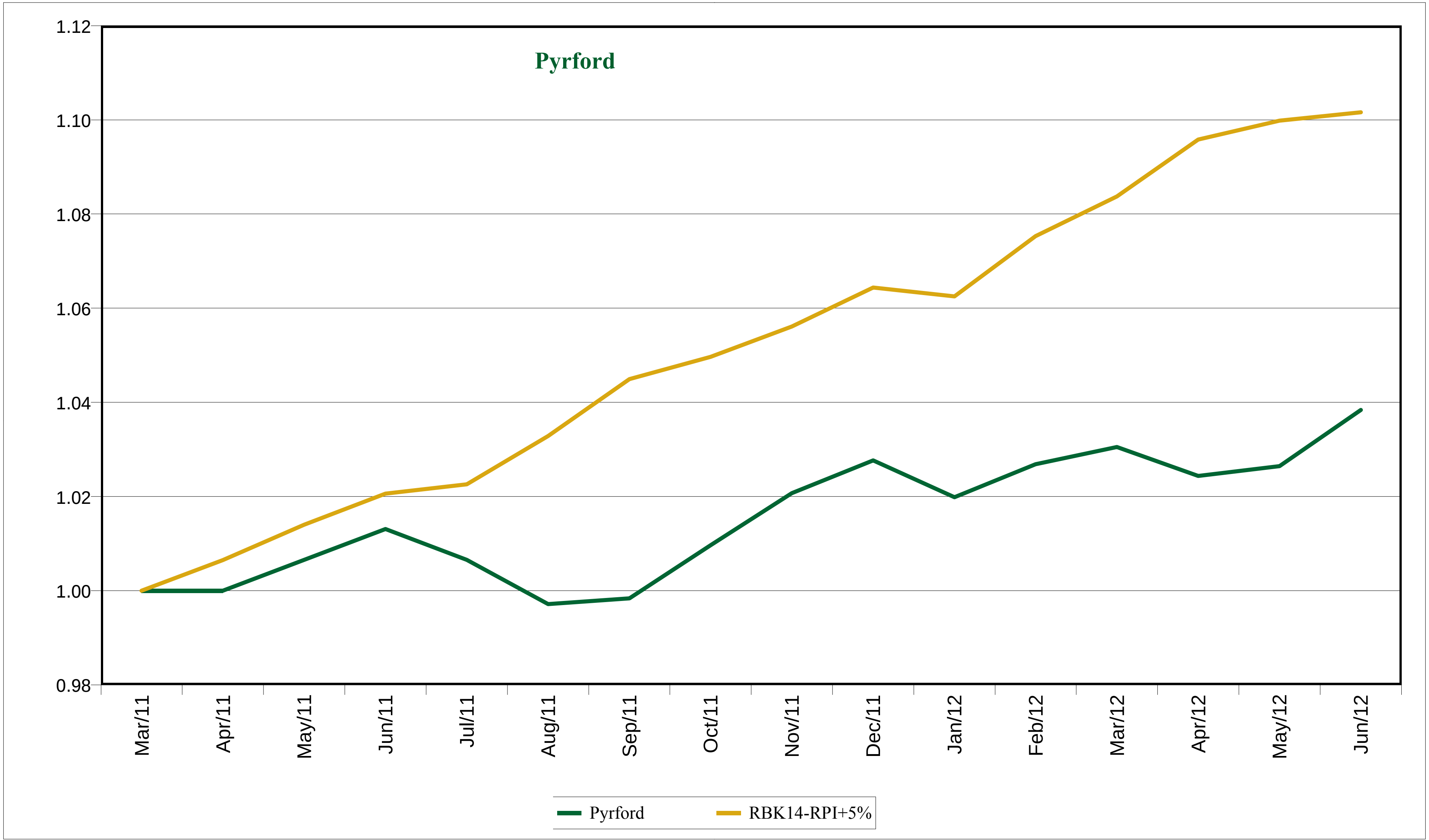
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	0.76	0.28	2.93	-1.45	2.07	-	-	-	-	-	-	-
Benchmark	1.65	1.82	1.86	2.38	2.06	-	-	-	-	-	-	-

Three Years Rolling Excess Returns



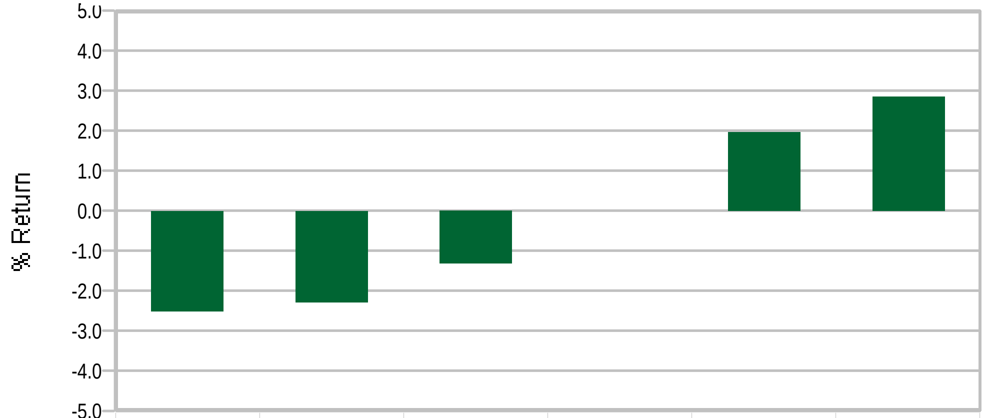
	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-	-	-	-	-	-	-	0.01	-3.75	1.05	-1.51	-0.87
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Growth over time of a single unit



RBKC Client Cash Account

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.51	-2.28	-1.32	0.00	1.97	2.86

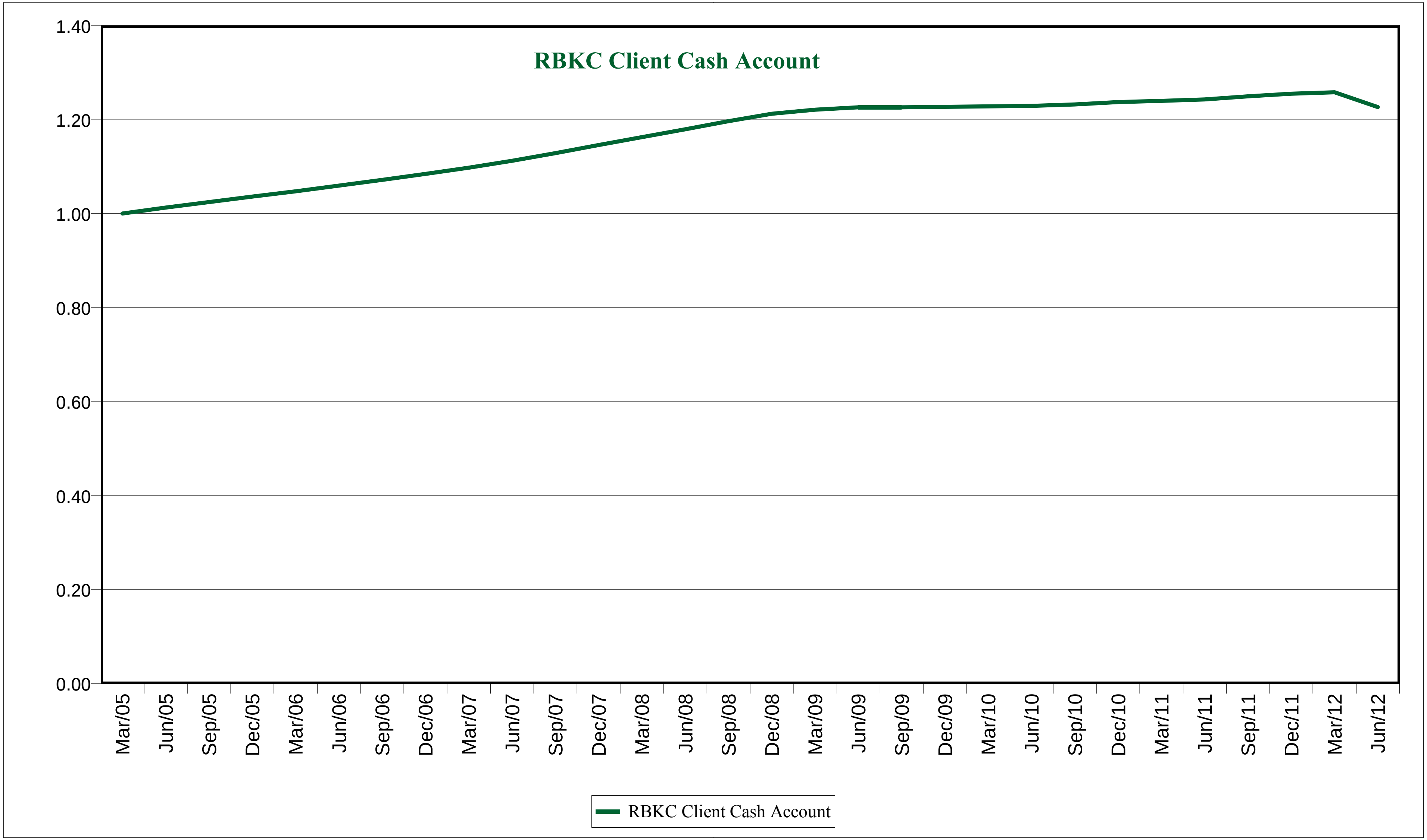
Three Years Rolling Quarterly Returns

	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-2.51	0.23	0.47	0.51	0.23	0.24	0.40	0.24	0.10	0.08	0.05	0.00

Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	1.8	
Inception Date	Mar-2005	
Opening Market Value (£000)	5,210	
Net Investment £(000)	4,743	
Income Received £(000)	13	
Appreciation £(000)	-149	
Closing Market Value (£000)	9,818	

Growth over time of a single unit



Benchmarks

RB of Kensington and Chelsea

20.0%	MSCI World
20.0%	MSCI ACWI +2% pa
20.0%	MSCI World ND +2% pa
5.0%	IPD UK All Balanced Funds Index +0.5% pa
15.0%	3 Month LIBOR +4% pa
5.0%	MSCI World +2% pa
15.0%	RPI +5% pa

Baillie Gifford Global Alpha

100.0% MSCI ACWI +2% pa (24 Developed countries plus 21 Emerging)

Longview

100.0% MSCI World ND +2% pa (24 Developed countries only)

LGIM

100.0% MSCI World (24 Developed countries only)

Adams Street

100.0% MSCI World +2% pa

CBRE Global Investors

100.0% IPD UK All Balanced Funds Index +0.5% pa

Barings

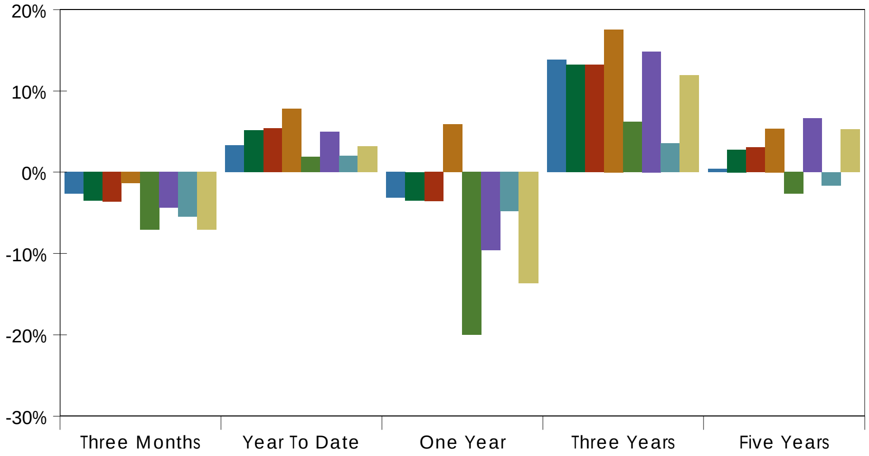
100.0% 3 Month LIBOR +4% pa

Pyrford

100.0% RPI +5% pa

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	-2.6	3.3	-3.1	13.8	0.4
FT: World	-3.5	5.1	-3.5	13.2	2.8
FT: World ex UK	-3.6	5.4	-3.5	13.2	3.1
FT AW North America	-1.4	7.8	5.9	17.6	5.4
FT: Developed Europe ex UK	-7.1	1.9	-20.0	6.2	-2.6
FT: Developed Asia Pac x Jp	-4.4	4.9	-9.6	14.8	6.6
FT AW: Japan	-5.5	2.0	-4.8	3.5	-1.6
MSCI Emerging Markets GD	-7.1	3.2	-13.7	11.9	5.3

The expectation that Greece would leave the Euro ceasing repayments on sovereign debt and that the ensuing mayhem would engulf Spain and Italy requiring further German intervention did not come to pass. Greece remains in the Euro, for now, and the Spanish banking system will receive aid directly rather than through its own government. Equity markets reacted to the continuing uncertainty in predictable fashion; red numbers across the board for the quarter with the exception of the UK and US regions when measured in Euro due to the currency return. US and Chinese economic data is mixed but still good when compared with Europe. The US consumer market, so critical to the global economy has slowed its spending rate to near 2% and needs job growth to reaccelerate. The first half of 2012 returns remain positive after the gains in quarter one. Globally, Basic Materials was the weakest sector and Telecoms was the strongest. Shares in global banking fell as Moody's downgraded 15 top banks including Morgan Stanley, Bank of America, Citigroup and RBS while the bankers heading those institutions enjoyed double digit pay rises averaging almost 12%. The price of crude oil futures ended the quarter down more than 20% at $98 per barrel following slowing growth in China and an increase in supply from Saudi Arabia. The FTSE World was down by -3.5% (GBP) over quarter two 2012 and is behind by the same percentage over one year (GBP).

UK GDP fell by 0.3% in the first quarter of 2012, the same decline posted in quarter four 2011. However the most recent data has been positive; CPI dropped and came in below expectation, manufacturing order books and output expectations have improved along with export orders and employment is rising at its fastest rate since 2010. Government ownership levels of RBS are likely to increase before they decrease with a planned capital restructure in the autumn and recent failures in its most basic functions as a retail bank. Barclays opted to pay a £290m fine to both UK and US regulators for LIBOR manipulation as 14 of their traders remain under investigation with the FBI. Rolls Royce is seeking a new chairman to steer the company to even greater success. Basic Materials was the weakest sector over quarter two followed by Technology, Utilities was the strongest sector. The FTSE All Share was down -2.6% (GBP) over the second quarter and is now behind over one year by -3.1% (GBP).

Rising anger at austerity measures has increased economic and political risk across Europe. During quarter two Greece scrambled to a coalition government that supported remaining in the single currency, the Dutch cabinet resigned and France elected its first Socialist president in 20 years. Fear of a banking collapse in Spain has driven the public to send their money abroad, mostly to Germany; EUR 66.2bn was sent out in May 2012 compared to EUR 5.4bn in May 2011. This is exactly what the EUR 100bn of EU bailout funds is seeking to avoid while enabling Madrid to relieve their sovereign books of the burden but requiring fewer austerity measures. Worryingly, the German industrial engine has been slowing as demand drops in key export markets like China. Better news has seen European

Equity Index Performance (in GBP)

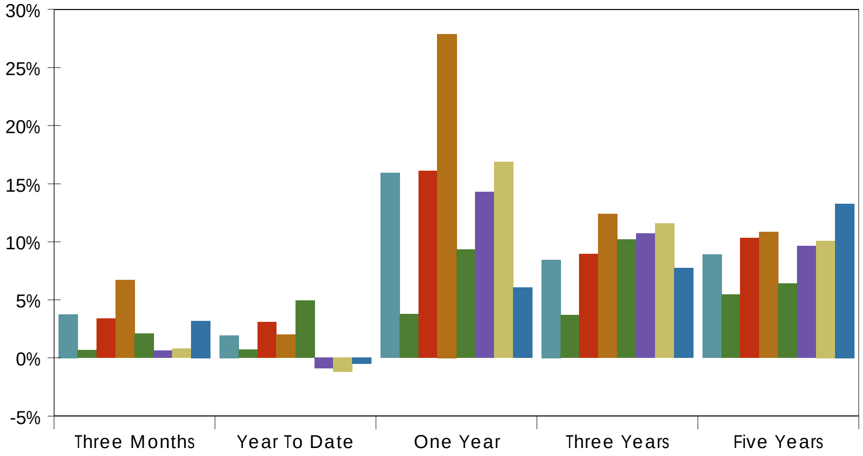
companies approving higher dividend payments, even in cases where earnings have dropped. Only 1 in 5 companies cut their dividend while half increased them. Eurozone inflation held steady to end June and GDP increased by 0.1% in Q1. Eurozone unemployment increased to a record 11.1% in May with Spain being hardest hit at 24.6%. The FTSE Developed Europe ex UK index returned -7.1% (GBP) over quarter two and -20% (GBP) over the year.

The US economy grew at an annualised rate of 1.9% in quarter one 2012 and demand for durable goods rebounded in May as US companies boosted capital spending. However, the US jobs market disappointed by adding only 80k jobs in June leaving the unemployment rate unchanged at 8.2%. The housing sector also slowed in April and manufacturing activity contracted for the first time in three years. The US is set to raise $1.7bn selling leases to drill for oil in the Gulf of Mexico; Statoil, Shell and BP spent almost a $1bn between them. Second quarter losses in Ford's overseas operation could reach $570m following lower consumer demand but overall domestic US auto sales beat expectations in June as 1.3m vehicles were sold; up 22% from a year ago. All sectors other than Telecoms, Utilities, Health Care and Consumer Services lost over the second quarter. The Fed has cut its forecast for economic growth in 2012 from 2.9% to 2.4%. The FTSE North America index returned -1.4% (GBP) over the second quarter and 5.9% (GBP) for the year.

Japan's exports continue to rise largely thanks to steady demand from the US. The impact of potential power shortages from the mothballing of the country's final nuclear power plant remains to be seen. The FTSE Japan returned -5.5% (GBP) for quarter two and the FTSE Developed Asia Pacific ex Japan returned -4.4% (GBP). Demand from China's export markets is decreasing across the board although some encouraging figures came from the services sector in June. The Indian economy grew at its slowest rate since 2003 over Q1 with 5.3% year on year vs 9.2% a year earlier. Sharp falls in manufacturing and agriculture are largely responsible. The proposed merger of Glencore and Xstrata continues to labour as more groups express displeasure at the terms, mainly the plan to pay £173m to retain senior management. Gold's diversification benefits remain an option for the wary; it ended the quarter down at $1,590 per ounce. The MSCI Emerging Markets index returned -7.1% (GBP) for the second quarter and -13.7% (GBP) for the year.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	3.8	2.0	15.9	8.4	8.9
FTSE All Stock 0-5 Yr. Gilts	0.7	0.7	3.8	3.7	5.4
FTSE All Stock 5-15 Yr. Gilts	3.4	3.1	16.1	8.9	10.3
FTSE All Stock > 15 Yr. Gilts	6.7	2.0	27.9	12.4	10.8
ML STG N-Gilts All Stocks	2.1	4.9	9.3	10.2	6.4
FTSE Index Linked	0.6	-0.9	14.3	10.7	9.6
FTSE Index Linked 5+ yrs	0.8	-1.2	16.9	11.6	10.1
JPM GBI Global	3.2	-0.5	6.1	7.7	13.3

The second quarter of 2012, was dominated by fears of a euro area break-up but also a synchronised slowing of global growth saw major central banks take action. The JP Morgan Global Manufacturing & Services June PMI slipped to 50.3, down from February's 12 month peak of 55.4. Growth slowed in the service sector and manufacturing production contracted. The Bank of Japan increased its asset purchase program by JPY5trn, while leaving policy rates unchanged. The Reserve Bank of Australia cut rates twice by 75bps to 3.5%. China's central bank has cut interest rates twice in a month down to 6%, in a bid to stabilise the economic slowdown. The Federal Reserve extended 'Operation Twist', selling short dated government debt to purchase longer dated paper to stimulate the economy. The Bank of England followed by increasing QE by £50bn, while the European Central Bank cut both its refi rate and the deposit rate by 25bps to record lows of 0.75% and zero respectively. Concerns on the world economic outlook have pushed down to record lows the 10-year government bond yields for the US, Germany and the UK. The JPM Global Govt Bond index has gained +1.3% (USD) in the second quarter of 2012, while the Barclays Capital Global Aggregate Corporate Bond index delivered +0.3% (USD).

The UK economy fell back into recession as UK GDP posted its second consecutive quarter contraction of 0.3% in Q1. The Purchasing Managers Indices (PMI) for services, manufacturing and construction all deteriorated in June. The construction index fell sharply to 48.2 while the manufacturing PMI at 48.6 remains below the 50 growth/contraction mark. On the upside, inflation has declined sharply to 2.8% for June from a peak of 5.2% last September; below 3% for the first time since Q4 2009. Growing concern for the deteriorating economic outlook, has led the BoE to launch a series of policy initiatives aimed to boost growth. In his June Mansion House speech, BoE Governor King announced plans to inject 6-month liquidity into the banking system and a 'funds for lending programme'. The MPC kept the Bank rate unchanged at 0.5% but announced a £50bn extension to its Asset Purchase Facility at the July meeting. The on-going Euro-zone crisis and the uncertain economic outlook have pushed perceived safe-haven gilt yields down to historic lows. The benchmark 10-year gilt yield moved from 2.21% last quarter, to end June at 1.75%. The FTSE All Stock Gilts returned +3.8% (GBP) for the quarter while the ML Sterling Non Gilts gained +2.1% (GBP).

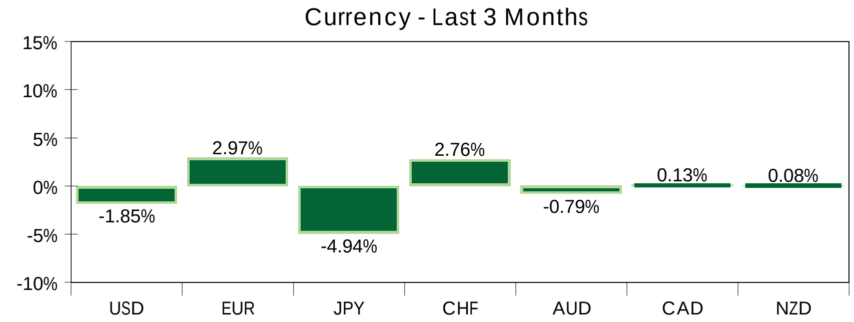
Greece's future in the euro hung on the outcome of the second Greek election on the 17th June, and policy makers considered options for an orderly exit. Spain became the fourth euro area member to seek an international bailout, formally requesting financial support, of up to EUR100bn for its banking sector. However the package failed to stem the jump in Spanish yields, which on benchmark 10-year debt rose to more than 6.8%. The EU summit at the end of June made some progress, agreeing on a radical

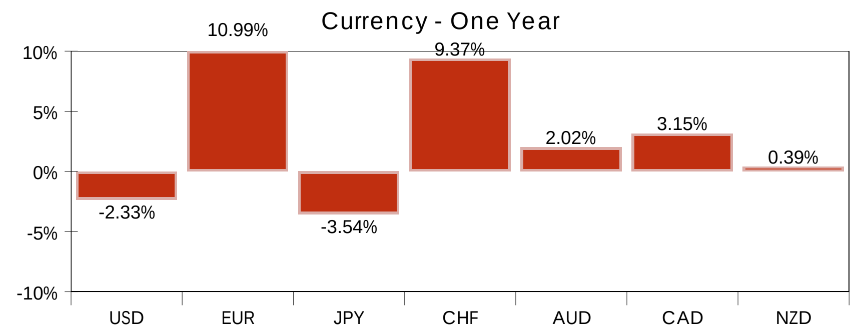
Fixed Income Index Performance (in GBP)

restructuring of the EUR100bn plan to recapitalise Spanish banks, a EUR120bn growth package and creation of a single banking supervisory unit at the ECB - a first step towards banking union. At 46.4 in June, the Euro-zone Composite PMI was higher than May's reading of 46.0 but still firmly in contraction. The ECB cut its main lending rate by 25bps to an historical low of 0.75% at its July meeting, and cut its deposit rate from 0.25% to zero in an effort to stimulate the flow of money between banks and in turn, from banks to businesses. German 2-year Bund yields fell below zero in response, but the Spanish and Italian bond spreads widened over the Bund. The benchmark German Bund 10-year yield dropped from 1.82% at the end of Q1 to a low of 1.21% in May before closing June back up at 1.60%. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, increased from 124.7 at the end of March to close June at 165.8. The JPM European Govt Bond index returned +1.5% (EUR) and the Barclay Capital Global Aggregate Credit index was up at +5.3% (EUR) for Quarter 2.

Recent US data shows signs that the US economy recovery is faltering. Business confidence has weakened as the Institute for Supply Management (ISM) PMI survey fell from 53.5 to 49.7, the first sub-50 reading in almost 2 years. The rate of job creation has slowed markedly in Q2, rising by only 80,000 in June, meaning unemployment stays unchanged at 8.2%. This has impacted on consumer sentiment, which has fallen to a 6-month low. This slowing growth and the impact of the Spanish banking crisis situation in the Euro-zone heightened risk aversion. The increased demand for US Treasuries has driven the benchmark 10-yr Treasury yield to all time lows. With 'Operation Twist' being extended to the end of the year, Fed Chairman Bernanke has not ruled out further stimulus, highlighting the event driven risks from the Euro-zone and domestically, the pending 'fiscal cliff' of tax rises and spending cuts which need to be addressed. The 10-year benchmark Treasury yield ended the quarter at 1.66% down from 2.21% at the end of March. For the quarter the JPM US Govt Bond index was up 3.0% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned +2.5% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-1.85	0.92	-2.33	-1.62	-4.92
European Union euro	2.97	3.19	10.96	1.71	-3.68
Japanese yen	-4.94	4.56	-3.53	-7.95	-13.65
Swiss franc	2.76	2.13	9.34	-6.25	-10.08
Australian dollar	-0.79	0.93	2.01	-9.53	-8.70
Canadian dollar	0.13	1.04	3.14	-5.96	-5.77
New Zealand dollar	0.08	-2.07	0.39	-8.81	-5.71

The second quarter of 2012 saw a weakening of the Euro and Sterling and a strengthening of the Dollar and Yen. The Euro saw losses against the Sterling, Dollar and Yen. In the same period, the Yen strengthened against the Euro, Sterling and Dollar. Chinese consumer inflation in June 2012 slowed sharply to the lowest level in nearly two and a half years. This is likely one key reason why the central bank was comfortable with cutting benchmark interest rates for the second time in less than a month. Economists said the lower inflation is opening doors for a further loosening of monetary policy and more investment by the government in the second half of the year to ensure the country's economy rebounds. China's CPI rose 2.2% year on year, the lowest since January 2010 when CPI rose 1.5% year on year. The mood among large companies in Japan has brightened since last quarter but the outlook remains tempered by a strong yen and weak external demand. The Reserve Bank of Australia cut interest rates by 0.50% in May and another 0.25% in June - the lowest level in almost 3 years - to boost demand and cushion any adverse impact of the sovereign debt crisis in Europe. As a sign that these cuts were working, Australian retail sales rose at more than twice the rate expected in May.

In the UK, Q2 2012 saw Sterling gain against the Euro but weaken against the Yen and Dollar. As expected, the Bank of England's Monetary Policy Committee increased the scale of its quantitative easing asset programme in early July by £50bn to £375bn. The MPC also elected to leave the UK's interest rate at the historic low of 0.5%. The 0.5% rate is the lowest in the Bank of England's 300 year history, and has been in effect since March 2009 when the central bank made its last in a long run of interest rate cuts. Faltering global growth has pushed inflation to its lowest since 2009. Falling commodity prices helped lower the annual CPI inflation rate from 3% in April to 2.8% in May as food price inflation slowed and fuel prices dropped. In June, George Osbourne delayed the 3p rise in fuel duty in a move that will cost the treasury £550 million but will bring some relief to motorists. Unemployment in the UK fell by 51,000 to 2.61 million in the 3 months to April 2012. The jobless rate fell to 8.2%. Overall, there are 29.28 million people in work, up 166,000 on the previous quarter. The Office of National Statistics said the unemployment level in the UK overall was "showing some improvement". Nationwide reported a 0.9% fall in UK housing prices during the 3 month period to June 2012, 1.5% lower than one year ago. Sterling closed the quarter up against the Euro by 3.0% and down against the Yen and Dollar by 4.9% and 1.9% respectively.

In the US, a decision on whether to launch another round of asset purchases remains in the balance as the Federal Reserve wrestles with a complicated economic outlook and uncertainty about the costs and benefits of its easing tools. Any downgrade in the forecasted decline in unemployment rate over the next few years would likely trigger further action. US house prices rose more than expected in April, adding to evidence of a recovery in residential property and boosting Barack Obama's re-election chances. The Case-Shiller index, released in late June, showed house prices in 20 of the largest US cities increased

Currency Performance (in GBP)

0.7% in April for a third consecutive monthly gain. On an annual basis, house prices across the country are still down 1.9%, a slower decline than in previous months. In May, the consumer inflation dropped to its lowest level in 3 years, relieving some of the pressure on America's budgets as they continue to suffer from a depressed job market and a slowing economic recovery. The data supports the Federal Reserve's view that inflationary pressures due to high commodity prices earlier in the year were temporary, and may give the central bank a little more room to stimulate US growth without worrying about a spike in the cost of living. The US un-employment rate remained unchanged from March at 8.2%. The US trade deficit narrowed in May to $48.7bn as exports climbed and oil prices fell, easing import costs. The gap between imports and exports declines 3.8% from $50.6bn in April. In May, exports rose to $183.1bn as US companies sold more food, animal feed, beverages, capital goods and professional services abroad. Imports fell to $231.8bn as US demand for foreign industrial supplies and materials, consumer goods and food and drink declined. The Dollar ended the quarter up against the Euro and Sterling by 4.8% and 1.9% respectively, however it was down compared to the Yen by 3.1%.

In the Euro area, the Euro weakened against the Dollar, Yen and Sterling this quarter. The governing council of the European Central Bank left the single currency's interest rate unchanged at 1% during Q1 2012, but it reduced the rate by 0.25%, to 0.75%, on 5th of July. This was the first cut in the single currency's rate this year. Eurozone inflation rate dropped only slightly to 2.4% in June, down from the 2.6% recorded in March, as demand fell and fuel prices dropped. Although the European Central Bank aims to keep inflation below 2% over the medium term, the annual rate has been above 2% since November 2010. Eurozone unemployment has reached a new Euro-era record. The jobless rate in the 17-country region was 11.1% in May, the highest since the launch of Europe's monetary union in 1999. The current number of unemployed in the region amounts to some 17.4 million. Spanish unemployment rose again to reach a new high of 24.6% in May 2012 with the under 25's seeing an unemployment rate of 52.1% in May 2012. Among the other member states, the lowest unemployment rates were recorded in Austria (4.1%), the Netherlands (5.1%), Luxembourg (5.4%) and Germany (5.6%), with the highest in Spain (24.6%) and Greece (22.5%). The Euro ended the quarter down against the Yen, Dollar and Sterling by 7.9%, 4.8% and 3.0% respectively.

Glossary

Tracking Error – A low tracking error indicates a good match between benchmark and portfolio

$$\sigma_{ER} = \sqrt{\frac{\sum (ER_t - \overline{ER})^2}{T}} \quad \text{for t=1 to T}$$

Annualised tracking error $= \sigma_{ER} \times \sqrt{p}$

Where	Equals
ER	Excess return (Portfolio Return minus Benchmark Return)
$\overline{ER}$	Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)
T	Number of observations
p	Periodicity (number of observations per year)

The tracking error measures the extent to which a portfolio tracks its benchmark. The higher the tracking error, the higher the variability of the portfolio returns around the benchmark. The tracking error will always be greater than zero, unless the portfolio is exactly tracking the benchmark.

Information Ratio – A high information ratio indicates that more value was added per unit of risk taken

$$\text{Information Ratio} = \frac{\overline{ER}}{\sigma_{ER}}$$

Annualised Information Ratio = Information Ratio $\times \sqrt{p}$

Where	Equals
$\overline{ER}$	Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)
T	Number of observations
p	Periodicity (number of observations per year)

The information ratio is a measure of risk adjusted return. The higher the information ratio, the higher the risk adjusted return.

Alpha - A higher Alpha indicates that the portfolio has exceeded the performance of the benchmark

$$\alpha = \frac{\sum R_{yi}}{n} - \beta \frac{\sum R_{xi}}{n}$$

Where	Equals
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
β	Beta – measure of the sensitivity of a portfolio's rate of return against those of the market
n	Number of observations

The alpha is the value added to the portfolio by the manager – the higher the alpha, the better the manager has done in achieving excess returns.

Beta – A Beta greater than 1 indicates that the portfolio returns are more volatile than those of the benchmark

$$\beta = \frac{n\sum R_{xi}R_{yi} - \sum R_{xi} \sum R_{yi}}{n\sum (R_{xi})^2 - (\sum R_{xi})^2}$$

Where	Equals
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
β	Beta – measure of the sensitivity of a portfolio's rate of return against those of the market
n	Number of observations

The portfolio's beta is calculated by comparing the portfolio's volatility to the benchmark's volatility over time. The more sensitive a portfolio's returns are to movements in the benchmark, the higher the portfolio's beta will be. A beta greater than one implies the portfolio is more volatile than the benchmark, whilst a beta less than one implies the portfolio is less volatile than the benchmark.

R-Squared – A score equal to 1 indicates that movements in the portfolio can be explained by movement in the benchmark as there is a good correlation

$$r^2 = \frac{(n\sum R_{xi}R_{yi} - \sum R_{xi}\sum R_{yi})}{[n\sum(R_{xi})^2 - (\sum R_{xi})^2][n\sum(R_{yi})^2 - (\sum R_{yi})^2]}$$

Where	Equals
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
n	Number of observations

The R^2 is the square of the correlation co-efficient between the portfolio return and the benchmark return in the above equation and is a measure of the fund's sensitivity to the benchmark, i.e. the percentage of the portfolio's movement that can be explained by movement in the benchmark. The R^2 statistic ranges from 0 to 1 (or 0 to 100%) with a score of 1 indicating that all the portfolio's movement can be explained by the benchmark.

Sharpe Ratio – A higher score indicates that the portfolio has a low volatility. The ratio measures excess return achieved relative to volatility

$$\frac{(R_{ap} - R_{af})}{\sigma_{ap}}$$

Where	Equals
R_{ap}	Annualised (portfolio) rate of return
R_{af}	Annualised risk-free rate of return
σ_{ap}	Annualised portfolio standard deviation

The Sharpe ratio measures the excess return over the risk-free rate per unit of volatility. For a given return, the lower the volatility of the portfolio, the higher the Sharpe ratio.

Price/Earnings Ratio (P/E)
Security Level Calculation:
Current price/Trailing 12 months earning per share
Description:
The price/earnings ratio is a traditional indicator of how much an investor is paying for a company's earning power. Stocks have a p/e greater than the market are usually considered to be growth stocks.

5 Year Earnings Per Share Growth Rate
Security Level Calculation:
None
Description:
This is the percentage change in the annual earning per share growth rate over the last five years of all stock in the portfolio. This measure is usually viewed as agrowth factor. A stock must have been public for at least five years to have this characteristic.

Price to Book Ratio
Security Level Calculation:
Current price/Most recent book value per share
Description:
This is usually considered to be a measure of "value", with stocks having high price to book ratios considered to be undervalued.

Dividend Yield
Security Level Calculation:
Dividend for current fiscal year/Period end closing price
Description:
This measures the annual rate that dividends are being paid by a company, including any extra dividends. High dividend yields can also be an attribute of value stocks.

Debt to Capital
Security Level Calculation:
Long term liabilties, deferred taxes, tax credits, minority interest/Sum of debt, total common equity and total preferred stock
Description:
This measure indicates the amount of leverage (debt) being used. A large debt to capital ratio is usually indicative of a highly leveraged company. Stocks having a zero value are still included in the total portfolio calculation.

Price to Sales Ratio
Security Level Calculation:
Current price/Annual sales per share
Description:
This is used primarily by value managers to identify companies having low profit margins. Value managers use this as another indicator in finding undervalued stocks with the potential for improved profitability.This measure varies in informational value by industry, as different industries have different price to sales ratio expectations.

Return on Equity
Security Level Calculation:
Net profits after taxes/Book value
Description:
This relates a company's profitabaility to it's shareholders equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage.

Coupon Rate
Description:
The stated interest rate of a bond. It is a money weighted average for the portfolio.

Years to Maturity
Description:
The average number of years to the maturity date of all bonds held in a portfolio. Often, managers will use the weighted average life for mortgages and mortgage backed securities since most mortgages are prepaid and never reach maturity.

Macaulay Duration
Description:
The mathematical estimate of a fixed income portfolio's sensitivity to a change in interest rates, computed as the weighted average time to receipt of the portfolio's cash flows. The Macaulay duration does not take the impact of embedded options into consideration and this usually results in a higher value than the effective duration.

Yield to Maturity
Description:
This is the rate of return that is expected if a fixed income security is held to maturity. It is essentially an internal rate of return that uses the current market value and all expected interest and principal cash flows.

Moody Quality Rating
Description:
This is a measure of the quality, safety and potentail performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evalutes the bond issues and assigns a code with Aaa as the highest and C as the lowest.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc.("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc.("S&P") and is licensed for use by The Northern Trust Corporation and its wholly owned subsidiaries. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The Dow Jones Wilshire IndexesSM are calculated, distributed and marketed by Dow Jones & Company, Inc. pursuant to an agreement between Dow Jones and Wilshire and have been licensed for use. All content of the Dow Jones Wilshire IndexesSM © 2005 Dow Jones & Company, Inc. & Wilshire Associates Incorporated.
Standard and Poor's including its subsidiary corporations ("S&P") is a division of the McGraw-Hill Companies, Inc. Reproduction of S&P Index Alerts in any form is prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P sources, S&P or others, S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P gives not express or implied warranties, including, but not limited to, any warranties or merchantability or fitness for a particular purpose or use. In no event shall S&P be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of S&P Index Alerts.
All MSCI equity characteristic results except for Dividend Yield, Price to Book Value, Price to Cash Earnings and Price Earnings Ratio were calculated by The Northern Trust Company.

FTSE ® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data.
The Merrill Lynch Indices are used with permission. Copyright 2007, Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. The Merrill Lynch Indices may not be copied, used, or distributed without Merrill Lynch's prior written approval.
IRS CIRCULAR 230 NOTICE: To the extent that this message or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. For more information about this notice, see
http://www.northerntrust.com/circular230
Please note that this report has been prepared using best available data. This report may also contain information provided by third parties, derived by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction - Northern Trust assumes no responsibility for the accuracy, timeliness or completeness of any such information. If you have questions regarding third party data or direction as it relates to this report, please contact your Northern Trust relationship team.