



HILLINGDON  
LONDON



# Pensions Committee

**Date:** WEDNESDAY, 20 JUNE  
2012

**Time:** 5.30 PM

**Venue:** COMMITTEE ROOM 3A -  
CIVIC CENTRE, HIGH  
STREET, UXBRIDGE UB8  
1UW

**Meeting  
Details:** Members of the Public and  
Press are welcome to attend  
this meeting

## Councillors on the Committee

Philip Corthorne (Chairman)  
Richard Lewis (Vice-Chairman)  
Janet Duncan  
Raymond Graham  
Paul Harmsworth (Labour Lead)  
David Simmonds

## Advisory Members

John Holroyd  
Andrew Scott

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**Published:** Tuesday, 12 June 2012

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# Agenda

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## Minutes

### PENSIONS COMMITTEE

28 March 2012

Meeting held at Civic Centre, High Street,  
Uxbridge, Middlesex UB8 1UW



HILLINGDON  
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|     |   |                  |
|-----|---|------------------|
|     | <p><b>Committee Members Present:</b><br/>Councillor Michael Markham (Chairman)<br/>Councillor Paul Harmsworth<br/>Councillor Janet Duncan<br/>Councillor Richard Lewis<br/>John Holroyd<br/>Andrew Scott</p> <p><b>LBH Officers Present:</b><br/>Nancy Le Roux, Central Services, Senior Finance Manager<br/>James Lake, Central Services, Financial Advisor<br/>Ken Chisholm, Central Services, Financial Advisor<br/>Natasha Dogra, Central Services, Democratic Services</p> <p><b>Others Present:</b><br/>Scott Jaimeson, Advisor</p> |                  |
| 52. | <p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>Apologies had been received from Councillor Philip Corthorne.</p>   | <b>Action by</b> |
| 53. | <p><b>DECLARATIONS OF INTEREST</b> (<i>Agenda Item 2</i>)</p> <p>Councillors Duncan, Harmsworth and Lewis, and advisory member John Holroyd declared a personal interest in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.</p>   | <b>Action by</b> |
| 54. | <p><b>TO CONFIRM THAT ITEMS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART 2 WILL BE CONSIDERED IN PRIVATE</b> (<i>Agenda Item 3</i>)</p> <p>Resolved:<br/>The Committee agreed that Agenda Items 6 to 10 were to be considered in public; and Agenda Items 11 to 13 were to be considered in private for the reasons stated on the agenda. Members of the press and public would be excluded from the meeting during the consideration of these items.</p>   | <b>Action by</b> |
| 55. | <p><b>CONSIDERATION OF THE MINUTES OF THE MEETING HELD ON 14 DECEMBER 2011</b> (<i>Agenda Item 4</i>)</p> <p>The minutes of the meeting held on 14 December 2012 were agreed</p>  | <b>Action by</b> |

|     |   |   |
|-----|---|---|
|     | as an accurate record by the Committee.   |   |
| 56. | <p><b>REVIEW OF PERFORMANCE MEASUREMENT OF THE FUND</b><br/>(Agenda Item 5)</p> <p>Officers presented the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending on 31 December 2011. The total value of the fund's investments as at 31 December 2011 was £583.7m.</p> <p><b>Resolved:</b><br/><b>The Committee noted the update.</b></p>                                | <p><b>Action by</b></p> <p><i>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</i></p> |
| 57. | <p><b>EARLY RETIREMENT MONITOR</b> (Agenda Item 6)</p> <p>The Chairman of the Committee presented the report which summarised the number of Early Retirements in the year 2011/12. Officers informed Members that in quarter 3 of the current year 59 people over the age of 55 had their LGPS benefits put into payment due to redundancy and efficiency.</p> <p><b>Resolved:</b><br/><b>The Committee noted the report.</b></p> | <p><b>Action by</b></p> <p><i>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</i></p> |
| 58. | <p><b>PENSION FUND BUDGET</b> (Agenda Item 7)</p> <p>Officers presented the Pension Budget Fund 2011/12 to the Committee.</p> <p><b>Resolved:</b><br/><b>The Committee noted the budget position as at 30 September 2011.</b></p>   | <p><b>Action by</b></p> <p><i>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</i></p> |
| 59. | <p><b>ADMINISTRATION PERFORMANCE REPORT</b> (Agenda Item 8)</p> <p>Officers informed the Committee Members that during the period 1 October 2011 to 31 December 2011 Pensions Administration was combined with Payroll under a single manager. Members were pleased with the performance of the Pensions Administration.</p> <p><b>Resolved:</b><br/><b>The Committee noted the report.</b></p>                                   | <p><b>Action by</b></p> <p><i>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</i></p> |
| 60. | <p><b>GOVERNANCE UPDATE</b> (Agenda Item 9)</p> <p>Officers presented the Committee with an update on Governance Issues.</p> <p>Members discussed what approach should be taken to member development. Members said it was imperative that Officers continue to keep the Committee updated on changes to legislation and to maintain member knowledge. Members agreed that substitute Members of the</p>                          | <p><b>Action by</b></p>   |

|     |   |  |
|-----|---|--|
|     | <p>Pensions Committee should also be provided with a good working knowledge of current issues. Officers agreed to circulate a training leaflet to all Members of the Pensions Committee including substitute Members. Officers also agreed to provide substitute Members of the Pensions Committee with a hard copy of the agenda when requested by individual Members.</p> <p>The Committee discussed the usefulness of Fund Manager Meetings, and decided that Members should only attend these if they deemed it necessary. Officers would continue to meet with Fund Managers and report any urgent issues to Members.</p> <p><b>Resolved:</b></p> <ol style="list-style-type: none"> <li><b>1. Members discussed and agreed an approach to Fund Manager Meetings.</b></li> <li><b>2. Members noted the remaining items.</b></li> </ol> | <p>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</p>                         |
| 61. | <p><b>DELOITTE AUDIT PLAN</b> (<i>Agenda Item 10</i>)</p> <p>Officers informed Members that the pre-audit would begin on 29 March 2012, where Deloitte would identify the key risks to investigate as part of their Annual Audit Plan.</p> <p><b>Resolved:</b><br/><b>The Committee noted the report.</b></p>   | <p><b>Action by</b></p> <p>Nancy Le Roux,<br/>Central<br/>Services, Senior<br/>Finance<br/>Manager</p> |
| 62. | <p><b>REPORT FROM INVESTMENT SUB COMMITTEE</b> (<i>Agenda Item 11</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>  | <p><b>Action by</b></p>  |
| 63. | <p><b>RISK MANAGEMENT REPORT</b> (<i>Agenda Item 12</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>  | <p><b>Action by</b></p>  |
| 64. | <p><b>CORPORATE GOVERNANCE &amp; SOCIALLY RESPONSIBLE INVESTMENT</b> (<i>Agenda Item 13</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information</i></p>   | <p><b>Action by</b></p>  |

|  |   |  |
|--|---|--|
|  | <i>relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i> |  |
|  | The meeting, which commenced at 5.30 pm, closed at 6.05 pm.   |  |

These are the minutes of the above meeting. For more information on any of the resolutions please contact Natasha Dogra on 01895 277488. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.



# Agenda Item 4

## Minutes

### PENSIONS COMMITTEE

10 May 2012

Meeting held at Council Chamber - Civic Centre,  
High Street, Uxbridge UB8 1UW



HILLINGDON  
LONDON

|    |   |           |
|----|---|-----------|
|    | <p><b>Committee Members Present:</b><br/>Councillors Philip Corthorne, Richard Lewis, Paul Harmsworth, Janet Duncan, David Simmonds and Raymond Graham</p> <p><b>LBH Officers Present:</b><br/>Nikki O'Halloran</p>   |           |
| 1. | <p><b>APPOINTMENT OF CHAIRMAN AND VICE-CHAIRMAN OF PENSIONS COMMITTEE</b> (<i>Agenda Item 1</i>)</p> <p><b>RESOLVED: That:</b></p> <ol style="list-style-type: none"><li>1. Councillor Corthorne be elected Chairman of the Pensions Committee for the municipal year 2012/2013; and</li><li>2. Councillor Lewis be elected as Vice-Chairman of the Pensions Committee for the municipal year 2012/2013.</li></ol>        | Action by |
| 2. | <p><b>MEMBERSHIP AND APPOINTMENT OF CHAIRMAN OF PENSIONS COMMITTEE INVESTMENT STRATEGY SUB-COMMITTEE</b> (<i>Agenda Item 2</i>)</p> <p><b>RESOLVED: That:</b></p> <ol style="list-style-type: none"><li>1. the membership of the Pensions Committee Investment Strategy Sub-Committee be agreed; and</li><li>2. Councillor Corthorne be elected Chairman of the Sub-Committee for the municipal year 2012/2013.</li></ol> | Action by |
|    | The meeting, which commenced at 8.44 pm, closed at 8.45 pm.   |           |

These are the minutes of the above meeting. For more information on any of the resolutions please contact Natasha Dogra on 01895 277488. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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## REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers

Tunde Adekoya, 01895 556350

Papers with this report

Northern Trust Executive Report  
WM Local Authority Quarter Reports  
Private Equity Listing  
Private Equity reports from Adams Street and LGT

### SUMMARY

This report reviews the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 31 March 2012. The total value of the fund's investments as at this date was £611.8m.

Following the end of the financial year, as part of the annual process to prepare the Pension Fund Accounts, a review was undertaken of all fund manager and custodian internal control reviews. A summary of the key issues identified in each of the reports is attached, but there are no significant issues to report to committee.

### RECOMMENDATION

1. That the content of this report be noted and the performance of the Fund Managers be discussed.

### INFORMATION

The annual performance of the Fund as at 31 March 2012 showed an outperformance of 0.49%, with a positive return of 3.64%. The three year return figure of 13.93% was however behind the plan benchmark of 14.46%.

#### Performance Attribution Relative to Benchmark

|                   | Q1 2012 %   | 1 Year %    | 3 Years %     | 5 Years %     | Since Inception % |
|-------------------|-------------|-------------|---------------|---------------|-------------------|
| UBS               | 1.73        | 0.76        | (0.31)        | (1.65)        | 0.97              |
| UBS Property      | (0.19)      | 0.25        | (1.68)        | (0.28)        | (0.59)            |
| SSgA              | 0.01        | 0.21        | 0.17          | -             | 0.14              |
| SSgA Drawdown     | (0.67)      | (0.48)      | -             | -             | 0.03              |
| Ruffer            | 2.43        | 4.21        | -             | -             | 5.12              |
| M&G               | 0.08        | 0.78        | -             | -             | (0.46)            |
| Marathon          | 3.50        | (0.57)      | -             | -             | 1.19              |
| JP Morgan         | 2.36        | -           | -             | -             | 2.39              |
| <b>Total Fund</b> | <b>0.51</b> | <b>0.49</b> | <b>(0.53)</b> | <b>(1.25)</b> | <b>(0.07)</b>     |

Private equity and infrastructure returns are included in the relative total fund results, but due to their long term nature and irregular investment profile they do not have individual benchmarks assigned.

## **Market Commentary**

The first quarter of 2012 represented the second consecutive quarter of above normal stock market returns. This favorable performance reflected the modest improvement in economic conditions in the US, and increasing evidence the financial markets in Europe were stabilizing.

The rally in equities that began in tentative fashion during December gathered momentum over the New Year and extended well into the first quarter, propelling market indices back up to levels seen prior to the steep falls in late July and early August of 2011. Emerging markets outpaced their developed counterparts by a meaningful margin, while cyclical stocks held sway over defensives and growth outperformed value.

The modest but steady economic growth of the past few quarters has been accompanied by a reduction in unemployment and a gradual improvement in job creation. At the same time, inflation and interest rates have remained low and relatively stable, and corporate profits have been in an upward trend.

As economic conditions in the US were improving, the ECB took steps to stabilize financial markets in the EU. The ECB has not brought forward a set of circumstances consistent with long term financial stability, but there has been a demonstrated willingness on the part of the more financially sound members of the EU to provide the resources to overcome the current bout of instability. The boost in sentiment resulting from this relatively rosy picture was bolstered further by a growing realisation that, after innumerable false starts, the European Central Bank's longer term re-financing operation (LTRO) initiated during the latter stages of the previous quarter (and repeated in February) signified a shift towards a more decisive, proactive and arguably innovative direction on the part of policy makers, led by the ECB.

Returns in the UK commercial property market were made up entirely of income and at a sector level industrial was the strongest performer. There was no capital growth over the quarter.

## **MANAGER PERFORMANCE**

**Manager: J P MORGAN**

**Performance Objective:** To outperform their benchmark index by 3.00% per annum.

**Approach:** The JPM Strategic Bond Fund is a dynamic global bond fund, providing access to their most compelling fixed income ideas, wherever in the world they are to be found. With the ability to invest across the fixed income spectrum, from government bonds to corporate credit to high yield and emerging market debt, the fund offers a diversified fixed income solution. Unlike many traditional fixed income funds, the fund does not have

a yield target and does not aim to produce a consistent income. Instead, its goal is to focus on the most attractive return opportunities from across the fixed income spectrum.

|               | <b>Q1 2012<br/>%</b> | <b>1 Year<br/>%</b> | <b>Since<br/>Inception %</b> |
|---------------|----------------------|---------------------|------------------------------|
| Performance   | 3.37                 | -                   | 3.99                         |
| Benchmark     | 1.01                 | -                   | 1.59                         |
| Excess Return | 2.36                 | -                   | 2.40                         |

The portfolio was funded at the start of November 2011 and performance for the Q1 2012 month showed a return of 3.37%, outperforming their target by 2.36%.

**Manager: MARATHON**

**Performance Objective:** To achieve a return in excess of their benchmark index over a rolling five year period.

**Approach:** Marathon's investment philosophy is based on the capital cycle and the idea that high returns will attract excessive capital and hence competition, and vice versa. Given the contrarian and long-term nature of the capital cycle, Marathon's approach results in strong views against the market and long holding periods by industry standards (5 years plus). Marathon believes "out of favour" industries and companies, highlighted by the capital cycle, are characterised by lack of interest and research coverage. Moreover, long-term price anomalies arise because business valuations and investment returns are not normally distributed due to the short-term focus of the investment industry. With a long-term view and fundamental valuation work, Marathon believes it can identify the intrinsic worth of a business. The process is by its very nature bottom-up with individual stock selection expected to drive investment performance.

|               | <b>Q1 2012<br/>%</b> | <b>1 Year<br/>%</b> | <b>Since<br/>Inception %</b> |
|---------------|----------------------|---------------------|------------------------------|
| Performance   | 11.50                | (0.16)              | 10.66                        |
| Benchmark     | 8.00                 | 0.41                | 9.48                         |
| Excess Return | 3.50                 | (0.57)              | 1.18                         |

Returns since inception are positive at 10.66% and these have been boosted by 11.50% returns in quarter. This has consequently improved the one year excess returns to negative 0.57%, compared to negative 3.74% in Q4 2011. The outperformance in the first quarter was largely attributable to stock selection. Asset allocation was a small negative contributor to return, where the residual cash holding dampened performance in a rising market, with currency allocation was a small positive contributor to return. Geographical allocation was the main cause of the underperformance over the last twelve-month period. The underweight to the US and the overweight to Asia ex Japan had the largest negative impact on performance. Stock selection, however, made a large positive contribution

Whilst the mandate benchmark is based on developed markets, Marathon has the ability to invest in emerging markets. As such any positive or negative returns from emerging market investments can unduly influence relative performance. A proxy to the mandate benchmark is the MSCI All Countries index which includes both developed and emerging

markets. For the twelve month period this index has returned a negative 6.66%, which is closer, albeit still better, than Marathon's returns.

**Manager: RUFFER**

**Performance Objective:** The overall objective is firstly to preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank.

**Approach:** Ruffer applies active asset allocation that is unconstrained, enabling them to manage market risk and volatility. The asset allocation balances "investments in fear", which should appreciate in the event of a market correction and protect the portfolio value, with "investments in greed", assets that capture growth when conditions are favourable. There are two tenets that Ruffer believes are central to absolute return investing which are to be agnostic about market direction and also to remove market timing from the portfolio.

|               | <b>Q1 2012<br/>%</b> | <b>1 Year<br/>%</b> | <b>Since<br/>Inception %</b> |
|---------------|----------------------|---------------------|------------------------------|
| Performance   | 2.70                 | 5.11                | 5.94                         |
| Benchmark     | 0.28                 | 0.90                | 0.82                         |
| Excess Return | 2.42                 | 4.21                | 5.12                         |

Over the last year and since inception Ruffer has returned 5.11% and 5.94% respectively and met their brief by preserving capital and growing the portfolio. For the quarter, performance was also positive at 2.70% outperforming their benchmark by 2.42%.

The continued strong performance of equities in Q1 was the biggest contributor (3.17%) to Ruffer's returns during the quarter, with Japanese equities rising by about 17% and JP Morgan Chase added to the portfolio and going up by 20% due to the ECB actions and announcement of increased dividend and share buyback by the bank. Factors which detracted from performance included the "Long-dated index-linked bonds" which dropped by 6% due to recovery of risk assets such as equities, thus giving back gains of the past year by these 'safe haven' assets.

**Manager: SSgA**

**Performance Objective:** To replicate their benchmark indices

**Approach:** The calculation of the index for passive funds assumes no cost of trading. In order to simply match the index, it is necessary to trade intelligently in order to minimise costs, and where possible, make small contributions to return in order to mitigate the natural costs associated with holding the securities in the index. Activities which SSgA employ to enhance income include; tactical trading around index changing events and stock lending. They also aim to alleviate costs by efficient trading through internal and external crossing networks.

|                        | Q1 2012<br>% | 1 Year<br>% | Since<br>Inception % |
|------------------------|--------------|-------------|----------------------|
| SSgA Main Account      |              |             |                      |
| Performance            | 6.11         | 2.66        | 14.26                |
| Benchmark              | 6.09         | 2.45        | 14.11                |
| Excess Return          | 0.02         | 0.21        | 0.15                 |
| SSgA Draw Down Account |              |             |                      |
| Performance a/c 2      | 0.72         | 4.13        | 5.28                 |
| Benchmark a/c 2        | 1.39         | 4.61        | 5.25                 |
| Excess Return          | (0.67)       | (0.48)      | 0.03                 |

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.15%. The Draw Down fund which commenced June 2009 has also outperformed its benchmark and has delivered an excess return of 0.03%. In both cases SSgA has delivered against its objective. Underperformance in Q1 2012 in drawdown account is mainly because of the shift in portfolio weighting to 75/25 in favour of cash holding, against the benchmark split of 50/50 between cash and corporate bonds.

Performance is not always flat and quarterly variances should be expected as a result of a number of factors including; cash drag, stock lending cycles and rights Issue opportunities, however over the longer period these are expected to smooth out.

#### **Note: FTSE free float Changes**

On 13 January 2012, FTSE announced that it will move to an actual free float methodology, from the current banding process, for the composition of the FTSE UK Index Series. Free float can be loosely defined as the percentage of a company's shares in issue which are considered to be available for trading on public exchanges. Government holdings, restricted employee share schemes and significant long-term holdings by founders, for example, are not considered to be freely tradable and such holdings would therefore be excluded from a constituent's free float.

As a result of this change slated for close of business on 15 June 2012, SSgA will have to rebalance about 9% of fund's assets under its management as the changes only affects the FTSE UK index series. In Cash terms, trading in these assets is envisaged to cost the fund roughly about £100k which is negligible in relation to assets under management of about £118 m.

#### **Manager: UBS**

**Performance Objective:** To seek to outperform their benchmark index by 2% per annum, over rolling three year periods.

**Approach:** UBS follow a value-based process to identify businesses with good prospects where, for a variety of reasons, the share price is under-estimating the company's true long term value. Ideas come from a number of sources, foremost of which is looking at the difference between current share prices and UBS's price target for individual stocks. The value-based process will work well in market environments where investors are focussing on long term fundamentals.

|               | <b>Q1 2012<br/>%</b> | <b>1 Year<br/>%</b> | <b>3 Years<br/>%</b> | <b>5 Years<br/>%</b> | <b>Since<br/>Inception %</b> |
|---------------|----------------------|---------------------|----------------------|----------------------|------------------------------|
| Performance   | 7.84                 | 2.14                | 18.54                | 2.21                 | 9.75                         |
| Benchmark     | 6.10                 | 1.39                | 18.85                | 3.87                 | 8.78                         |
| Excess Return | 1.74                 | 0.75                | (0.31)               | (1.66)               | 0.97                         |

UBS outperformed its benchmark by 0.75% over the last year, riding on the back of resurgent equity markets from Q4 2011. The biggest contributors to the portfolio's performance during quarter under review were, Dixons with a rise of 90% in share price on the back of a trading update suggesting the new strategy is starting to bear fruit in a very challenging retail environment. Barclays also produced solid results during the quarter allaying investor concerns over future returns and funding costs. Lastly, Logica recovered from the previous quarter's poor performance on the back of further restructuring announcement having short term impact on profits.

For the quarter, UBS's biggest detractors to performance were FirstGroup with the issuance of profits warning on the back of reduced UK Government subsidies and high fuel prices. Vodafone and GlaxoSmithkline were the other underperforming stocks with negative performance contributions to the portfolios Q1 2012 figures.

Notably during the quarter, UBS realised profits from best performing cyclical stocks and reinvested in stocks left behind in the recent equity rally. Within the banking sector, part of HSBC holdings were switched into Lloyds Banking Group as it traded at 40% discount to the tangible asset value and continues to make strong positive returns due to its perceived UK retail business attractive market positions. The portfolio also added to its position in Centrica whilst disinvesting from Scottish Southern Electric in the Utilities sector and consolidated existing position in technology sector by purchasing additional shares in Invensys, the technology supplier.

**Manager: UBS Property**

**Performance Objective:** To seek to outperform their benchmark index by 0.75% per annum over rolling three year periods.

**Approach:** UBS take a top down and bottom up approach to investing in property funds. Initially the top down approach allocates sector and fund type based on the benchmark. The bottom up approach then seeks to identify a range of funds which are expected to outperform the benchmark.

|               | <b>Q1 2012<br/>%</b> | <b>1 Year<br/>%</b> | <b>3 Years<br/>%</b> | <b>5 Years<br/>%</b> | <b>Since<br/>Inception %</b> |
|---------------|----------------------|---------------------|----------------------|----------------------|------------------------------|
| Performance   | 0.61                 | 5.96                | 7.11                 | (3.86)               | (1.08)                       |
| Benchmark     | 0.80                 | 5.72                | 8.79                 | (3.58)               | (0.49)                       |
| Excess Return | (0.19)               | 0.24                | (1.68)               | (0.28)               | (0.59)                       |

As the fund is based on the benchmark, normally performance should also reflect the benchmark, albeit with a margin of outperformance. However the initial fund set up and the subsequent part dissolution and reinvestment have resulted in transaction costs, which detract from performance. Since inception, many of the underlying funds have outperformed, but not by a margin large enough to outweigh the funds set up costs. No



further diversification will take place, however the fund will continue to actively trade and as such any transactions costs should be justified by long term gains.

Underperformance for quarter one was driven primarily by poor performance by Standard Life Pooled Pension Property Fund, Standard Life UK Shopping Centre Trust, Rockspring Hanover Property Unit Trust, Henderson UK Retail Warehouse Fund and Threadneedle Pensions Ltd.

Over the 12 months the Fund delivered a return of +6.0% which compares to the benchmark return of +5.7%. At the property level the portfolio generated a return of 6.2% which represents an outperformance of 50 basis points over the year. The five best performing funds during this 12 month period comprised.

### Absolute Returns for the quarter

|           | Opening Balance<br>£000's | Appreciation<br>£000's | Income Received<br>£000's | Net Investment<br>£000's | Closing Balance<br>£000's | Active Management Contribution<br>£000's |
|-----------|---------------------------|------------------------|---------------------------|--------------------------|---------------------------|--|
| Fauchier  | 24,286                    | -                      | -                         | (24,286)                 | -                         | -  |
| JP Morgan | 69,664                    | 2,348                  | -                         | -                        | 72,012                    | 1,640                                    |
| M&G       | 9,208                     | 147                    | -                         | 1,794                    | 11,149                    | 10                                       |
| Marathon  | 52,619                    | 6,051                  | -                         | -                        | 58,670                    | 1,832                                    |
| Ruffer    | 115,307                   | 2,402                  | 715                       | -                        | 118,424                   | 2,795                                    |
| SSgA      | 120,056                   | 6,875                  | 1                         | 5,506                    | 132,438                   | (85)                                     |
| UBS       | 104,881                   | 7,300                  | 920                       | -                        | 113,101                   | 1,786                                    |
| UBS Prop  | 48,998                    | (246)                  | 545                       | -                        | 49,297                    | (93)                                     |

The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks. The outperformance of JP Morgan, Marathon, M&G, Ruffer and UBS had a positive impact on the appreciation of holdings contributing £8,063k in total. Underperformance from SSgA (overall) and UBS Property reduced appreciation by mere £178k.

### M&G Update

An addition of two new holdings in January and February 2012, has increased holdings in the fund to ten from eight in the last quarter. Final documentation details are being negotiated on a new deal an M&G hope to close this in early 2012. M&G continue to evaluate new transactions and expect the pipeline to build as the year progresses. The fund has returned 4.43% since inception.

### Macquarie Update

Macquarie Everbright Greater China Infrastructure Fund (MEGCIF) has raised total commitments of US\$519m and a further US\$250m of co-investment capital. MEGCIF is on track for US\$1b in total commitments with a further close planned for March 2012 before a final close in May 2012 which will include a number of potential investors that have indicated a strong appetite for MEGCIF. As at 31 March 2012, \$92k had been drawn-

down out of the commitment of £\$4,750k. At the time of preparing this update, 13 transactions are being actively pursued with total investment value of about \$1.7 billion and of these, due diligence is being conducted on seven transactions and financial close has been agreed on one.

### **Macquarie SBI Infrastructure Fund**

The Macquarie State Bank of India Fund (MSIF) has developed a well diversified portfolio of assets across the sectors of thermal power, airports, telecom towers and renewables and is currently evaluating several opportunities, primarily in the roads and power transmission sectors. There were no new investments made in the last quarter.

On 2 February 2012, the Supreme Court of India ordered the cancellation of 122 licences allocated to telecom operators in 2008 due to irregularities in the process followed for the issuance of these licences. This order came in response to a “Public Interest Litigation” petition filed in the Supreme Court.

The cancellation is effective after a period of four months. During this four month period, the Telecom Regulatory Authority of India (“TRAI”) has been directed to frame guidelines for the auction of the spectrum released due to this cancellation. We understand that companies whose licences have been cancelled will also be able to participate in the spectrum auction.

The Macquarie SBI Infrastructure Fund invested USD 202 million in Viom Networks Limited in August 2010. The events described above are likely to have an impact on Viom’s business. The impact on Viom’s largest customer, Tata Teleservices, is minimal as only 3 of its licenses have been cancelled. However, Uninor, Viom’s second largest customer has been significantly impacted as all its licenses have been cancelled. In the event Uninor decides to materially exit the business, the business of Viom will be significantly impacted.

The Manager is in the process of evaluating the impact of the impending cancellations on the valuation of Viom Networks in MSIF’s portfolio. Based on preliminary analysis, the Manager expects a reduction in the valuation of Viom as at 31 March 2012. Further updates on the issue will be communicated to Committee members as soon as it is available.

The European fund (MEIF4) is still in its infancy and no capital calls have yet been made.

### **Other Items**

At the end of March 2012, £30m (book cost) was invested in private equity, equating to 4.91% of the fund against the target investment of 5.00%, well below the limit of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £413k and distributed £671k, whilst LGT called £757k and distributed £619k. Returns for the last twelve month period show Adams Street delivering 9.28% and LGT 3.69%.

The securities lending programme for the quarter resulted in income of £12.9k. Offset against this was £4.5k of expenses leaving a net figure earned of £8.4k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 March 2012 the

average value of assets on loan during the quarter totalled £19.6m representing approximately 7.9% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro. During the quarter the Fourth roll took place which resulted in income of £745k. Since the fourth roll the Euro hedge has continued to increase in value and at the end of the quarter it showed a positive cash figure of £1,439k.

For the quarter ending 31 March 2012, Hillingdon returned 4.71%, underperforming against the WM average by 0.89%. However the longer term, one year figure shows an outperformance of 1.08%, with positive returns of 3.64% against the average return of 2.60%.

## **FUND MANAGER & CUSTODIAN COMPLIANCE WITH STATEMENTS OF INTERNAL CONTROL**

### **INFORMATION**

Officers have undertaken a review of the latest versions of the custodian and fund manager statements of internal control. Reports were provided by Northern Trust, UBS, Marathon, Ruffer, State Street Global Advisors, JP Morgan and UBS. M&G outsource their back office services to a custodian (SSgA) who provided reports. Adams Street Partners, LGT Capital Partners and Macquarie have not implemented their own SSAE 16/ISAE 3042 review. The audit opinion for those managers who undertook an external review showed the described controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved. Testing highlighted a few exceptions where the control had not been applied successfully however these issues have now all been resolved by management. A brief description of the key issues with each manager is detailed below:

**UBS:** UBS test results detailed one IT exception, where there in house IT system was not fully identifying all users of the system, although they did have access. This has now been rectified.

**Northern Trust:** The fund's custodian Northern Trust had 15 exceptions in total, relating to areas of Account administration (2), Securities movement (1), Trade communication and settlement (1), Asset data maintenance (2), Asset pricing (1), Client accounting & reporting (2), Benefit payments (1), Fund accounting (1), Transfer agency (1), and Technology (3). None of the exceptions impacted significantly on the fund and management have taken measures to improve processes. Officers will follow these issues up further with Northern Trust.

**Marathon:** The only exception reported relates to log in access into their IT system, where users are supposed to be locked out of the system after three failed attempts. But tests showed it took seven failed attempts for the safety trigger to activate. There is no financial risk to the fund as a result of this exception and management have taken necessary steps to ensure accuracy of the trigger point.

**M&G:** M&G outsource their administration and custody services to State Street Corporation. The review of State Street (M&G) showed four exceptions in the area of IT

access approval, backup and password deactivation based on specified time parameters. In a particular case, the individual for which access was sought happen to be the approver as well. Management attributed these exceptions to limitations in the system being used and has proceeded to replace it with an updated version, thus eliminating the limitations. Regarding the back up failure, management agreed with the finding and narrowed it down to a configuration problem that has been corrected. It also pointed out that data integrity was not compromised due to the highlighted exceptions.

**SSgA:** SSgA had two areas where exceptions were noted. These included verification of letters of direction (“LODs”), where one instance of non-secondary verification was noted out of 25 selections from 160 samples and timely receipt of “LODs”, with one sample noted to have been received outside of the trading cut-off time. In both cases, management acknowledge the exceptions and promised to revise the necessary procedures to ensure future occurrences are eliminated. The other area of concern was compliance review, where seven exceptions were discovered, in terms of lateness and non execution of necessary secondary review of processes to ensure completeness of procedures. Management noted the exceptions and has commenced a review of the procedures to ensure noted lapses are eliminated.

**Ruffer:** There were no exceptions raised in the internal control reports provided by Ruffer and so no further action is required regarding these managers.

**J.P Morgan:** An exception was noted by JP Morgan in the area of Access to systems. It was noted that transferred users access was not reviewed by management to determine if access remained commensurate with user’s role and responsibility. Management responded to the exception by changing firm-wide transfer process and in future, lack of management responses to review of transferred user’s access will result in termination of access.

Three managers did not undergo an external audit of their controls and these included Adams Street Partners, LGT Capital and Macquarie. Officers have reviewed their processes and sought assurance that their internal controls have been reviewed as part of the audit process.

## **FINANCIAL IMPLICATIONS**

These are set out in the report.

## **LEGAL IMPLICATIONS**

There are no legal implications arising directly from the report.

## **BACKGROUND DOCUMENTS**

None.



*1st Quarter, 2012*

*London Borough of Hillingdon*

# *London Borough of Hillingdon*

*1st Quarter, 2012*



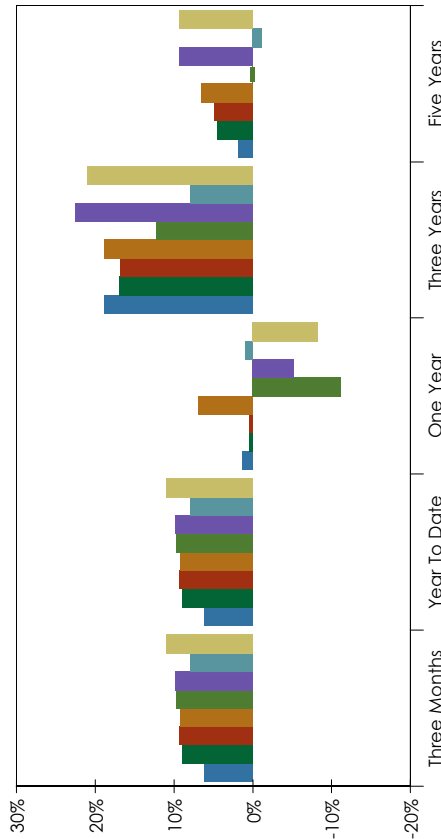
## **Executive Report**

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## Equity Index Performance (in GBP)

### Performance History



### Performance Returns%

|                             | Three Months | Year To Date | One Year | Three Years | Five Years |
|-----------------------------|--------------|--------------|----------|-------------|------------|
| FTSE All Share              | 6.1          | 9.3          | 6.1      | 1.4         | 18.8       |
| FT: World                   | 9.0          | 9.0          | 9.0      | 0.4         | 16.9       |
| FT: World ex UK             | 9.3          | 9.3          | 9.3      | 0.4         | 16.8       |
| FT AW North America         | 9.3          | 9.3          | 9.3      | 6.9         | 18.8       |
| FT: Developed Europe ex UK  | 9.7          | 9.7          | 9.7      | -11.2       | 12.3       |
| FT: Developed Asia Pac x Jp | 9.7          | 9.7          | 9.7      | -5.1        | 22.5       |
| FT AW: Japan                | 7.9          | 7.9          | 7.9      | 0.9         | 7.9        |
| MSCI Emerging Markets GD    | 11.0         | 11.0         | 11.0     | -8.2        | 21.0       |

Payroll gains and declining unemployment in the United States have raised hopes that the recovery is taking root and can deliver the confidence needed to banish the demons of 2008. Meanwhile, in Europe thousands of Greek workers went on strike marching on parliament throughout February to demonstrate against the austerity measures. The sovereign debt restructure went ahead regardless to give the Euro some breathing space. Most major indexes posted returns in excess of 8% for quarter one, the emerging markets leading the way with double digits. The slowing economy in China is a major concern for the global recovery however it is inevitable given the problems in Europe as their main trading partner. The estimable Barclays Equity Gilt Study found that annualised real equity returns since the year 2000 are -0.9% in the US and -1% in the UK, it's been a tough century so far. Financials and Industrials proved to be the strongest sectors over the quarter. Facebook chose the Nasdaq to list its planned issue of \$5 billion of stock. The price of crude oil futures ended the quarter up from Q4 at \$124 per barrel despite a volatile end to March. The FTSE World was up by 9% (GBP) over quarter one 2012 and has moved ahead over one year returning 0.4% (GBP).

UK GDP fell by 0.3% in the fourth quarter of 2011 after the 0.6% rise in quarter three. The OECD prediction for Q1 is a 0.1% drop which would put Britain back into recession. The PMI Market survey begged to differ; predicting growth of 0.5% backed by manufacturing data and promising momentum to build into quarter two. Lloyds posted losses of £3.5bn after taking big hits for mis-selling payment protection insurance and write-downs on loans made by HBOS. Inflation fell again to 3.4%, thanks to lower utility bills but remains above the 2% BoE target rate. The unemployment rate rose slightly to 8.4% totalling 2.7m at the end of January 2012. Financials was the leading sector over quarter one and Industrials again posted strong performance, Health Care was the weakest sector. The FTSE All Share was up 6.1% (GBP) over the first quarter and is now ahead over one year by 1.4% (GBP).

Eurozone Finance Ministers agreed to increase the fiscal bailout system from EUR500bn to EUR700bn. The crisis hitting Southern Europe has slowed France and Germany who were driving the recovery. The IMF approved a EUR28bn bailout for Greece which was part of the larger EUR130bn package aiming to keep the country afloat into 2014. More than 95% of investors eventually agreed to the biggest ever sovereign debt restructuring. Spain is striving to avoid a similar debacle with announcements of EUR27.3bn spending cuts; there are fears that unemployment could rise as high as 1 in 3. It has emerged that Mercedes-Benz and Volkswagen both tapped the ECB's second phase of three year low rate loans being eligible through their banking arms. European banks sold off EUR20bn of property loans in 2011 under regulatory pressure. Eurozone inflation fell to 2.7% and GDP contracted by 0.3% in Q4, the fall limited by stronger performance from France. Eurozone unemployment stood at 10.4% at the end of 2011, ranging from 5.5% in Germany to 22.8% in Spain. The FTSE Developed Europe ex UK index returned 9.7% (GBP) over quarter one and -11.2% (GBP) over the year.

The improvements in the US jobs market have been accredited with generating an annualised \$360bn in additional income and the housing sector has also shown signs of recovery. Exports rose by 0.1% to the end of February to an all time high of \$181.2bn. All sectors other than Utilities gained over the first quarter and Financials and Industrials lead the way. Some analysts expect profit warnings to put a halt to the gains of the last six months as only these two leading sectors and technology are expected to post earnings growth. Stress tests carried out on big US banks were passed by 15 from 19; the institutions were assessed against factors including the likely repercussions from the collapse of a European bank. President Obama proposed doubling taxation on the dividend income of high earners. The US grew at an annualised rate of 4.4% in Q4 according to one measure. That is a large improvement on the 1.7% recorded for 2011 and better even than the optimists' predictions of 3% for 2012. The FTSE North America index returned 9.3% (GBP) over the first quarter and 6.9% (GBP) for the year.

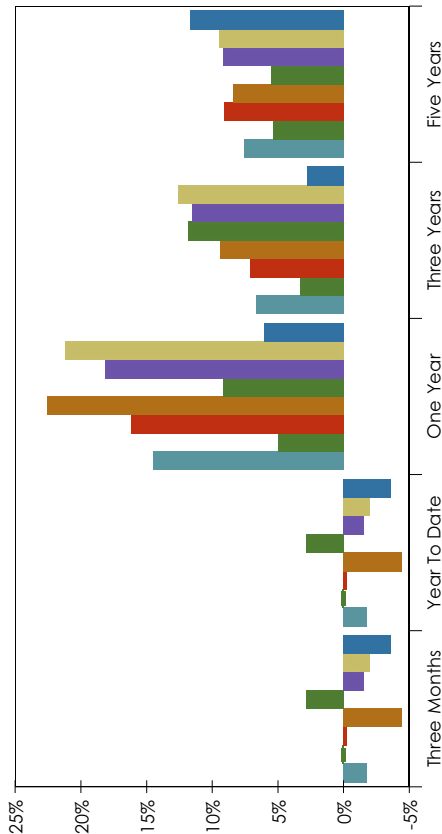
Mid quarter Japan's current account surplus shrank to its smallest level in 15 years as the emergency shutdown of nuclear plants caused energy imports to soar. Demand for cars and electronics goods also fell during quarter one dragging back the balance of trade figures although Toyota raised its full year net profit forecast by 11% to Y200bn. The Nikkei 225 had its strongest quarter for 24 years recouping most of the value lost in 2011. The FTSE Japan returned 7.9% (GBP) for quarter one and the FTSE Developed Asia Pacific ex Japan returned 9.7% (GBP). The Chinese government cut its growth target for the first time in 8 years as GDP increased by 8.1% over Q1, down from 8.9% in Q4. Inflation is also up over year. European woes have hit Chinese exporters as shipments dropped 3.1% in March from a year earlier. The BRICs nations have asked for greater voting power within the IMF, threatening to withhold additional finance destined to be used to fight the European debt crisis. India's government has come under pressure as it emerged that they have lost more than \$200bn by under pricing coal assets. Brazilian growth slowed sharply last year expanding by 2.7% in 2011 vs 7.5% in 2010. Gold was up again ending the quarter at \$1,630 per ounce. The MSCI Emerging Markets index returned 11% (GBP) for the first quarter and -8.2% (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          | -1.7         | -1.7         | 14.5     | 6.6         | 7.6        |
| FTSE All Stock 0-5 Yr. Gilts  | 0.1          | 0.1          | 5.0      | 3.3         | 5.4        |
| FTSE All Stock 5-15 Yr. Gilts | -0.3         | -0.3         | 16.1     | 7.1         | 9.1        |
| FTSE All Stock > 15 Yr. Gilts | -4.4         | -4.4         | 22.6     | 9.4         | 8.3        |
| ML STG N-Gilts All Stocks     | 2.8          | 2.8          | 9.2      | 11.8        | 5.5        |
| FTSE Index Linked             | -1.5         | -1.5         | 18.1     | 11.5        | 9.1        |
| FTSE Index Linked 5+ yrs      | -2.0         | -2.0         | 21.1     | 12.6        | 9.5        |
| JPM GBI Global                | -3.6         | -3.6         | 6.0      | 2.8         | 11.6       |

Relative to the gloom that pervaded the financial markets at the end of last year, the 1st quarter of 2012 saw a cautious improvement in market confidence. JP Morgan's Global Manufacturing & Services March PMI came in at 54.6, its second highest reading in 13 months. The second bailout for Greece worth EUR130bn was finally agreed, following their successful debt restructuring while the ECB's second 3-yr long term refinancing operations (LTRO) saw a further EUR530bn allocated to banks. Fears of a Euro zone break up have receded. Positive US data, in particular the labour market with non-farm payrolls increasing by an average of 250,000 per month since December, continues to support an improving economic outlook. In the emerging markets, a rebound in the March Chinese manufacturing PMI to 53.1, from 51.0 in February, eased concerns of a sharper than expected slowdown. Yields on safe haven government bonds have risen slightly over the quarter however, per Thomson Reuters totalled US\$1.7trn, an increase of 69% on Q4, 2011. Corporate bond sales surged fuelled by the ECB's LTRO and historically low borrowing costs in US capital markets. The JPM Global Govt Bond index has fallen -3.6% (GBP) over the first quarter of 2012, while the Barclays Capital Global Aggregate Corporate Bond index delivered +1.0% (GBP).

In the UK, the weakness of the UK's main export markets and tightness of credit conditions saw the BoE respond with a £50bn extension to its QE programme at February's MPC meeting. While GDP contracted by -0.3% in Q4, economic indicators suggest limited growth in Q1 to narrowly avoid a technical recession. (Two consecutive quarters of declining GDP) Both the UK manufacturing and services PMI surveys, coming in at 52.1 and 55.3 respectively for March indicate tentative signs of improvement in business confidence although the uncertain economic climate has deterred capital spending. CPI inflation fell to 3.4% in February - the lowest in 15 months, however rising oil and gas prices and the upcoming Olympic Games look likely to prevent inflation from falling much further in the near future. UK Gilt yields rose over the quarter, partly in correlation with the US Treasury sell off in March and in some part due to the Fitch rating agency's downgrade of the outlook for the UK sovereign credit rating. The benchmark 10-year gilt yield rose from 1.98% at the end of last year to close the quarter at 2.21%. The FTSE All Stock Gilts returned -1.7% (GBP) for the quarter while the ML Sterling Non Gilts gained +2.8% (GBP).

The second Greek bailout worth EUR130bn was agreed after the activation by Greek authorities of collective action clauses (CACs), involving losses of more than 70% for private sector debt holders. ISDA ruled their activation as a credit event, triggering CDS payouts. The second ECB 3-year LTRO in March provided an additional EUR530bn to the banks, bringing the total to over EUR1trn. The benchmark 10-year German bund yields rose temporarily above 2%, tracking the US Treasuries and helped by the LTRO easing in the euro banking sector. However the yields started falling back towards 1.80% following weaker than expected PMI survey data and concerns about the impact of fiscal austerity measures on economic growth in Spain and Italy. The Euro zone composite PMI for March came in at 49.1, down from 49.3 for February. The benchmark German Bund 10-year yield closed the quarter practically unchanged at 1.82% compared to 1.83% at the end of December. The first quarter of 2012 saw the iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, contract from December's close of 173.5 to end March at 124.7. The JPM European Govt Bond index returned +2.3% (EUR) while the Barclays Capital Global Aggregate Credit index was up at +5.1% (EUR) for Quarter 1.

The run of positive US data continues to support a stronger recovery, with the private sector adding 209,000 new jobs in March. Unemployment has fallen now to 8.2%, compared to 8.9% at this time last year. Economic activity in the manufacturing sector expanded in March for the 32nd consecutive month, as the Institute for Supply Management (ISM) PMI survey registered 53.4%, an increase of 1% from February. The past relationship between the survey and the overall economy indicates that the average PMI for January through March corresponds to a 3.6% increase in real GDP. The Federal Open Market Committee (FOMC) acknowledged the improving outlook at its March meeting resulting in the bond markets seeing a sharp sell-off. This saw 2-year Treasury yields soar to 0.4% and the 10-year Treasury yield rise to 2.4% from 0.3% and 2.0% respectively at the beginning of the month. Similar yield increases were echoed with global 10-year equivalents in the UK and Germany. However subsequent comments from Fed Chairman Ben Bernanke suggested monetary tightening was still some way off and US bond yields pulled back. The 10-year benchmark Treasury yield ended the quarter at 2.21% up from 1.88% the end of 2011. For the quarter the JPM US Govt Bond index was down -1.3% (USD) while the Barclays Capital US Aggregate Corporate Bond index returned +2.1% (USD).







### Currency Performance (in GBP)



|                      | Three Months | Year To Date | One Year | Three Years | Five Years |
|----------------------|--------------|--------------|----------|-------------|------------|
| United States dollar | 2.77         | 2.77         | -0.32    | 3.62        | -4.10      |
| European Union euro  | 0.22         | 0.22         | 6.02     | 3.52        | -4.10      |
| Japanese yen         | 9.50         | 9.50         | -1.03    | -2.46       | -11.31     |
| Swiss franc          | -0.63        | -0.63        | -1.53    | -4.03       | -10.10     |
| Australian dollar    | 1.73         | 1.73         | -0.50    | -9.69       | -9.06      |
| New Zealand dollar   | -2.15        | -2.15        | -7.47    | -8.43       | -6.82      |

The first quarter of 2012 has seen a strengthening of the Euro and Sterling and a significant weakening of the Yen. Sterling saw gains against the Euro, dollar and Yen. In the same period, the dollar weakened against the Euro and Sterling but saw strong gains against the Yen. China's trade deficit hit \$31.5bn in February as exports slumped, underscoring concerns about slowing global demand and cooling growth in the world's second largest economy. The fall in exports, combined with very strong imports as China bought commodities such as crude oil and iron ore, brought the trade deficit to its highest level in years. With China and the US both in the throes of leadership transitions, the situation is ripe for an escalating trade conflict that could damage the global trade system and wreck the fragile world economic recovery. Chinese consumer inflation rebounded in March, leaving policy makers less room to ease monetary conditions to support a slowing economy. The consumer price index increased 3.6% in March from a year earlier. With the world looking to China to prop up global demand, a sharp slowdown will be felt by its trading partners and most commodity markets. In contrast, the Bank of Japan's unexpected decision to swamp the market with liquidity triggered the Yen's fall. More recently, it's hawkish-sounding concerns about Japan's dire debt levels implied that it was not keen to loosen policy further. The Australian dollar weakened this quarter as fears of a Chinese slowdown dragged growth-reliant currencies downward.

In the UK, Q1 2012 saw Sterling gain strength against most large currencies. Britain's annual inflation rate eased in February to 3.4%, its lowest level since November 2010. The consumer price index for February rose 3.4% year on year, down from 3.6% in January. The decline in the annual rate reflected falling charges for electricity and gas. Annual inflation has dropped sharply from its peak of 5.2% in September 2011 and many economists, along with the Bank of England, have predicted it will continue to fall this year, easing pressure on household budgets. Unemployment fell by 35,000 to 2.65 million over the December - to - February period, according to the Office for National Statistics. Despite the latest decrease, the level of unemployment is some 170,000 higher than it was at the same point last year. The ONS data showed that the number of people having to settle for part-time work because they can't find full-time jobs has risen to 1.4 million, its highest level since records began in 1992. UK house prices saw a modest fall during the first three months of the year. Halifax registered a decline of 0.1% and Nationwide reported a 0.5% fall during the 3 month period. Halifax noted that the average house price in the UK, at £164,000 is roughly where prices were in June 2011 with the bank expecting house prices to remain stable. Sterling closed the quarter up against the Euro, the Dollar and the Yen by 0.2%, 2.8% and 9.5% respectively.

In the US, The US Federal Reserve has stepped back from another round of quantitative easing. This news triggered a sharp rise in the dollar, a sell-off in gold and a rise in Treasury yields. Unemployment saw a drop to 8.2% in March from the 8.5% seen in December 2011. The rapid recent falls in US unemployment may prove to be a one-off unless economic growth picks up. Ben Bernanke, chairman of the US Federal Reserve, warned in late March. The number of long term unemployed (those jobless for 27 weeks and over) has remained steady at 5.3 million. These individuals account for 42.5% of the unemployed. US house prices dropped in February in most major US cities for a sixth straight month indicating that the housing market remains far from healthy despite the best winter for sales in five years. The steady price declines have brought the nationwide index to its late 2002 level. House prices have fallen 35% since the housing bust. Rising foreclosures are weighing on the US housing market, reducing prices and keeping new-home sales weak. Foreclosed homes are usually sold at steep discounts, thereby lowering average prices. The US trade deficit narrowed in February after imports fell and exports hit a new record. The US Commerce Department said the deficit shrank to \$46.0bn in February, down from \$47.8bn in November. Exports rose by 0.1% to an all time high of \$181.2bn, led by services and capital goods exports. Imports from China were down by 18.2%, oil imports also fell, dropping to the lowest level since February 1997. Despite Europe's economic slowdown, exports to EU nations were up 6.7%. Exports to the UK rose 14% to a record \$5.3bn. The Dollar ended the quarter down against the Euro and Sterling by 2.6% and 2.8% respectively, however it was up compared to the Yen by 6.7%.

In the Euro area, the Euro strengthened against both the Dollar and Yen this quarter with a slight weakening against Sterling. The strong performance of the Euro was boosted by the successful Italian debt auction and falling Eurozone bond yields. Eurozone inflation remained stubbornly high, during March, dropping only slightly to 2.6%, complicating the European Central Bank's task as the Eurozone economy struggles to return to growth. Although the ECB aims to keep inflation below 2% over the medium term, the annual rate has been above 2% since November 2010. Earlier this month the ECB president, Mario Draghi, warned inflation was likely to remain above 2% in 2012. Eurozone unemployment has risen for a tenth consecutive month to reach a new euro-era high, with the pace of increase showing little sign of slowing. The rate jumped from 10.3% in November 2011 to 10.8% in February. It was only 10.0% in February 2011. Among the member states, the lowest unemployment rates were recorded in Austria (4.2%), the Netherlands (4.9%), Luxembourg (5.2%) and Germany (5.7%), with the highest in Spain (23.6%) and Greece (21.0%). In February, 3.3 million young persons (under 25) were unemployed, an unemployment rate of 21.6% in the Eurozone. Spain suffered a youth unemployment rate of 50.5% in February. The Euro ended the quarter up against the Dollar and the Yen by 2.6% and 9.3% respectively, however it was down against the Sterling by 0.2%.



**Scheme Performance**

During the first quarter of 2012 markets continued to grow and all manager benchmark posted positive returns, against this backdrop the London Borough of Hillingdon returned 4.71% versus the Total Plan composite benchmark which returned 4.20%; this resulted in a relative return of 0.49%. In monetary terms this is a growth in assets of £27.5 million increasing the value of the combined scheme to £611.2 million from £583.7 million at the start of the quarter. During this period the Fauchier mandate was terminated with the money moving into cash and SSGA Drawdown, while there were no flows of note in or out of the scheme as a whole. On a 'look through' basis once again the main driver was Ruffer's Absolute Return Fund beating its liquidity benchmark and contributing most to the outperformance. This was offset by the Private Equity assets which, during this short period in terms of the investments longer term aspiration, considerably lagged their global equity comparator. In allocation terms most mandates are in line with the neutral position with the only notable impact coming from Fauchier due to the transition this quarter.

This now means over one year the scheme has earned a 3.64% growth which is 48 basis points ahead of the benchmark figure of 3.15%. However, over all longer periods the scheme underperforms with a relative return of -0.46% pa for 3 years increasing to -1.21% pa over 5 years. Although since inception in September 1995 the plan comes back into line with an annualised return of 6.45% just 6 basis points below the benchmark.

**Manager Performance**

**Fauchier**

During the latest quarter Fauchier assets were liquidised with the £17 million being moved into the cash account, £5.5 million to the SSGA Drawdown and £1.8 million to M&G Investments.

**JP Morgan**

In the first full quarter of investment the JP Morgan investments grew 3.37% which compared to the 1.01% target of the 3 Month LIBOR + 3% translates as a 2.34% outperformance. A similar relative return is seen for the inception to date (November 2011) with figures of 3.99% for the fund versus the benchmark of 1.59%.

**Macquarie**

The Macquarie portfolio recorded consecutive large losses, with a -12.25% return during the first quarter following on from last quarter's -11.35%. This now has a major impact on the longer periods with a one year figure of -17.09% while since inception (September 2010) is only slightly better with an annualised loss of -14.86%. At present no benchmark has been applied to this mandate.

**Marathon**

The Marathon portfolio has begun the year well by posting 11.50% in quarter one, this was relatively 3.24% above the MSCI World index return of 8.00%. Unfortunately this was not enough to reverse the underperformance over the one year with the benchmark showing 0.41% the Marathon investments have gone down -0.16%. Although since inception despite four periods of underperformance, the latest period coupled with the good results seen in Q3 2008 means they are now beating the benchmark by 1.08%, returning 10.66% pa against 9.48% pa.



**Manager Performance**

**M&G Investments**

Over the first quarter of 2012, M&G investments posted a return of 1.34%, slightly ahead of the 3 Month LIBOR +4% p.a. target of 1.25%. For one year the account earns 5.76% versus 4.98% whilst since inception at the end of May 2010, the portfolio registers a 4.43% pa return against the benchmark of 4.89% pa. However, please note that the since inception Internal Rate of Return for this portfolio is 5.22%, which exactly matches the target.

**Ruffer**

The Ruffer portfolio earned 2.70% during the quarter and against the return of 0.28% for LIBOR 3 Month GBP, delivered a relative outperformance of 2.42%. These good results improve over the longer periods, for one year the account earns 5.11% versus 0.90% whilst since inception at the end of May 2010, the portfolio registers a 5.94% pa return against the benchmark of 0.82% pa.

**Private Equity**

The private equity assets, consisting of funds with Adam Street and LGT, recouped some of the previous quarter's losses posting 1.76% and 1.45% respectively. Over the longer periods, the outlook over which private equity investments should be measured, improvements in the absolute returns are seen. For the 1 year Adam Street is the highest performing manager in the scheme and delivered 9.28% while LGT was a more modest 3.69%. While over three and five years see LGT increase their return while Adam Street drops off slightly; then since their respective inceptions in May 2004 and January 2005 LGT returns of 8.34% pa and Adam Street is just in the black with 0.17% pa. At present no benchmark has been applied to these mandates.

**SSGA**

The SSGA passively managed portfolio rose 6.11% in the quarter just 1 basis point ahead of the benchmark, further analysis confirms the passive nature with both allocation and performance inline with the neutral position. This leads to the one year return being 2.66%, beating the benchmark by 20 bps, attributable to the mandate being slightly overweight in Index-Linked Gilts at strategic times during the period. Higher returns are seen in longer periods with the fund in-line with the benchmark with the since inception return of 14.26% pa only 12 basis points above the benchmark, but the passive nature is best demonstrated by inception to date R squared and beat figures of 1, while the tracking error a mere 0.18.

**Manager Performance**

**SSGA Drawdown**

The SSGA Drawdown fund posted 0.72% in the latest period with the blended benchmark showing 1.39%, this -0.66% relative return is entirely due to the shift in weights with the mandate now being 75% in cash as opposed to the 50/50 split of the benchmark. This feeds into the one year numbers with 4.13% versus 4.61%; however, from the inception of the fund in June 2009 the weights average out over time and the funds match their index leading to an annualised return of 5.28% which is a mere 3 basis points above the benchmark.

**UBS**

Similar to the previous quarter UBS UK Equity increased 7.84% over the current period, but this time though this demonstrates outperformance, by being 1.63% above the FTSE All Share which returned 6.10%. Looking into the attribution analysis, stock selection was the main driver with the sectors of Consumer Services (1.24%) and Financials (1.04%) the most notable. Whilst asset allocation detracted from performance with the positive decision of overweighting Industrials (+13 bps) more than offset by many other sectors the largest being overweighting Financials (-28 bps). Over one year a 2.14% returns results in a 0.75% outperformance, in contrast it's asset allocation which is the main factor in this period, with underweighting Basic Materials (1.16%) and Financials (0.57%) which were laggards was highly beneficial. This was however partly offset by underweighting Consumer Goods (-1.35%); while stock selection also hindered results, with stock picking in Financials (-0.93%) and Industrials (-0.70%) being the most significant. UBS exhibits relative underperformance across all longer periods, with -0.26%, -1.59% and -0.84% for three, five and ten years respectively; however they still demonstrate outperformance since inception with figures of 9.75% versus 8.78% on an annualised basis.

**UBS Property**

The UBS Property portfolio posted a return of 0.61% during the period, the eleventh consecutive positive return; however, this was slightly below the IPD UK PFI All Balanced Funds index, which returned 0.80%. Over one year the portfolio achieved a respectable 5.96%, 23 basis points ahead of benchmark. Driven by the underperformance of Q4 2009 the three year period still falls below target with figures of 7.11% versus 8.79%, a relative underperformance of 1.55% is suffered. Since inception, in March 2006, there are losses of -1.08% and while the benchmark also falls, at -0.49% this still translates as a 60 basis points underperformance on an annualised basis.



## Active Contribution

By Manager

|                 | Portfolio | Benchmark | Excess Return | Relative Return | Active Contribution 01/12 | Portfolio Benchmark | Excess Return | Relative Return | Active Contribution 02/12 | Portfolio Benchmark | Excess Return | Relative Return | Active Contribution 03/12 | Active Contribution 1Q 2012 |
|-----------------|-----------|-----------|---------------|-----------------|---------------------------|---------------------|---------------|-----------------|---------------------------|---------------------|---------------|-----------------|---------------------------|-----------------------------|
| Adam Street     | -0.49     | -         | -0.49         | -               | -98,195.28                | -1.21               | -1.21         | -               | -241,943.21               | 3.51                | 3.51          | -               | 694,464.32                | 354,325.83                  |
| Fauchier        | 0.00      | 0.50      | -0.50         | -0.50           | 0.00                      | 0.00                | 0.00          | -               | 0.00                      | 0.00                | 0.00          | -               | 0.00                      | 0.00                        |
| Goldman Sachs   | -0.60     | -         | -0.60         | -               | 0.00                      | 0.00                | 0.00          | -               | 0.00                      | 0.00                | 0.00          | -               | 0.00                      | 0.00                        |
| JP Morgan       | 1.68      | 0.34      | 1.35          | 1.34            | 940,772.09                | 1.75                | 1.42          | 1.42            | 1,011,028.01              | 0.33                | 1.42          | -0.43           | -311,340.22               | 1,640,459.88                |
| LGT             | -0.10     | -         | -0.10         | -               | -16,828.31                | 1.87                | 1.87          | -               | 309,557.55                | -0.30               | 1.87          | -               | -50,633.86                | 242,095.38                  |
| Macquarie       | -2.25     | -         | -2.25         | -               | -30,267.50                | -10.28              | -10.28        | -               | -135,136.05               | 0.06                | 0.06          | -               | 702.71                    | -164,700.83                 |
| Marathon        | 5.80      | 3.42      | 2.37          | 2.30            | 1,290,921.61              | 3.85                | 3.76          | 0.10            | 57,137.90                 | 1.48                | 0.10          | 0.83            | 483,548.65                | 1,831,608.17                |
| M&G Investments | 0.00      | 0.42      | -0.42         | -0.42           | -46,307.71                | -0.00               | 0.41          | -0.41           | -45,659.18                | 1.34                | 0.42          | 0.92            | 101,924.20                | 9,957.31                    |
| Nipmura         | -0.01     | -         | -0.01         | -               | -9.41                     | 0.34                | 0.34          | -               | 326.71                    | 0.33                | 0.33          | -               | 232.45                    | 549.75                      |
| Prudential      | 0.95      | 0.09      | 0.85          | 0.85            | 986,193.71                | 1.76                | 1.67          | 1.67            | 1,949,790.37              | -0.02               | 1.67          | -0.12           | -140,929.87               | 2,795,054.21                |
| SSGA            | 3.13      | 3.13      | 0.00          | 0.00            | 1,611.79                  | 3.27                | 3.25          | 0.02            | 24,213.21                 | -0.37               | 0.02          | -0.01           | -10,703.49                | 15,121.50                   |
| SSGA Drawdown   | 0.47      | 1.02      | -0.55         | -0.55           | -82,798.75                | 0.20                | 0.36          | -0.16           | -23,211.77                | 0.05                | 0.04          | 0.04            | 6,130.27                  | -99,880.25                  |
| UBS             | 3.98      | 2.71      | 1.26          | 1.23            | 1,357,768.59              | 3.98                | 4.29          | -0.31           | -348,776.14               | -0.26               | 0.69          | 0.70            | 776,547.60                | 1,785,540.06                |
| UBS Property    | 0.79      | 0.39      | 0.40          | 0.40            | 195,878.88                | 0.28                | 0.26          | 0.02            | 8,923.99                  | -0.45               | 0.15          | -0.60           | -297,831.91               | -93,029.04                  |

Total Fund Market Value at Qtr End: £611.2 M



## Scheme Performance

|                                     | Market Value £m | % of Fund | Three Months |           |               | Year To Date    |           |           | One Year      |                 |           |           |               |                 |
|-------------------------------------|-----------------|-----------|--------------|-----------|---------------|-----------------|-----------|-----------|---------------|-----------------|-----------|-----------|---------------|-----------------|
|                                     |                 |           | Portfolio    | Benchmark | Excess Return | Relative Return | Portfolio | Benchmark | Excess Return | Relative Return | Portfolio | Benchmark | Excess Return | Relative Return |
| <b>London Borough of Hillingdon</b> | 611.2           | 100.00    | 4.71         | 4.20      | 0.51          | 0.49            | 4.71      | 4.20      | 0.51          | 0.49            | 3.64      | 3.15      | 0.49          | 0.48            |
| <i>By Manager</i>                   |                 |           |              |           |               |                 |           |           |               |                 |           |           |               |                 |
| Adam Street                         | 20.5            | 3.35      | 1.76         | -         | -             | -               | 1.76      | -         | -             | -               | 9.28      | -         | -             | -               |
| Fauchier                            | 0.0             |           |              |           |               |                 |           |           |               |                 | -4.83     | -         | -             | -               |
| JP Morgan                           | 72.0            | 11.78     | 3.37         | 1.01      | 2.36          | 2.34            | 3.37      | 1.01      | 2.36          | 2.34            | -         | -         | -             | -               |
| LGT                                 | 16.6            | 2.71      | 1.45         | -         | -             | -               | 1.45      | -         | -             | -               | 3.69      | -         | -             | -               |
| Macquarie                           | 1.2             | 0.20      | -12.25       | -         | -             | -               | -12.25    | -         | -             | -               | -17.09    | -         | -             | -               |
| Marathon                            | 58.7            | 9.60      | 11.50        | 8.00      | 3.50          | 3.24            | 11.50     | 8.00      | 3.50          | 3.24            | -0.16     | 0.41      | -0.57         | -0.57           |
| M&G Investments                     | 11.1            | 1.82      | 1.34         | 1.25      | 0.08          | 0.08            | 1.34      | 1.25      | 0.08          | 0.08            | 5.76      | 4.98      | 0.78          | 0.74            |
| SI Ruffer                           | 118.4           | 19.38     | 2.70         | 0.28      | 2.43          | 2.42            | 2.70      | 0.28      | 2.43          | 2.42            | 5.11      | 0.90      | 4.21          | 4.17            |
| SSGA                                | 117.5           | 19.22     | 6.11         | 6.09      | 0.01          | 0.01            | 6.11      | 6.09      | 0.01          | 0.01            | 2.66      | 2.45      | 0.21          | 0.20            |
| SSGA Drawdown                       | 14.9            | 2.45      | 0.72         | 1.39      | -0.67         | -0.66           | 0.72      | 1.39      | -0.67         | -0.66           | 4.13      | 4.61      | -0.48         | -0.46           |
| UBS                                 | 113.1           | 18.51     | 7.84         | 6.10      | 1.73          | 1.63            | 7.84      | 6.10      | 1.73          | 1.63            | 2.14      | 1.39      | 0.76          | 0.75            |
| UBS Property                        | 49.3            | 8.07      | 0.61         | 0.80      | -0.19         | -0.19           | 0.61      | 0.80      | -0.19         | -0.19           | 5.96      | 5.72      | 0.25          | 0.23            |

Total Fund Market Value at Qtr End: £611.2 M



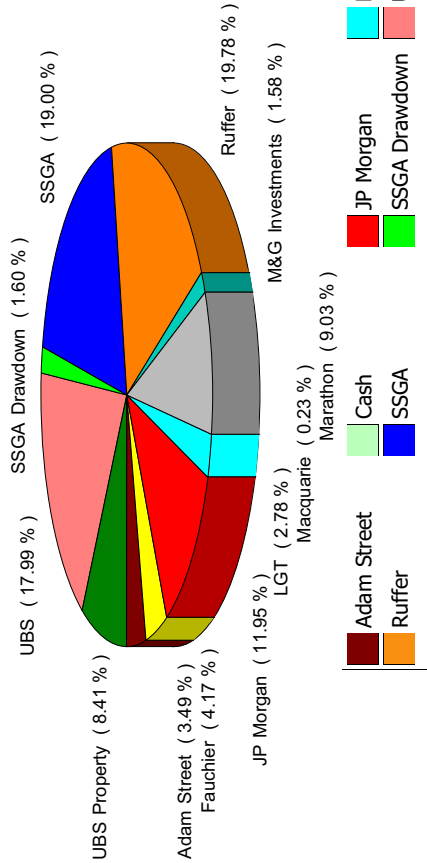
## Scheme Performance

|                                     | <u>Three Years</u> |           |               | <u>Five Years</u> |           |           | <u>Inception To Date</u> |                 |           |           |               |                 |       |
|-------------------------------------|--------------------|-----------|---------------|-------------------|-----------|-----------|--------------------------|-----------------|-----------|-----------|---------------|-----------------|-------|
|                                     | Portfolio          | Benchmark | Excess Return | Relative Return   | Portfolio | Benchmark | Excess Return            | Relative Return | Portfolio | Benchmark | Excess Return | Relative Return |       |
| <b>London Borough of Hillingdon</b> | 13.93              | 14.46     | -0.53         | -0.46             | 1.48      | 2.73      | -1.25                    | -1.21           | 30/09/95  | 6.45      | 6.51          | -0.07           | -0.06 |
| <u>By Manager</u>                   |                    |           |               |                   |           |           |                          |                 |           |           |               |                 |       |
| Adam Street                         | 6.18               | -         | -             | -                 | 6.59      | -         | -                        | -               | 31/01/05  | 0.17      | -             | -               | -     |
| Faucher                             | -                  | -         | -             | -                 | -         | -         | -                        | -               | 30/06/10  | -1.19     | -             | -               | -     |
| JP Morgan                           | -                  | -         | -             | -                 | -         | -         | -                        | -               | 08/11/11  | 3.99      | 1.59          | 2.39            | 2.36  |
| LGT                                 | 4.58               | -         | -             | -                 | 9.28      | -         | -                        | -               | 31/05/04  | 8.34      | -             | -               | -     |
| Macquarie                           | -                  | -         | -             | -                 | -         | -         | -                        | -               | 30/09/10  | -14.86    | -             | -               | -     |
| Marathon                            | -                  | -         | -             | -                 | -         | -         | -                        | -               | 09/06/10  | 10.66     | 9.48          | 1.19            | 1.08  |
| M&G Investments                     | -                  | -         | -             | -                 | -         | -         | -                        | -               | 31/05/10  | 4.43      | 4.89          | -0.46           | -0.44 |
| Neuffer                             | -                  | -         | -             | -                 | -         | -         | -                        | -               | 28/05/10  | 5.94      | 0.82          | 5.12            | 5.08  |
| SSGA                                | 16.60              | 16.43     | 0.17          | 0.15              | -         | -         | -                        | -               | 30/11/08  | 14.26     | 14.11         | 0.14            | 0.12  |
| SSGA Drawdown                       | -                  | -         | -             | -                 | -         | -         | -                        | -               | 30/06/09  | 5.28      | 5.25          | 0.03            | 0.03  |
| UBS                                 | 18.54              | 18.85     | -0.31         | -0.26             | 2.21      | 3.87      | -1.65                    | -1.59           | 31/12/88  | 9.75      | 8.78          | 0.97            | 0.89  |
| UBS Property                        | 7.11               | 8.79      | -1.68         | -1.55             | -3.86     | -3.58     | -0.28                    | -0.29           | 31/03/06  | -1.08     | -0.49         | -0.59           | -0.60 |

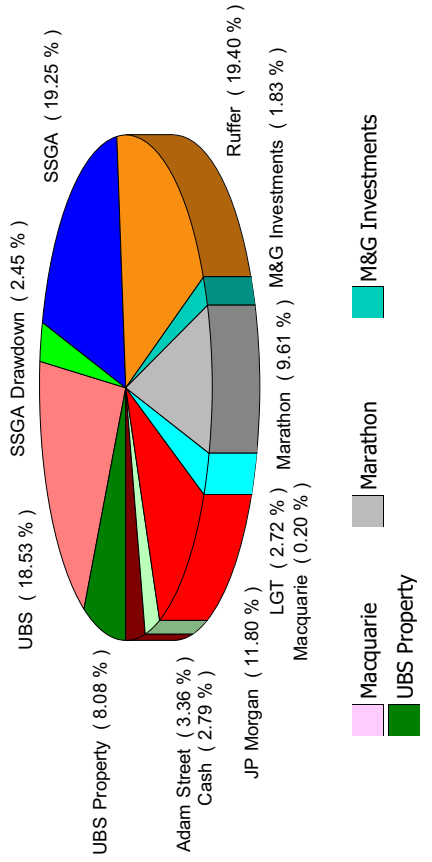
Total Fund Market Value at Qtr End: £611.2 M



Weighting at Beginning of Period



Weighting at End of Period

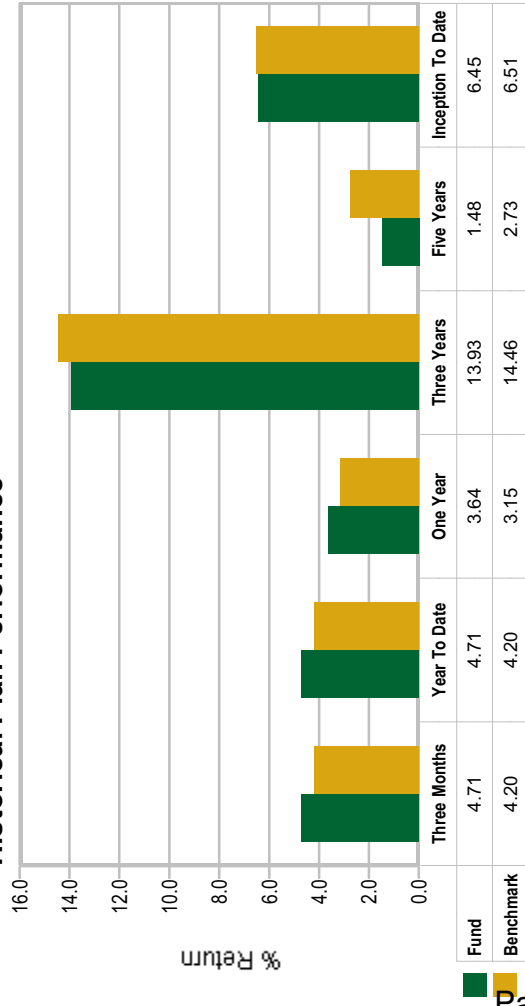


|                              | Opening Market Value<br>£(000) | % of Fund | Net Investment<br>£(000) | Appreciation<br>£(000) | Income Received<br>£(000) | Closing Market Value<br>£(000) | % of Fund |
|------------------------------|--------------------------------|-----------|--------------------------|------------------------|---------------------------|--------------------------------|-----------|
| London Borough of Hillingdon | 583,667                        | 100.00    | 10                       | 25,299                 | 2,194                     | 611,171                        | 100.00    |
| Adam Street                  | 20,352                         | 3.49      | -219                     | 351                    | 0                         | 20,484                         | 3.35      |
| Cash                         |                                | 0.00      | 16,986                   | 0                      | 14                        | 17,000                         | 2.78      |
| Fauchier                     | 24,286                         | 4.16      | -24,286                  | 0                      | 0                         | 0                              | 0.00      |
| Goldman Sachs                | 10                             | 0.00      | -10                      | -0                     | 0                         | 0                              | 0.00      |
| JP Morgan                    | 69,664                         | 11.94     | 0                        | 2,347                  | 0                         | 72,012                         | 11.78     |
| LGT                          | 16,208                         | 2.78      | 138                      | 242                    | 0                         | 16,589                         | 2.71      |
| M&G Investments              | 9,208                          | 1.58      | 1,794                    | 147                    | -0                        | 11,149                         | 1.82      |
| Macquarie                    | 1,334                          | 0.23      | 35                       | -165                   | 0                         | 1,205                          | 0.20      |
| Marathon                     | 52,619                         | 9.02      | 0                        | 6,051                  | 0                         | 58,670                         | 9.60      |
| Nomura                       | 95                             | 0.02      | -25                      | 0                      | 1                         | 71                             | 0.01      |
| Ruffer                       | 115,307                        | 19.76     | 0                        | 2,403                  | 715                       | 118,424                        | 19.38     |
| SSGA                         | 110,728                        | 18.97     | 0                        | 6,762                  | 0                         | 117,490                        | 19.22     |
| SSGA Drawdown                | 9,328                          | 1.60      | 5,506                    | 114                    | 1                         | 14,948                         | 2.45      |
| UBS                          | 104,881                        | 17.97     | 0                        | 7,300                  | 920                       | 113,101                        | 18.51     |
| UBS Property                 | 48,998                         | 8.39      | 0                        | -245                   | 545                       | 49,297                         | 8.07      |



London Borough of Hillingdon

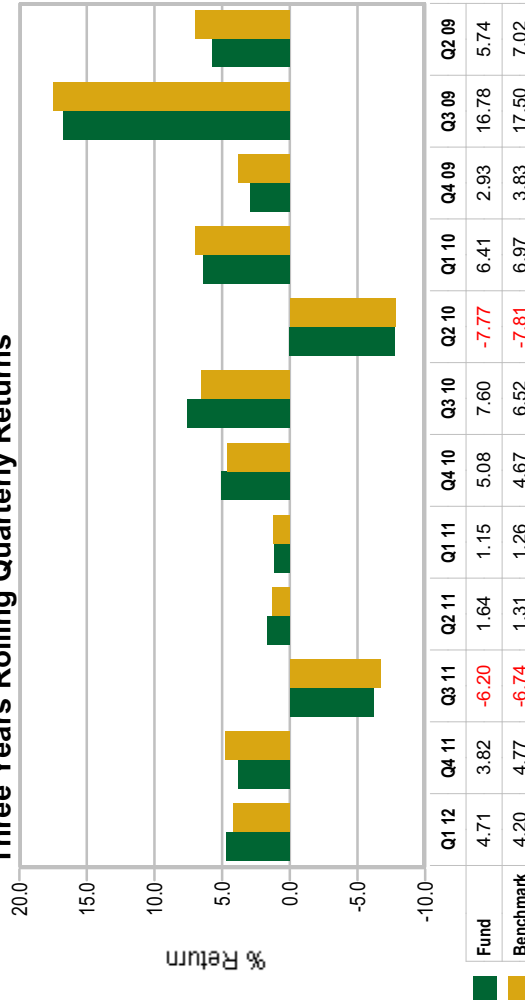
Historical Plan Performance



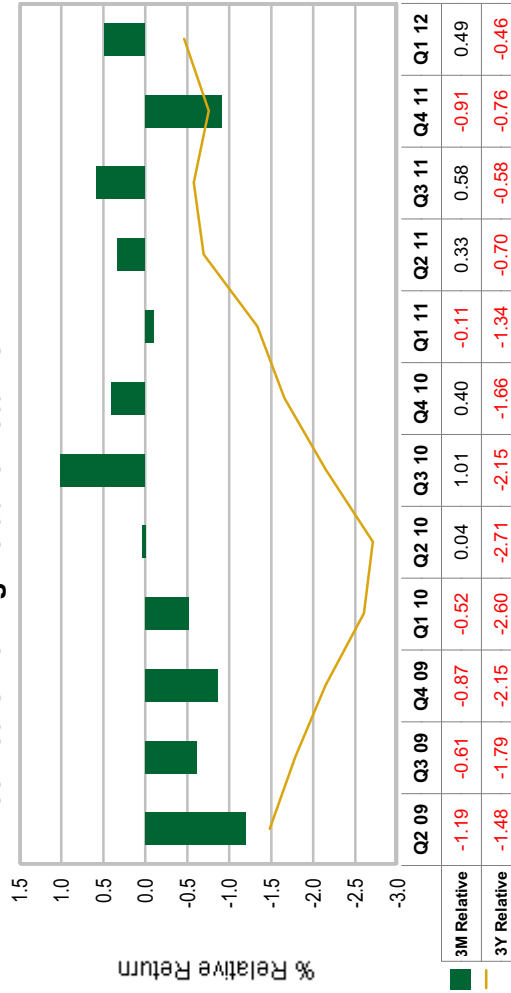
Risk Statistics - 3 years

|                             | Fund     | Bmark |
|-----------------------------|----------|-------|
| Performance Return          | 13.93    | 14.46 |
| Standard Deviation          | 9.49     | 9.63  |
| Relative Return             | -0.46    |       |
| Tracking Error              | 1.31     |       |
| Information Ratio           | -0.40    |       |
| Beta                        | 0.98     |       |
| Alpha                       | -0.18    |       |
| R Squared                   | 0.98     |       |
| Sharpe Ratio                | 1.33     | 1.37  |
| Percentage of Total Fund    | 100.0    |       |
| Inception Date              | Sep-1995 |       |
| Opening Market Value (£000) | 583,667  |       |
| Net Investment £(000)       | 10       |       |
| Income Received £(000)      | 2,194    |       |
| Appreciation £(000)         | 25,299   |       |
| Closing Market Value (£000) | 611,171  |       |

Three Years Rolling Quarterly Returns



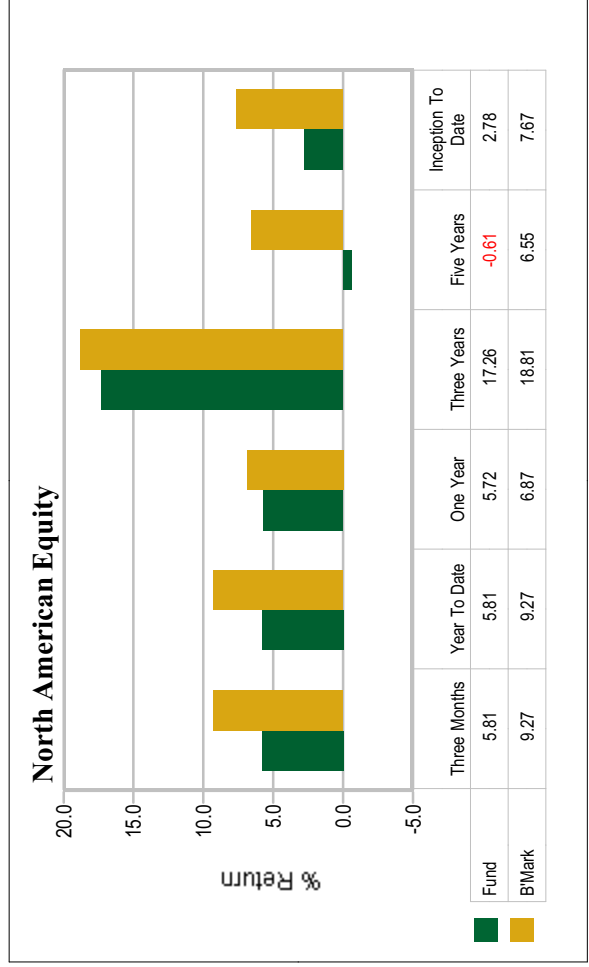
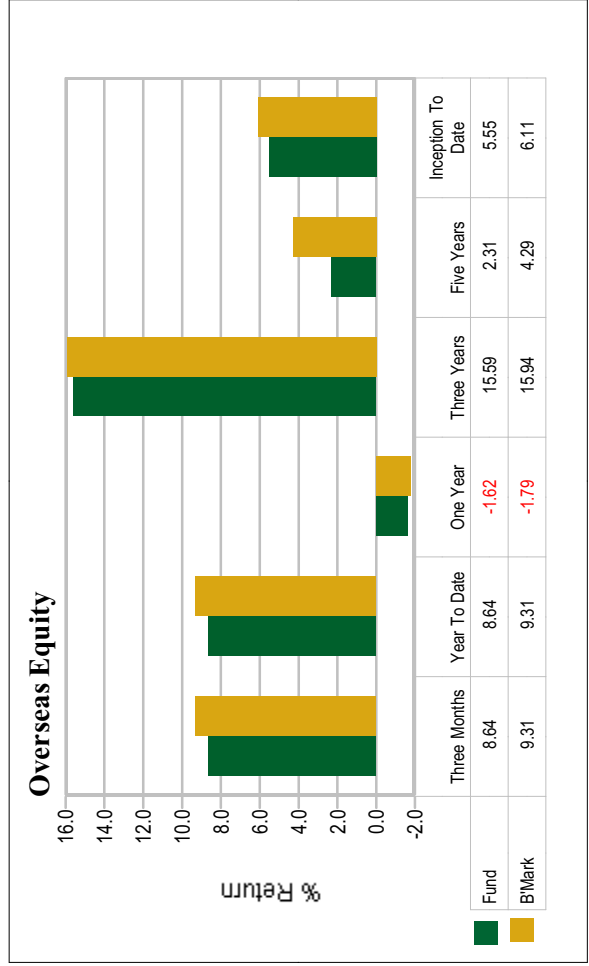
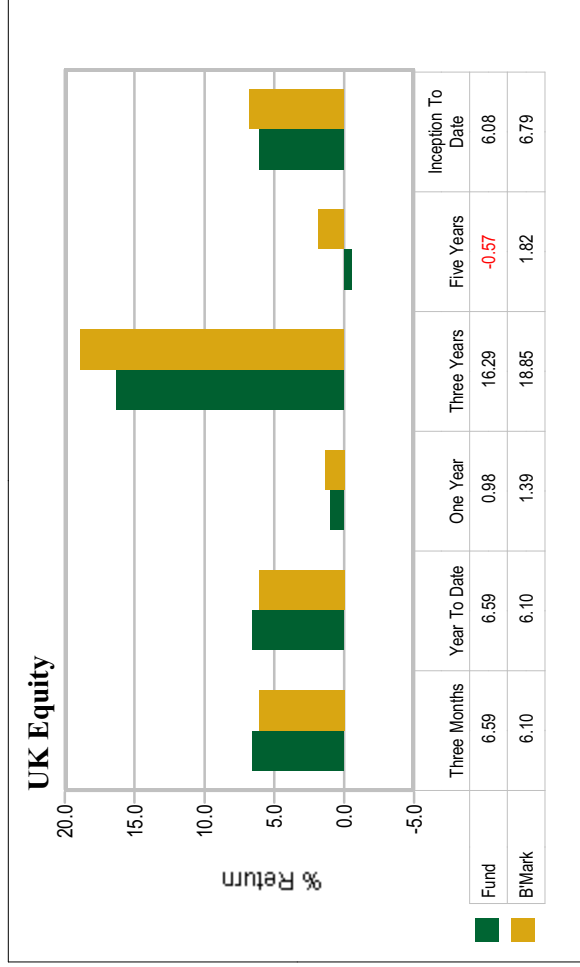
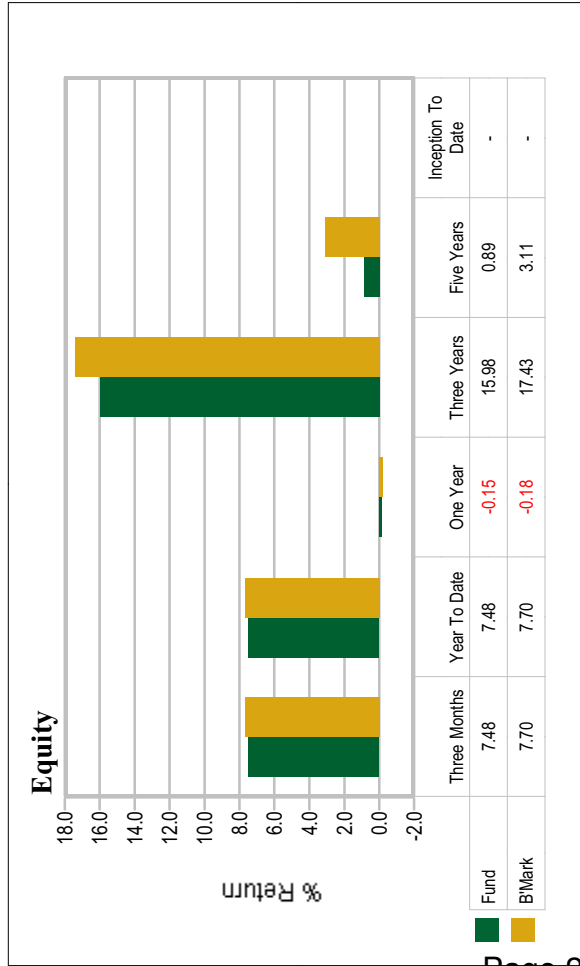
Three Years Rolling Relative Returns





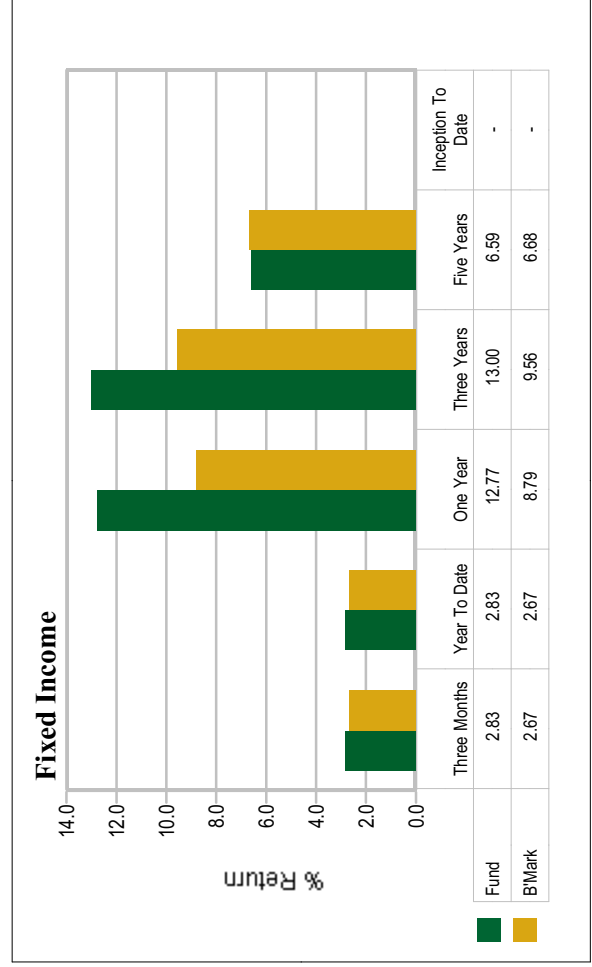
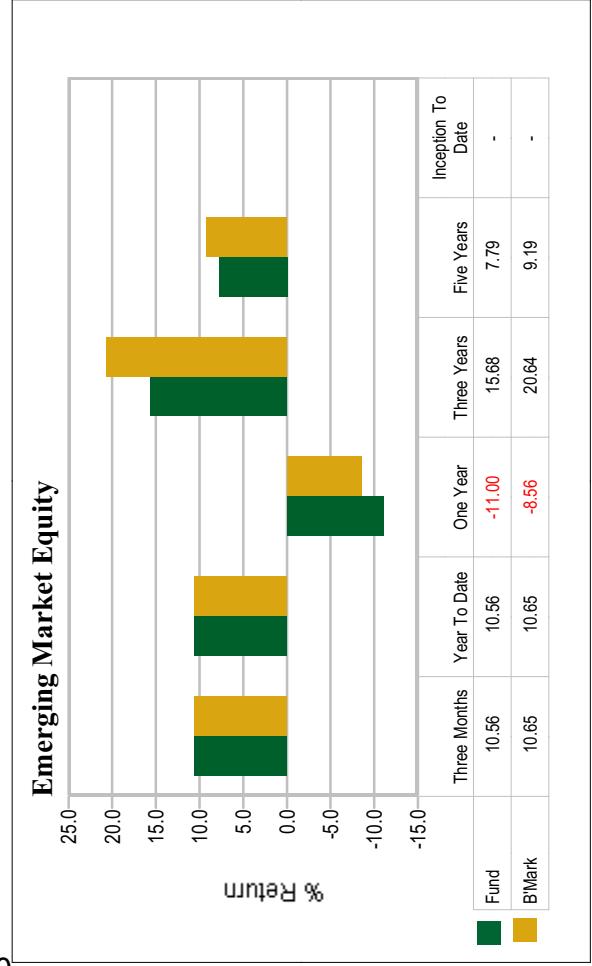
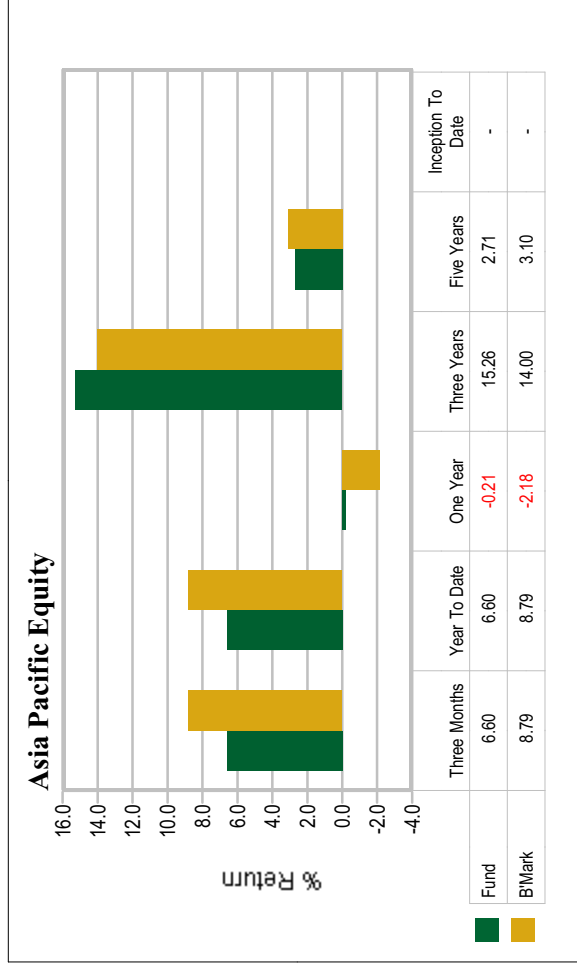
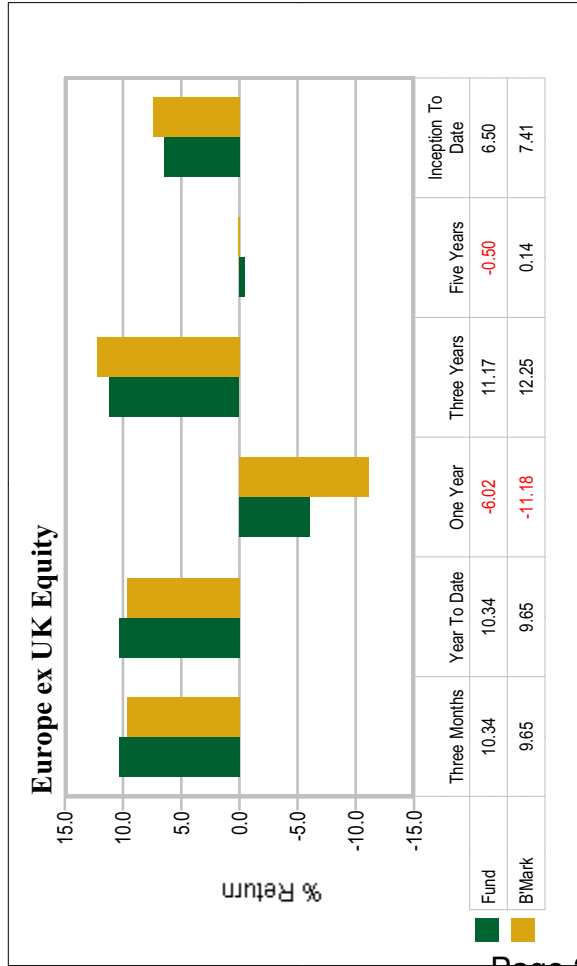


### London Borough of Hillingdon



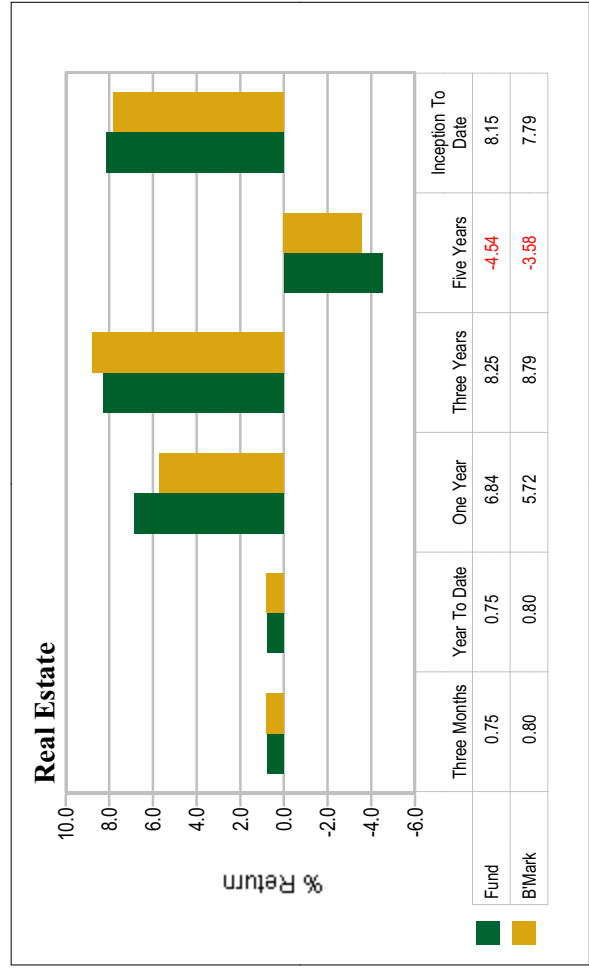
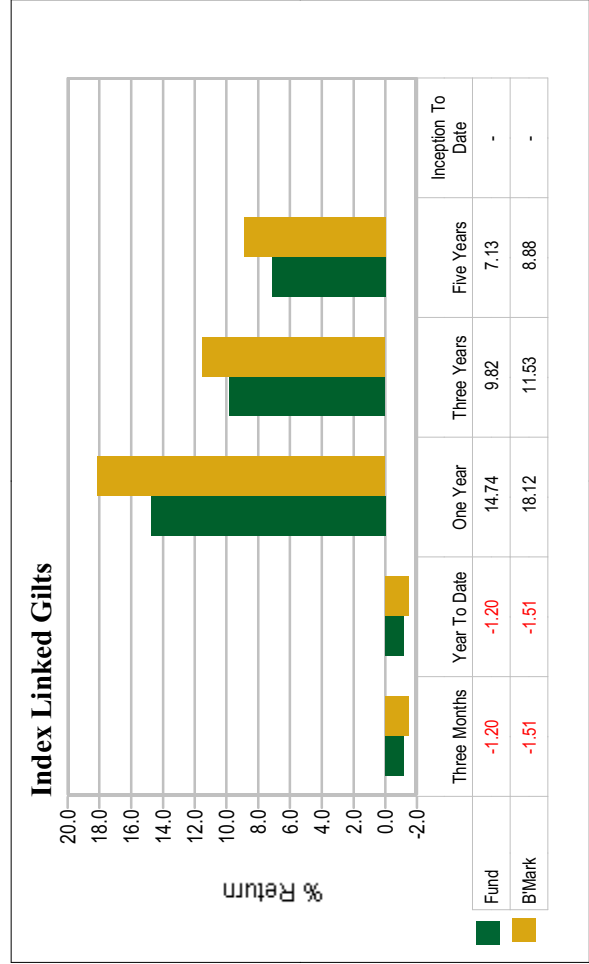
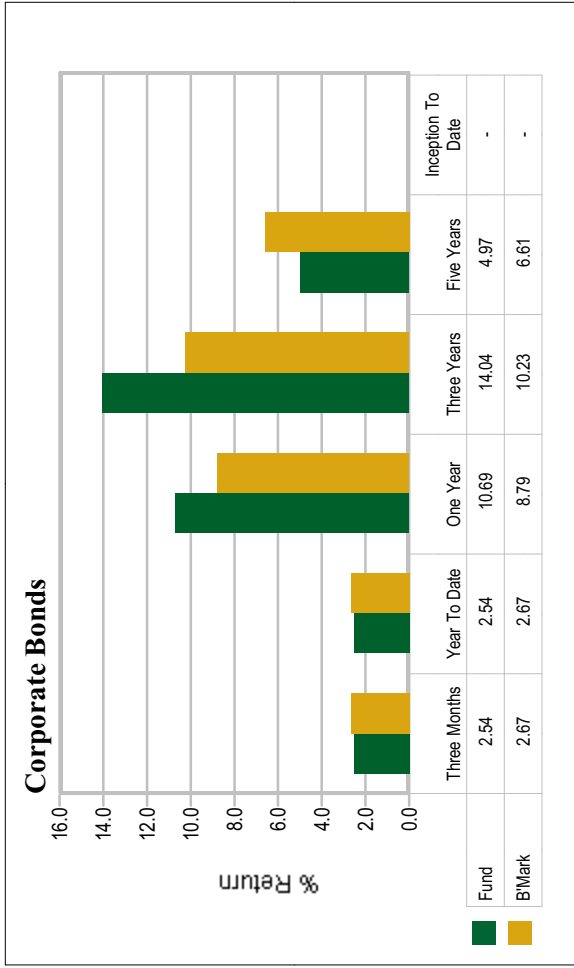
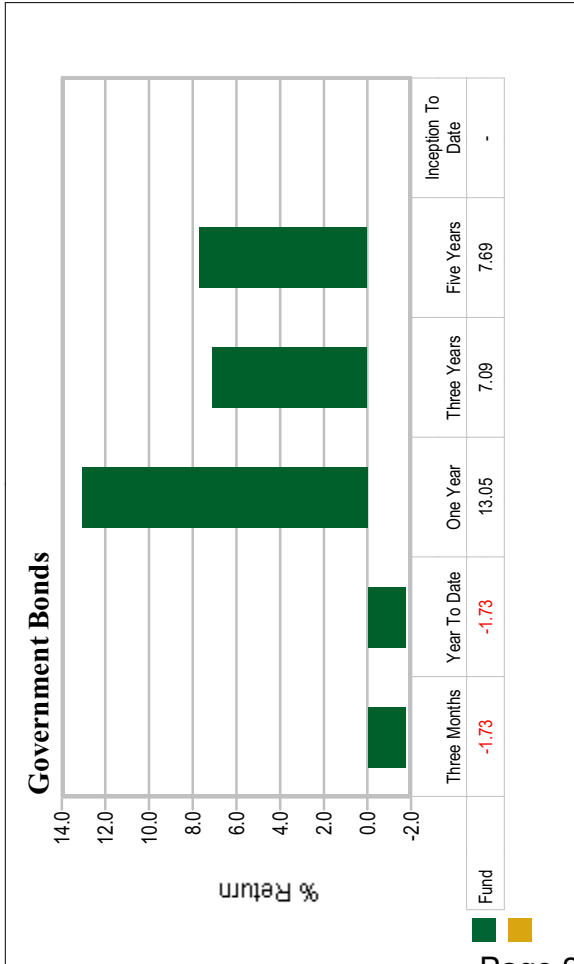


### London Borough of Hillingdon





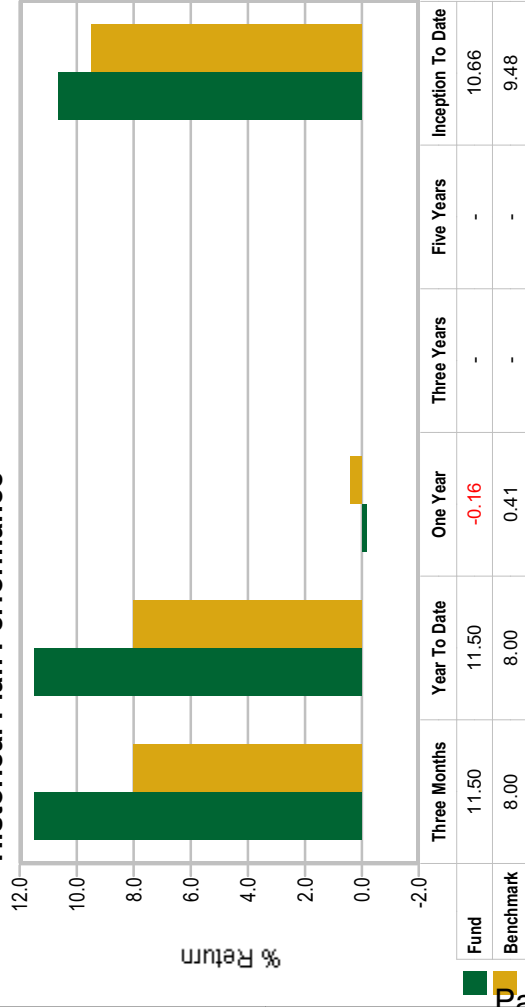
### London Borough of Hillingdon





**Marathon**

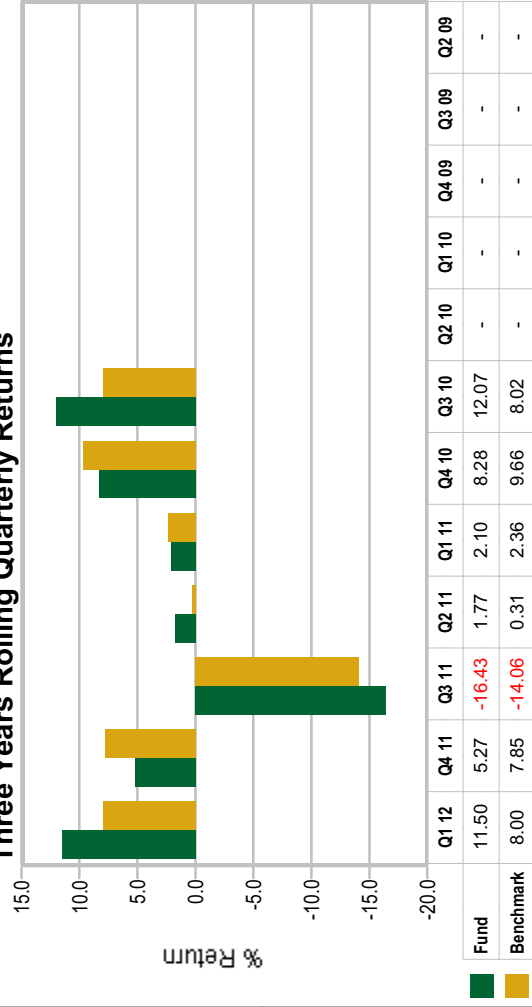
**Historical Plan Performance**



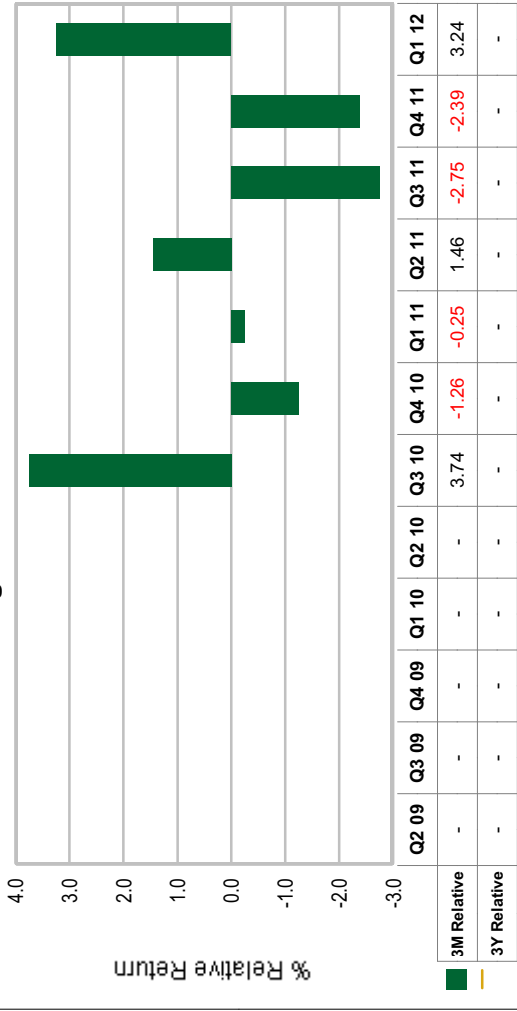
**Risk Statistics - 3 years**

|                             | Fund     | Bmark |
|-----------------------------|----------|-------|
| Performance Return          | -        | -     |
| Standard Deviation          | -        | -     |
| Relative Return             | -        | -     |
| Tracking Error              | -        | -     |
| Information Ratio           | -        | -     |
| Beta                        | -        | -     |
| Alpha                       | -        | -     |
| R Squared                   | -        | -     |
| Sharpe Ratio                | -        | -     |
| Percentage of Total Fund    | 9.6      | -     |
| Inception Date              | Jun-2010 | -     |
| Opening Market Value (£000) | 52,619   | -     |
| Net Investment £(000)       | 0        | -     |
| Income Received £(000)      | 0        | -     |
| Appreciation £(000)         | 6,051    | -     |
| Closing Market Value (£000) | 58,670   | -     |

**Three Years Rolling Quarterly Returns**



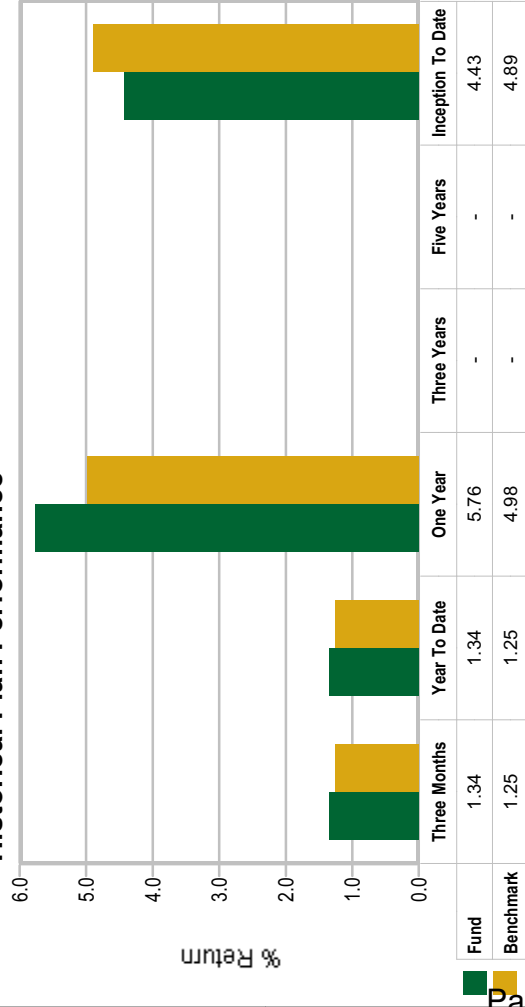
**Three Years Rolling Relative Returns**





**M&G Investments**

**Historical Plan Performance**

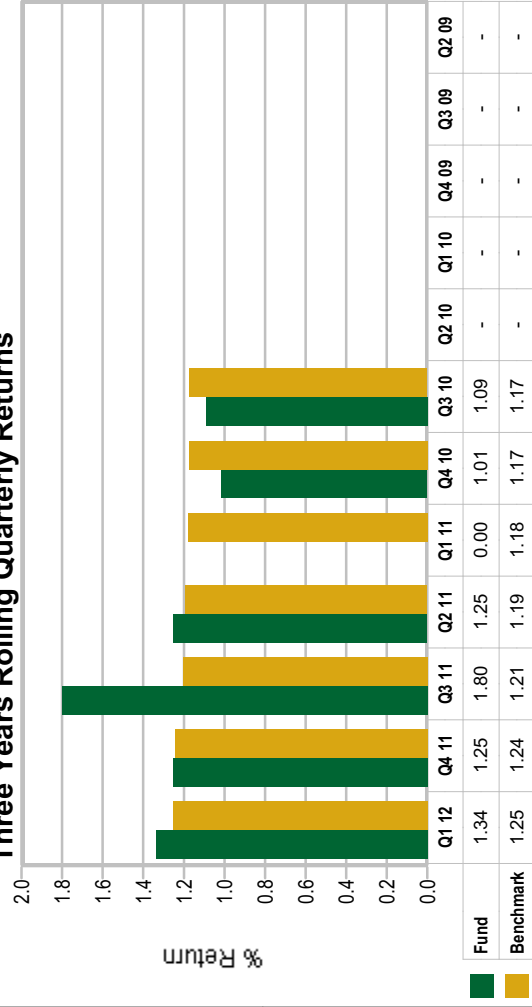


**Risk Statistics - 3 years**

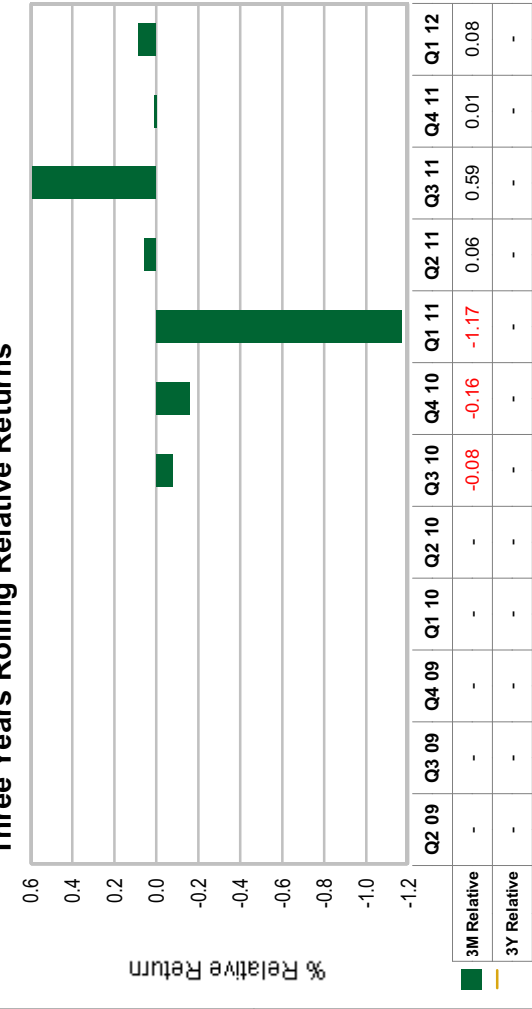
Fund B'mark

|                             |          |
|-----------------------------|----------|
| Performance Return          |          |
| Standard Deviation          |          |
| Relative Return             |          |
| Tracking Error              |          |
| Information Ratio           |          |
| Beta                        |          |
| Alpha                       |          |
| R Squared                   |          |
| Sharpe Ratio                |          |
| Percentage of Total Fund    | 1.8      |
| Inception Date              | May-2010 |
| Opening Market Value (£000) | 9,208    |
| Net Investment £(000)       | 1,794    |
| Income Received £(000)      | -0       |
| Appreciation £(000)         | 147      |
| Closing Market Value (£000) | 11,149   |

**Three Years Rolling Quarterly Returns**

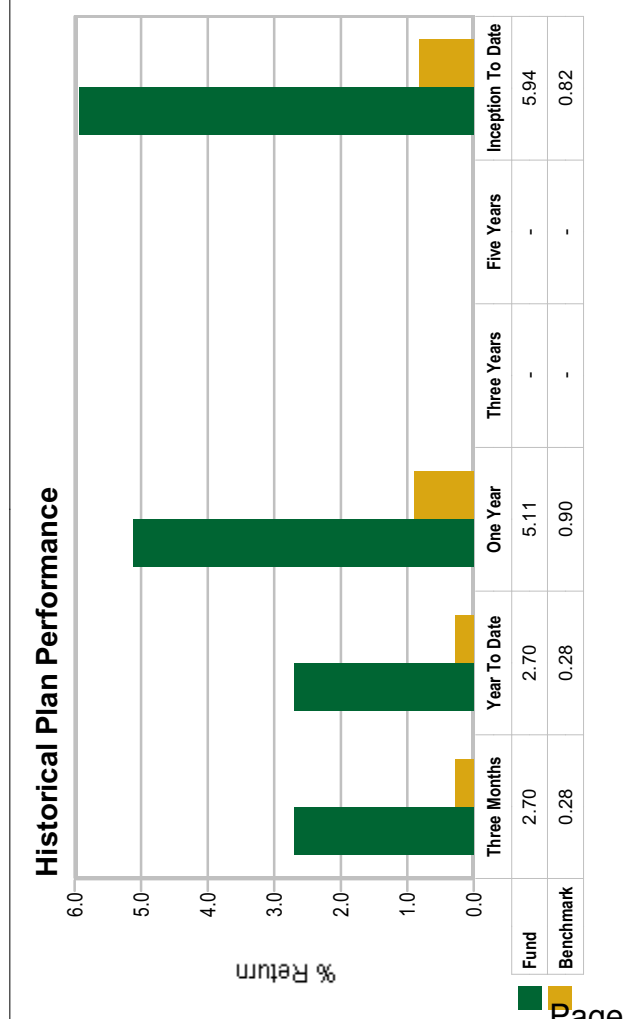


**Three Years Rolling Relative Returns**



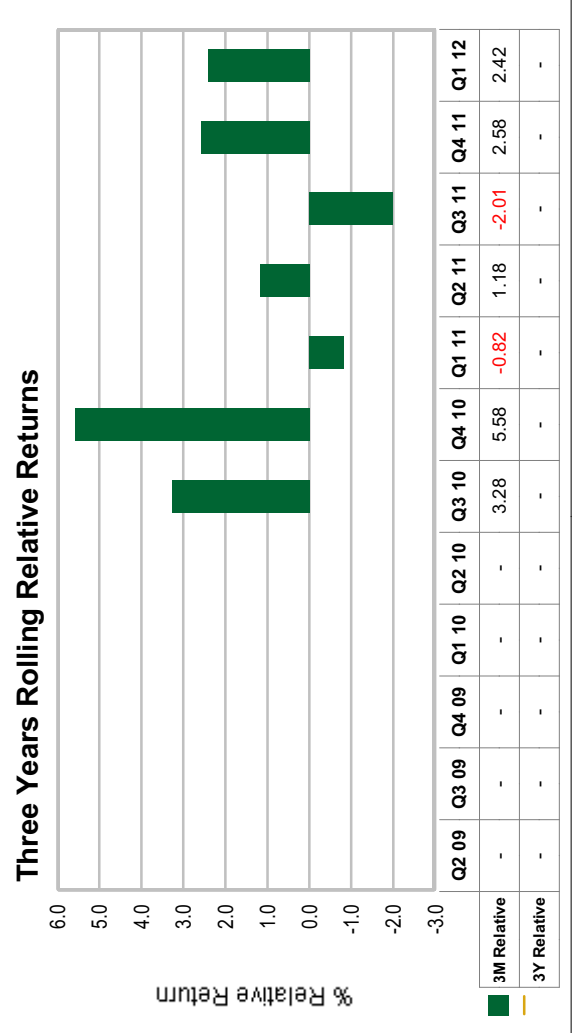
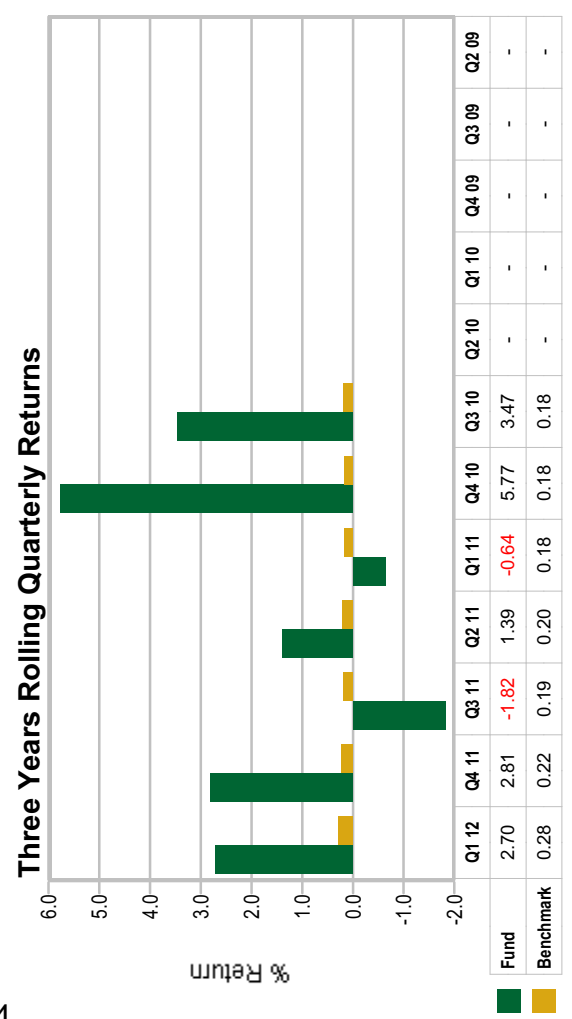


Ruffer



Risk Statistics - 3 years

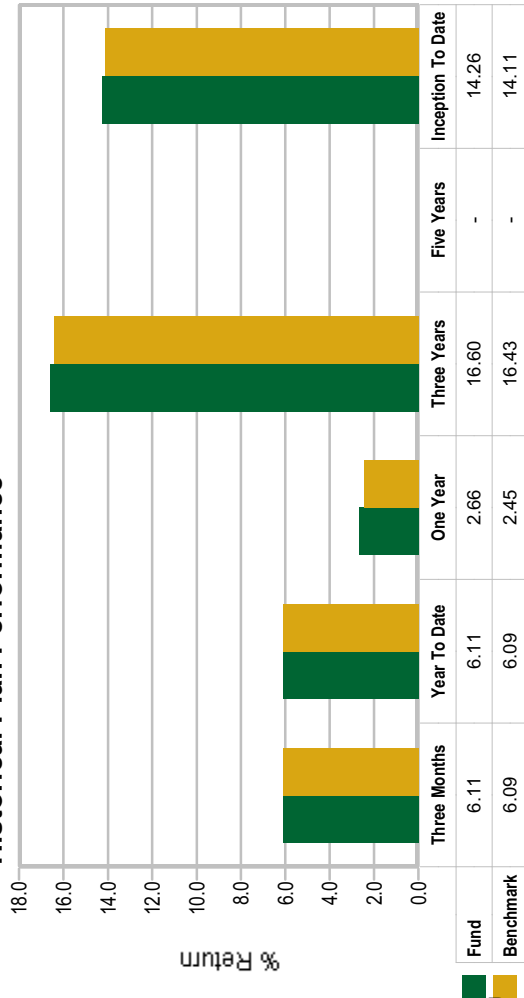
|                             | Fund     | Bmark |
|-----------------------------|----------|-------|
| Performance Return          | -        | -     |
| Standard Deviation          | -        | -     |
| Relative Return             | -        | -     |
| Tracking Error              | -        | -     |
| Information Ratio           | -        | -     |
| Beta                        | -        | -     |
| Alpha                       | -        | -     |
| R Squared                   | -        | -     |
| Sharpe Ratio                | -        | -     |
| Percentage of Total Fund    | 19.4     | -     |
| Inception Date              | May-2010 | -     |
| Opening Market Value (£000) | 115,307  | -     |
| Net Investment £(000)       | 0        | -     |
| Income Received £(000)      | 715      | -     |
| Appreciation £(000)         | 2,403    | -     |
| Closing Market Value (£000) | 118,424  | -     |





SSGA

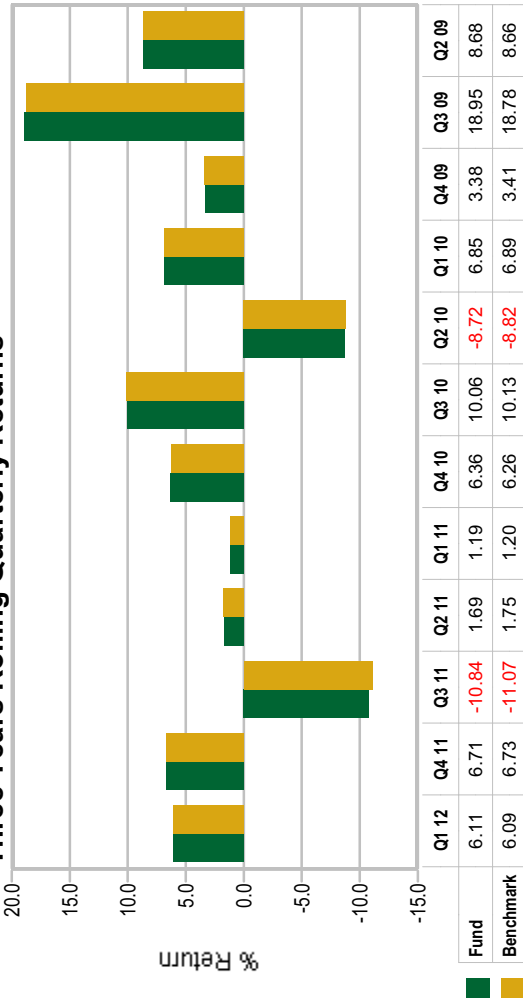
Historical Plan Performance



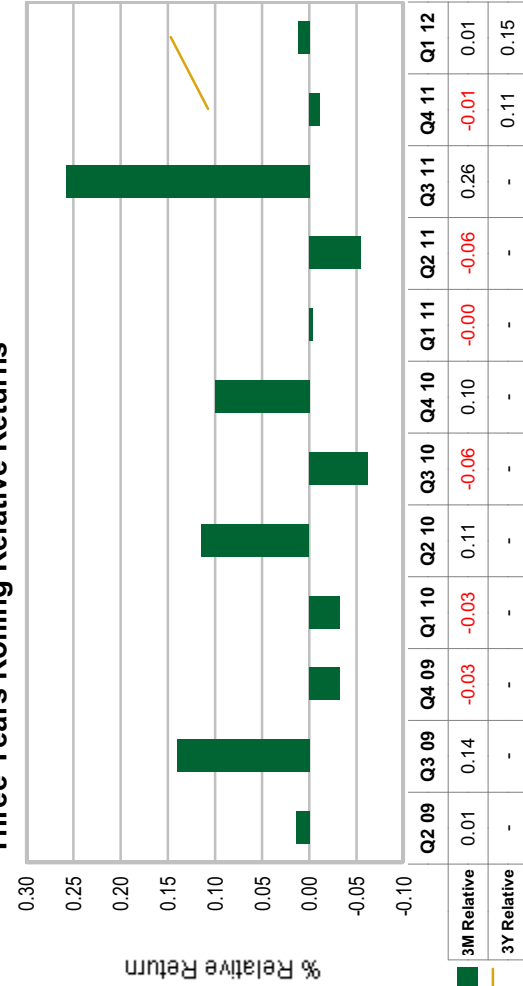
Risk Statistics - 3 years

|                             | Fund     | B'mark |
|-----------------------------|----------|--------|
| Performance Return          | 16.60    | 16.43  |
| Standard Deviation          | 11.90    | 11.94  |
| Relative Return             | 0.15     |        |
| Tracking Error              | 0.17     |        |
| Information Ratio           | 1.03     |        |
| Beta                        | 1.00     |        |
| Alpha                       | 0.20     |        |
| R Squared                   | 1.00     |        |
| Sharpe Ratio                | 1.29     | 1.27   |
| Percentage of Total Fund    | 19.2     |        |
| Inception Date              | Nov-2008 |        |
| Opening Market Value (£000) | 110,728  |        |
| Net Investment £(000)       | 0        |        |
| Income Received £(000)      | 0        |        |
| Appreciation £(000)         | 6,762    |        |
| Closing Market Value (£000) | 117,490  |        |

Three Years Rolling Quarterly Returns

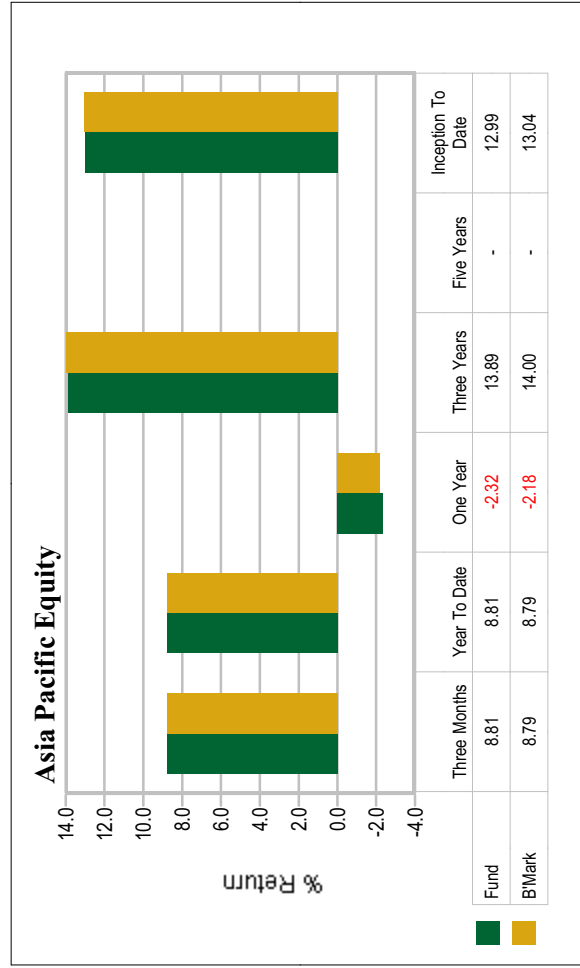
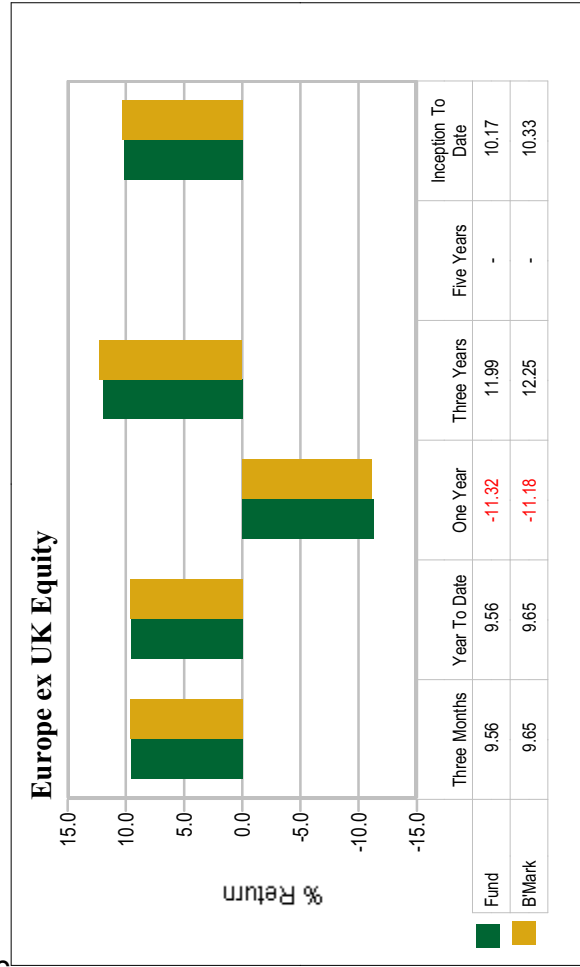
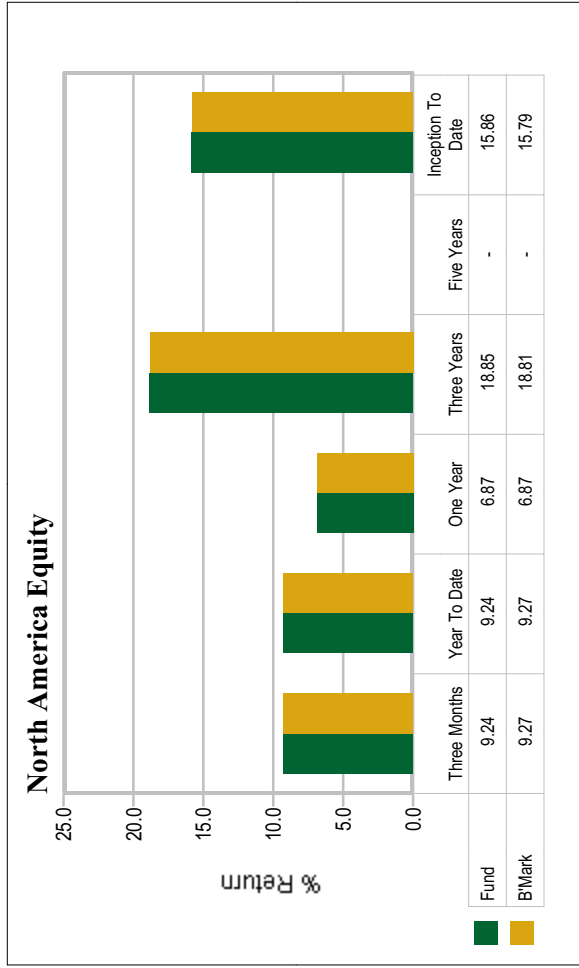
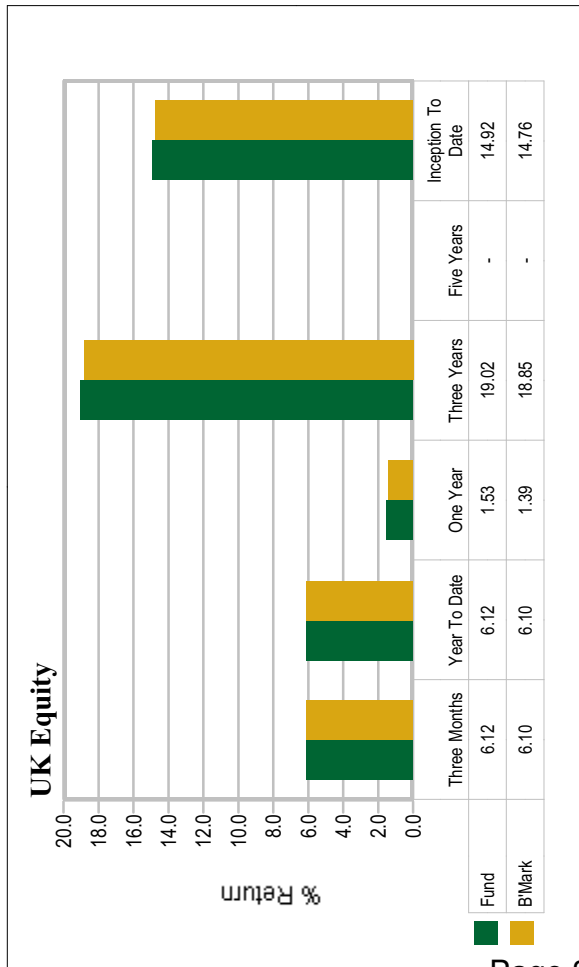


Three Years Rolling Relative Returns





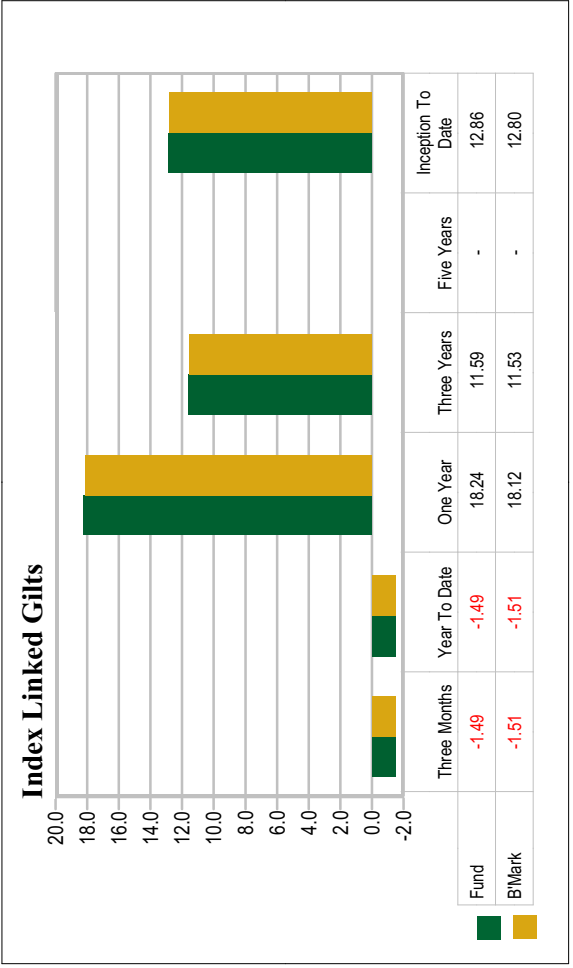
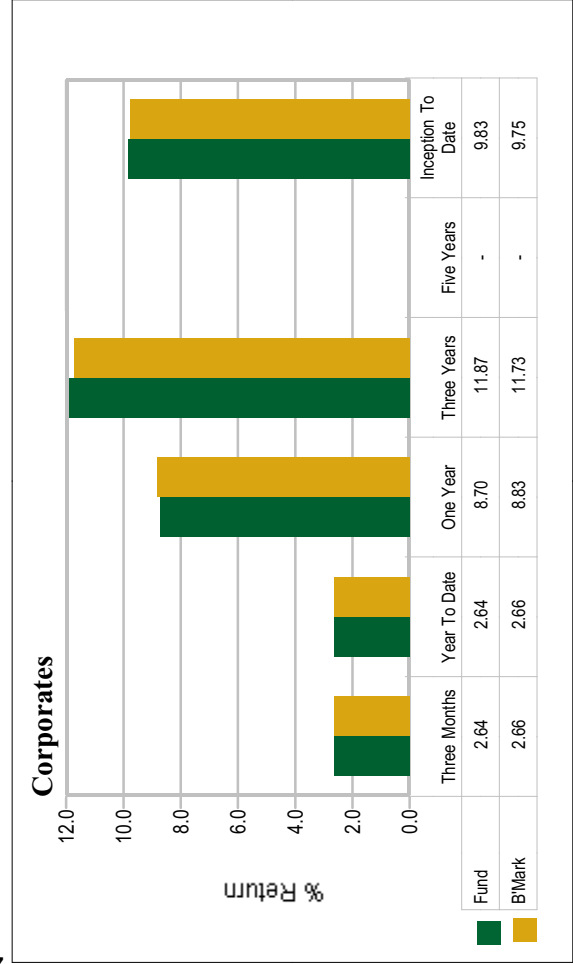
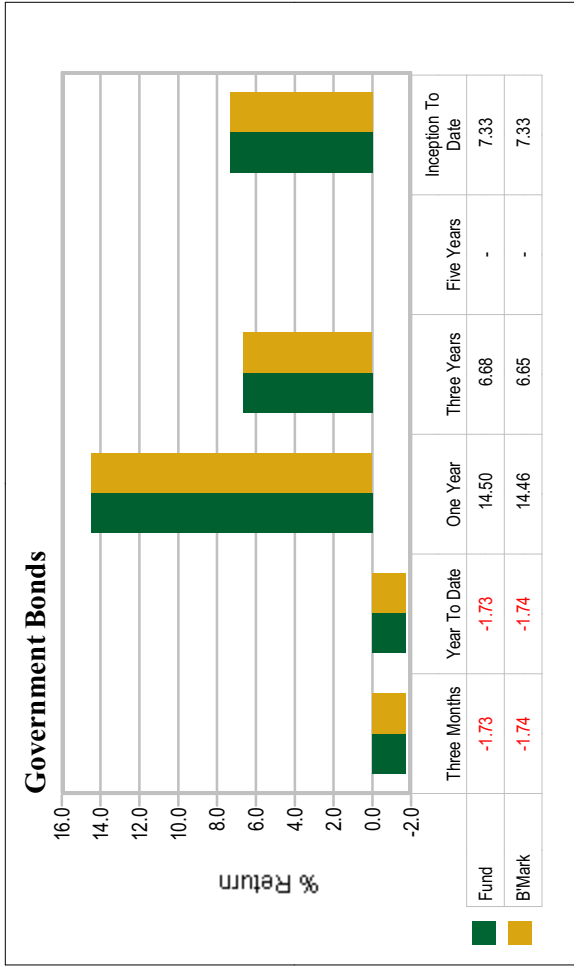
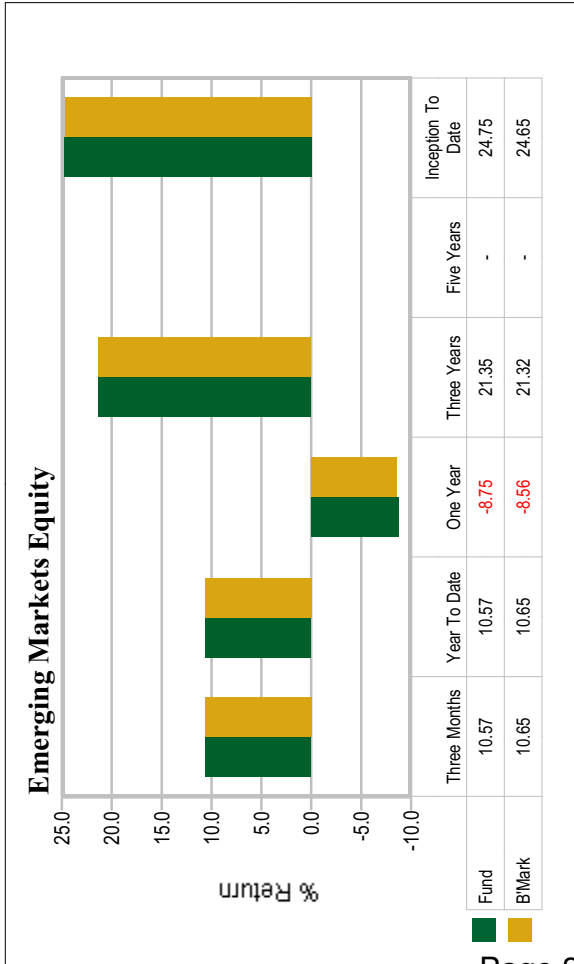
SSGA







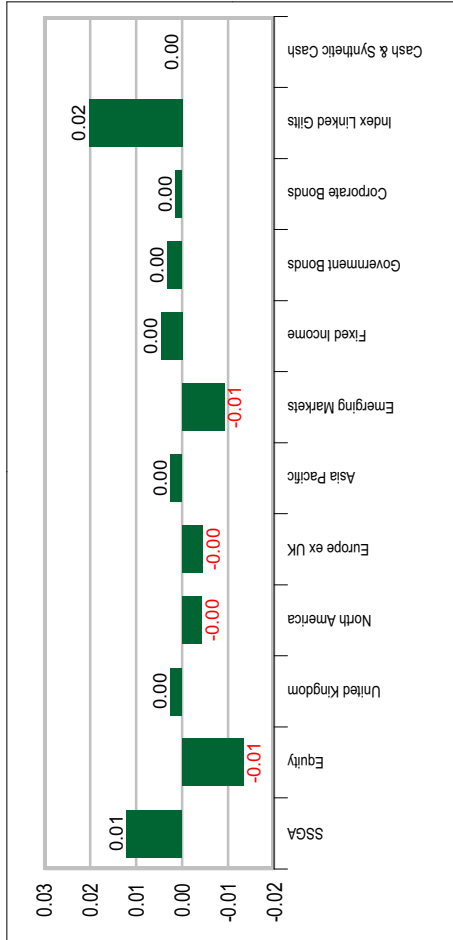
SSGA



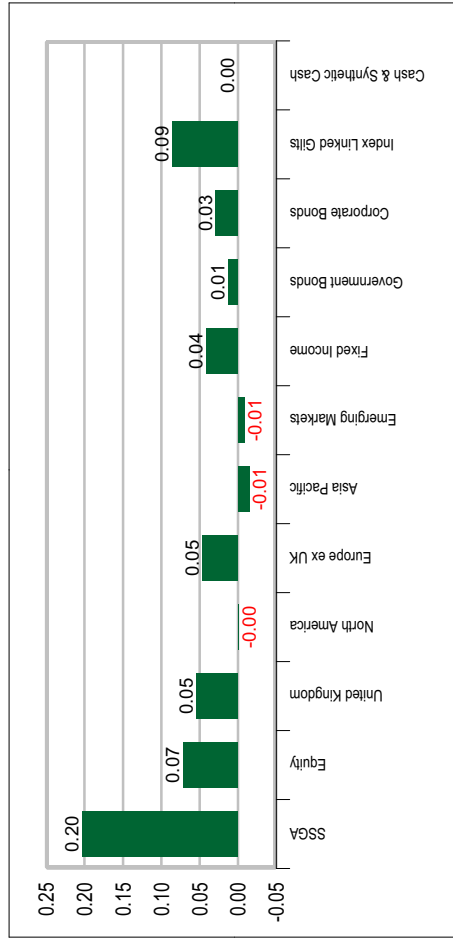


# SSGA

## Relative Contribution - Three Months

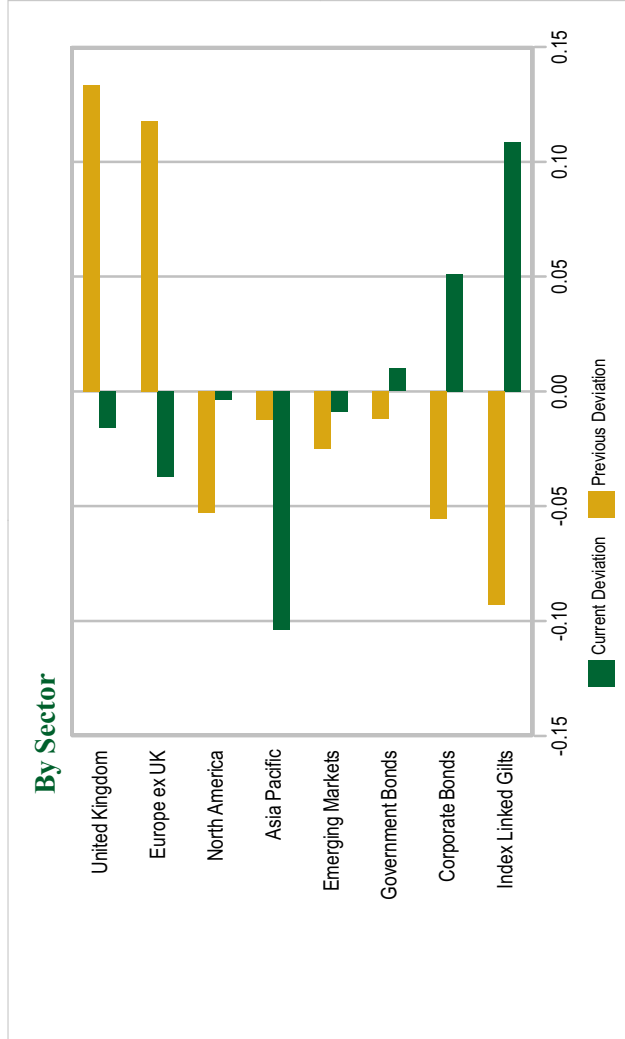


## Relative Contribution - One Year



|                       | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Currency Effect | Relative Contribution |
|-----------------------|--------|-----------|-----------------|------------------|-----------------|-----------------|-----------------------|
| SSGA                  | 6.11   | 6.09      | 0.01            | 0.03             | 0.29            | -0.31           | 0.01                  |
| Equity                | 7.56   | -         | 7.56            | 0.01             | 0.51            | -0.53           | -0.01                 |
| United Kingdom        | 6.12   | 6.10      | 0.02            | -0.00            | 0.01            | 0.00            | 0.00                  |
| North America         | 9.24   | 9.27      | -0.02           | -0.00            | 0.01            | -0.01           | -0.00                 |
| Europe ex UK          | 9.56   | 9.65      | -0.09           | 0.00             | 0.02            | -0.03           | -0.00                 |
| Asia Pacific          | 8.81   | 8.79      | 0.01            | 0.01             | 0.48            | -0.48           | 0.00                  |
| Emerging Markets      | 10.57  | 10.65     | -0.07           | -0.00            | -0.00           | -0.01           | -0.01                 |
| Fixed Income          | 1.99   | -         | 1.99            | 0.01             | -0.23           | 0.23            | 0.00                  |
| Government Bonds      | -1.73  | -1.74     | 0.01            | 0.00             | 0.00            | -0.00           | 0.00                  |
| Corporate Bonds       | 2.64   | 2.66      | -0.02           | 0.00             | -0.23           | 0.23            | 0.00                  |
| Index Linked Gilts    | -1.49  | -1.51     | 0.03            | 0.02             | 0.00            | -0.00           | 0.02                  |
| Cash & Synthetic Cash | -      | -         | 0.00            | 0.00             | 0.00            | 0.00            | 0.00                  |

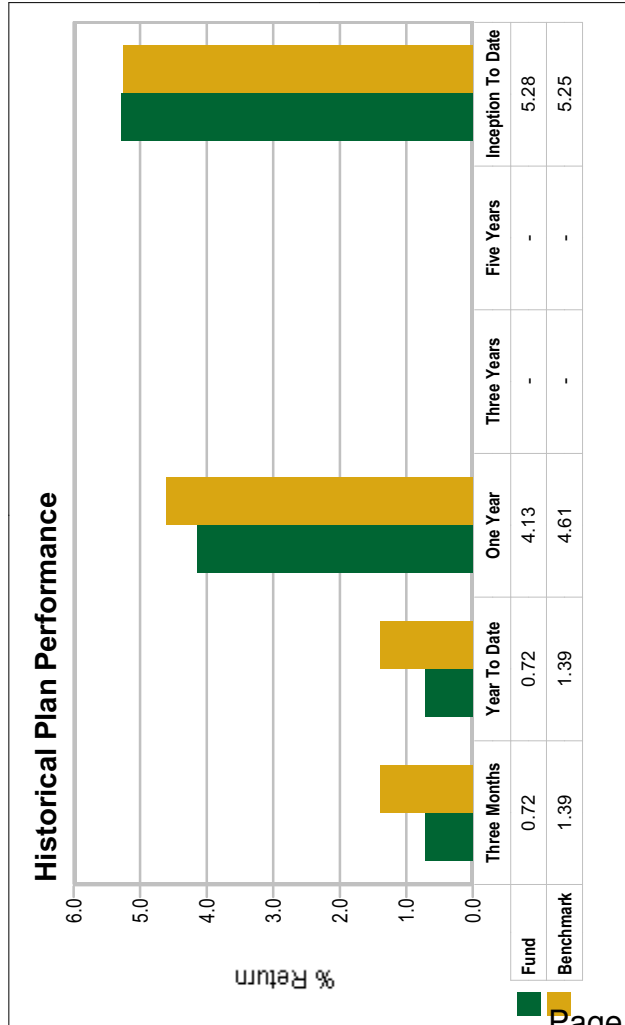
|                       | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Currency Effect | Relative Contribution |
|-----------------------|--------|-----------|-----------------|------------------|-----------------|-----------------|-----------------------|
| SSGA                  | 2.66   | 2.45      | 0.20            | 0.20             | -0.26           | 0.26            | 0.20                  |
| Equity                | -0.40  | -         | -0.40           | 0.06             | 0.03            | -0.02           | 0.07                  |
| United Kingdom        | 1.53   | 1.39      | 0.14            | -0.00            | 0.06            | -0.01           | 0.05                  |
| North America         | 6.88   | 6.87      | 0.01            | 0.00             | -0.03           | 0.03            | -0.00                 |
| Europe ex UK          | -11.32 | -11.18    | -0.16           | 0.03             | 0.17            | -0.16           | 0.05                  |
| Asia Pacific          | -2.32  | -2.18     | -0.14           | 0.03             | -0.01           | -0.03           | -0.01                 |
| Emerging Markets      | -8.75  | -8.56     | -0.21           | 0.00             | -0.17           | 0.16            | -0.01                 |
| Fixed Income          | 9.59   | -         | 9.59            | 0.05             | -0.30           | 0.29            | 0.04                  |
| Government Bonds      | 14.50  | 14.46     | 0.03            | 0.01             | 0.00            | -0.00           | 0.01                  |
| Corporate Bonds       | 8.70   | 8.83      | -0.12           | 0.04             | -0.30           | 0.29            | 0.03                  |
| Index Linked Gilts    | 18.24  | 18.12     | 0.10            | 0.08             | 0.01            | -0.01           | 0.09                  |
| Cash & Synthetic Cash | -      | -         | 0.00            | 0.00             | 0.00            | 0.00            | 0.00                  |



|                    | Current Qtr | Previous Qtr | Current Benchmark | Current Deviation | Previous Benchmark | Previous Deviation |
|--------------------|-------------|--------------|-------------------|-------------------|--------------------|--------------------|
| Equity             | 79.83       | 80.16        |                   | 79.83             |                    | 80.16              |
| United Kingdom     | 43.98       | 44.13        | 44.00             | -0.02             | 44.00              | 0.13               |
| Europe ex UK       | 10.96       | 11.12        | 11.00             | -0.04             | 11.00              | 0.12               |
| North America      | 11.00       | 10.95        | 11.00             | -0.00             | 11.00              | -0.05              |
| Asia Pacific       | 10.90       | 10.99        | 11.00             | -0.10             | 11.00              | -0.01              |
| Emerging Markets   | 2.99        | 2.97         | 3.00              | -0.01             | 3.00               | -0.03              |
| Fixed Income       | 10.06       | 9.93         |                   | 10.06             |                    | 9.93               |
| Government Bonds   | 1.51        | 1.49         | 1.50              | 0.01              | 1.50               | -0.01              |
| Corporate Bonds    | 8.55        | 8.44         | 8.50              | 0.05              | 8.50               | -0.06              |
| Index Linked Gilts | 10.11       | 9.91         | 10.00             | 0.11              | 10.00              | -0.09              |



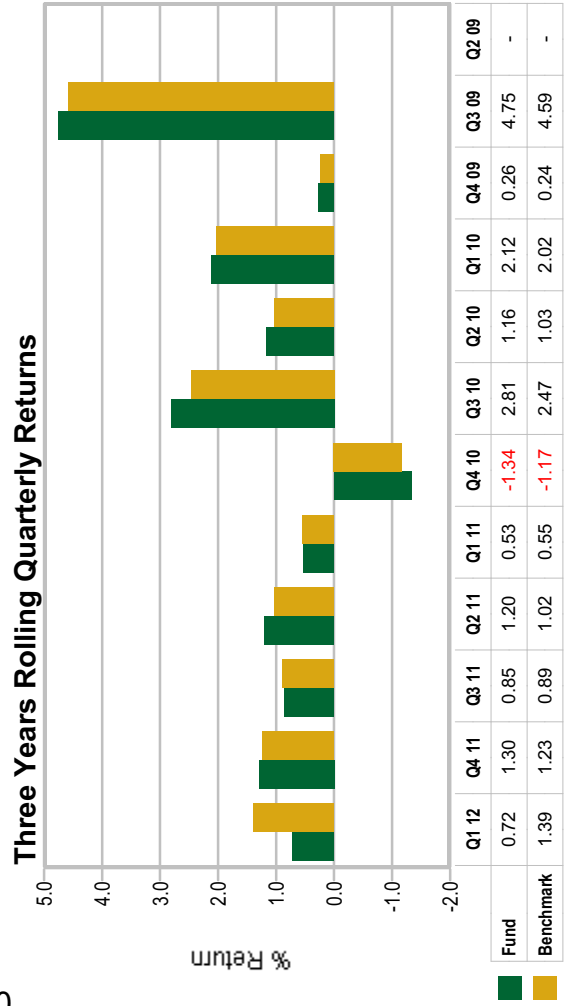
SSGA Drawdown



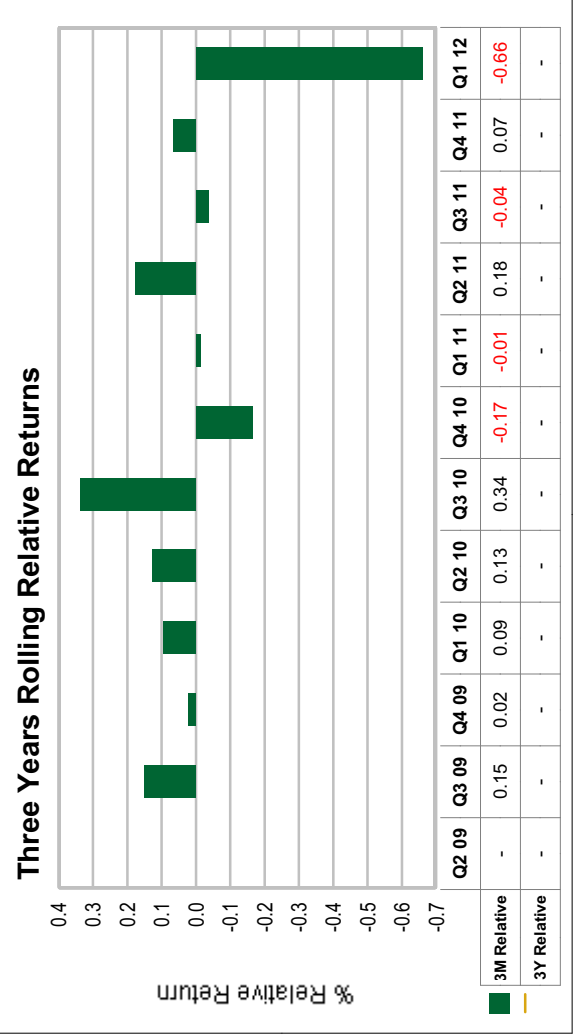
Risk Statistics - 3 years

|                             | Fund     | Bmark |
|-----------------------------|----------|-------|
| Performance Return          | -        | -     |
| Standard Deviation          | -        | -     |
| Relative Return             | -        | -     |
| Tracking Error              | -        | -     |
| Information Ratio           | -        | -     |
| Beta                        | -        | -     |
| Alpha                       | -        | -     |
| R Squared                   | -        | -     |
| Sharpe Ratio                | -        | -     |
| Percentage of Total Fund    | 2.4      | -     |
| Inception Date              | Jun-2009 | -     |
| Opening Market Value (£000) | 9,328    | -     |
| Net Investment £(000)       | 5,506    | -     |
| Income Received £(000)      | 1        | -     |
| Appreciation £(000)         | 114      | -     |
| Closing Market Value (£000) | 14,948   | -     |

Three Years Rolling Quarterly Returns

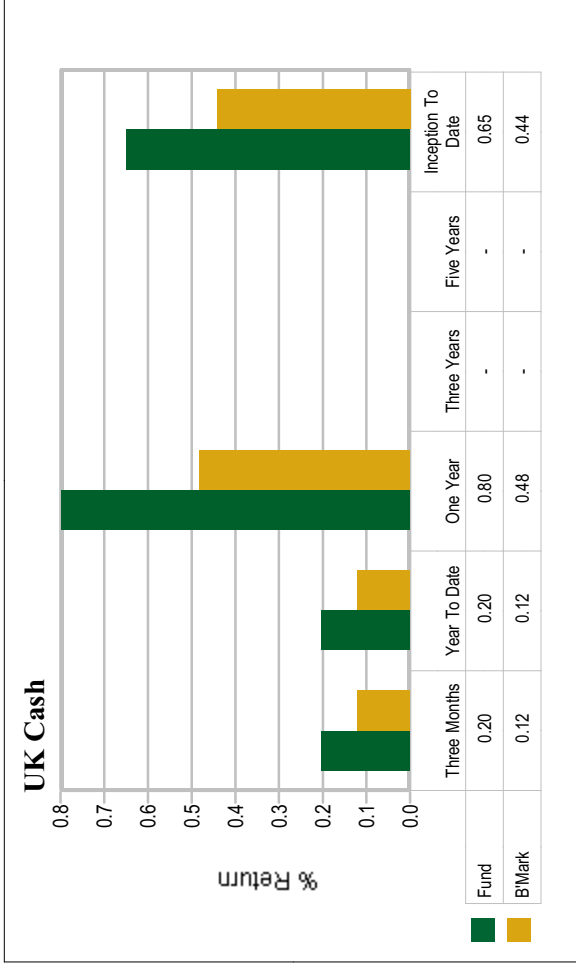
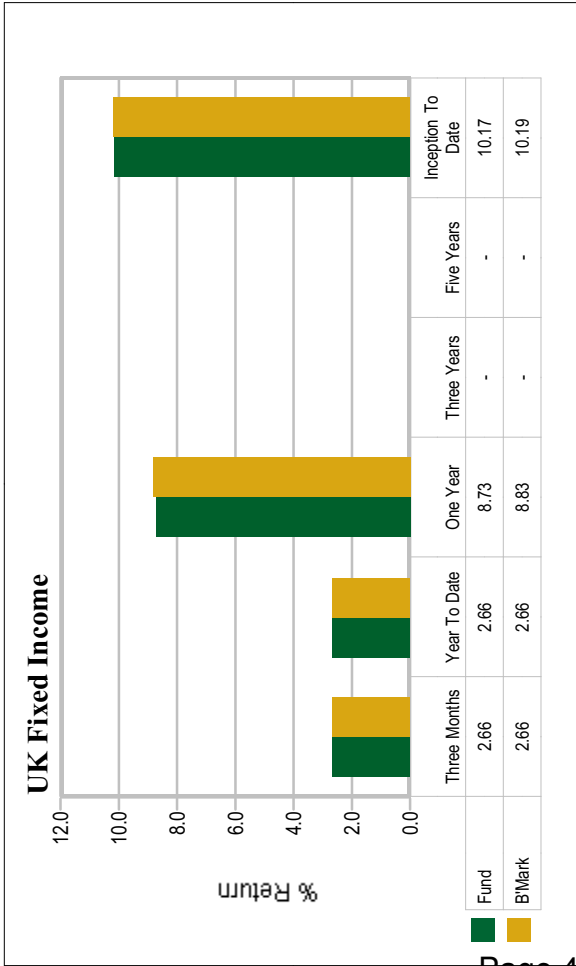


Three Years Rolling Relative Returns



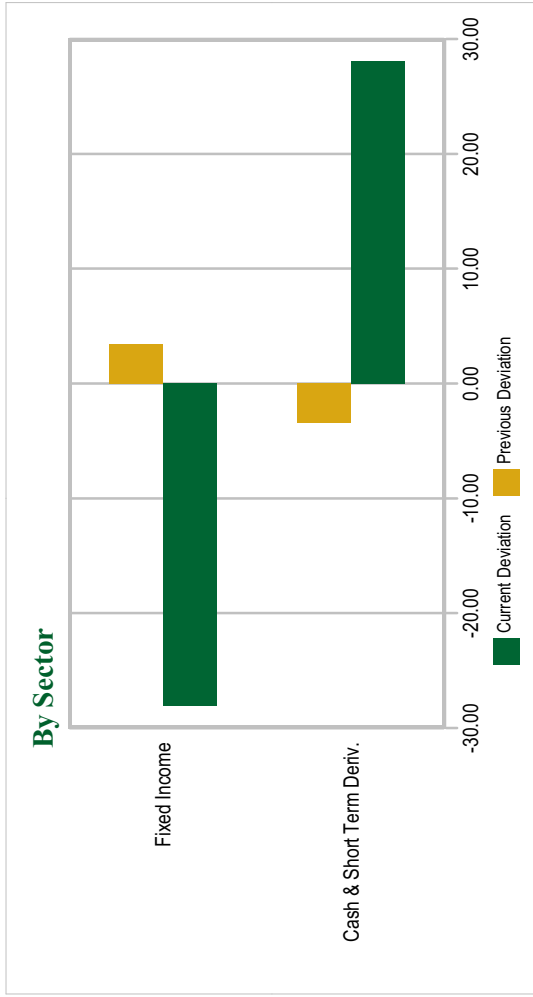


**SSGA Drawdown**





# SSGA Drawdown

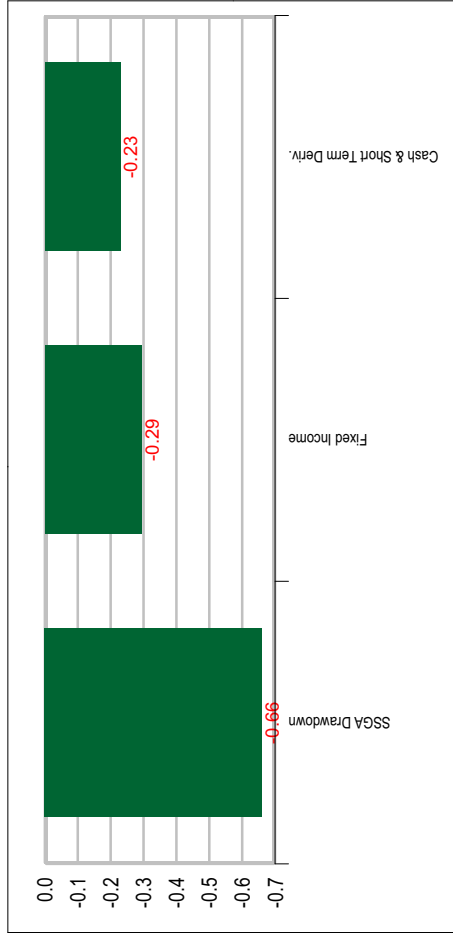


|                          | Current Qtr | Previous Qtr | Current Benchmark | Previous Benchmark | Current Deviation | Previous Deviation |
|--------------------------|-------------|--------------|-------------------|--------------------|-------------------|--------------------|
| Fixed Income             | 21.94       | 53.44        | 50.00             | 50.00              | -28.06            | 3.44               |
| Cash & Short Term Deriv. | 78.06       | 46.56        | 50.00             | 50.00              | 28.06             | -3.44              |



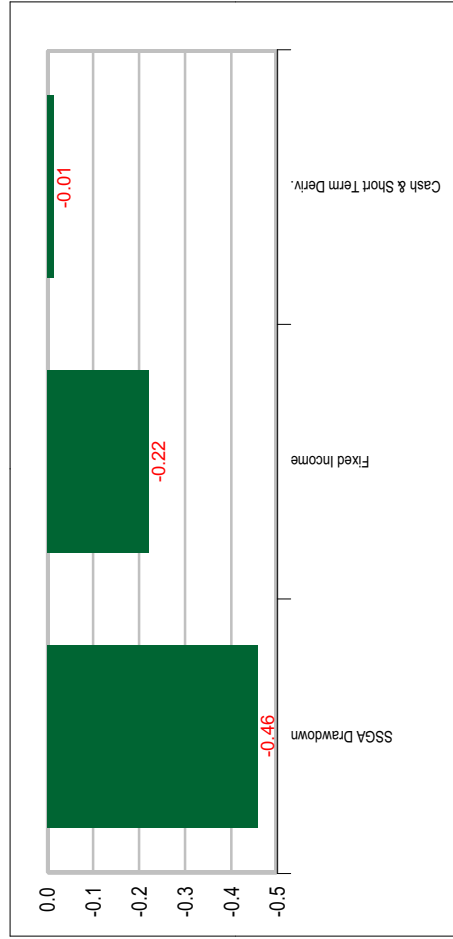
# SSGA Drawdown

## Relative Contribution - Three Months



|                          | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Relative Contribution |
|--------------------------|--------|-----------|-----------------|------------------|-----------------|-----------------------|
| SSGA Drawdown            | 0.72   | 1.39      | -0.66           | -0.59            | 0.06            | -0.66                 |
| Fixed Income             | 2.66   | 2.66      | -0.00           | -0.29            | -0.00           | -0.29                 |
| Cash & Short Term Deriv. | 0.20   | 0.12      | 0.08            | -0.29            | 0.06            | -0.23                 |

## Relative Contribution - One Year



|                          | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Relative Contribution |
|--------------------------|--------|-----------|-----------------|------------------|-----------------|-----------------------|
| SSGA Drawdown            | 4.13   | 4.61      | -0.46           | -0.37            | 0.14            | -0.46                 |
| Fixed Income             | 8.73   | 8.83      | -0.09           | -0.18            | -0.04           | -0.22                 |
| Cash & Short Term Deriv. | 0.80   | 0.48      | 0.31            | -0.19            | 0.18            | -0.01                 |

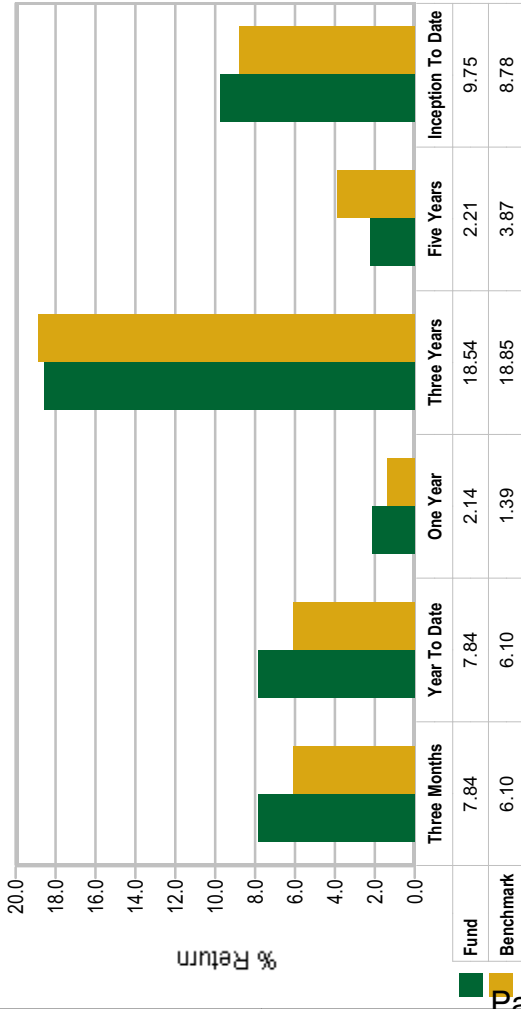


UBS

1st Quarter, 2012

London Borough of Hillingdon

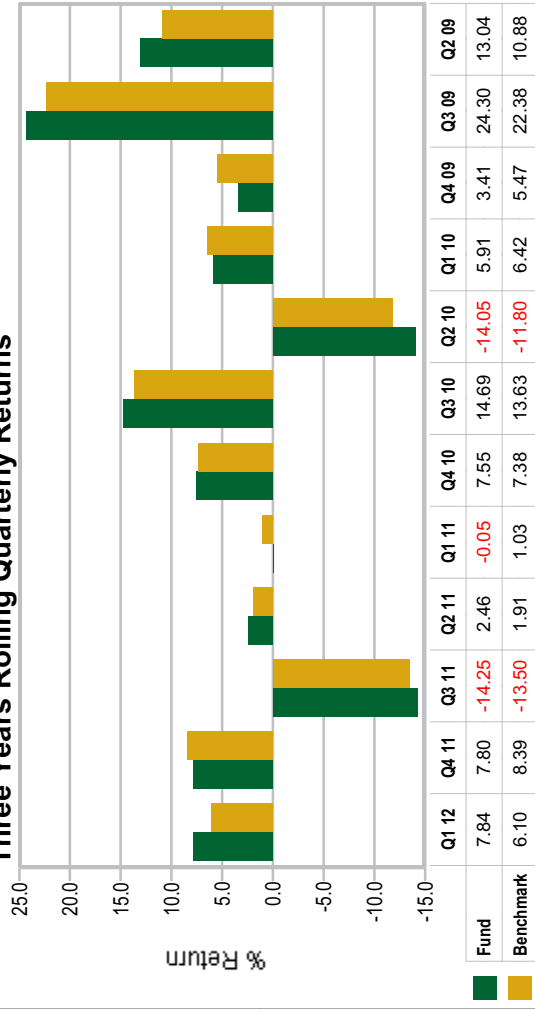
### Historical Plan Performance



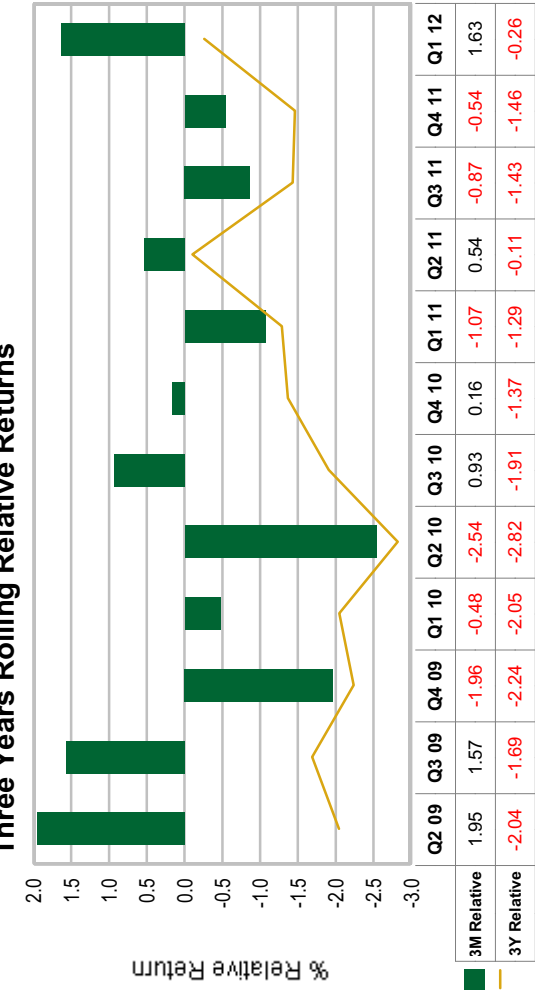
### Risk Statistics - 3 years

| Metric                      | Fund     | B' mark |
|-----------------------------|----------|---------|
| Performance Return          | 18.54    | 18.85   |
| Standard Deviation          | 17.34    | 15.22   |
| Relative Return             | -0.26    |         |
| Tracking Error              | 4.24     |         |
| Information Ratio           | -0.07    |         |
| Beta                        | 1.11     |         |
| Alpha                       | -1.81    |         |
| R Squared                   | 0.95     |         |
| Sharpe Ratio                | 1.00     | 1.15    |
| Percentage of Total Fund    | 18.5     |         |
| Inception Date              | Dec-1988 |         |
| Opening Market Value (£000) | 104,881  |         |
| Net Investment £(000)       | 0        |         |
| Income Received £(000)      | 920      |         |
| Appreciation £(000)         | 7,300    |         |
| Closing Market Value (£000) | 113,101  |         |

### Three Years Rolling Quarterly Returns



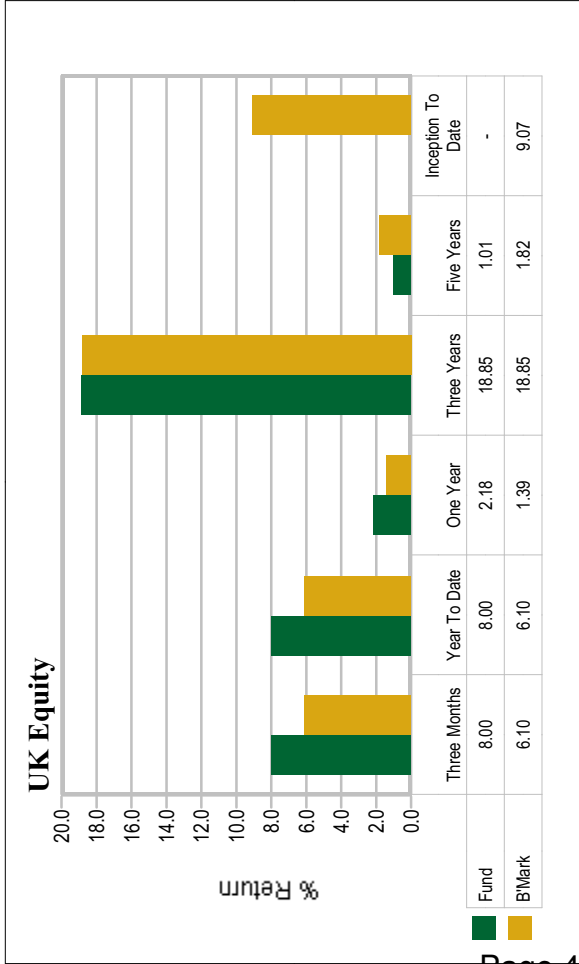
### Three Years Rolling Relative Returns







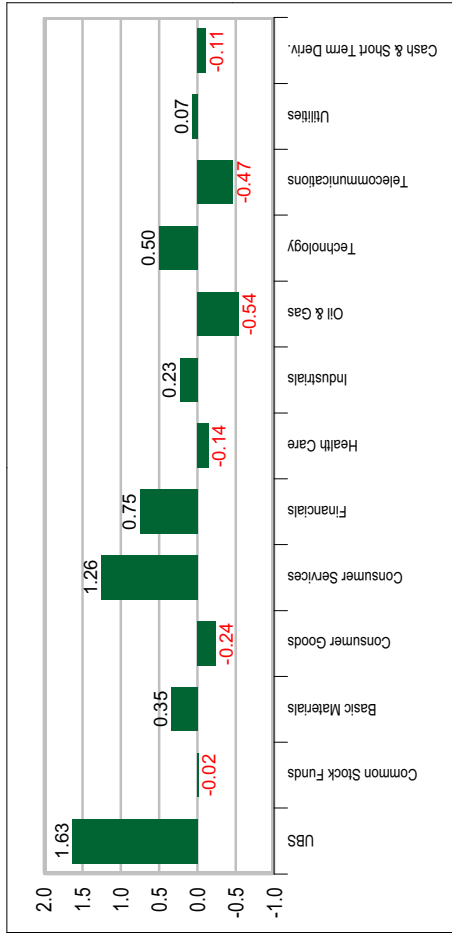
UBS



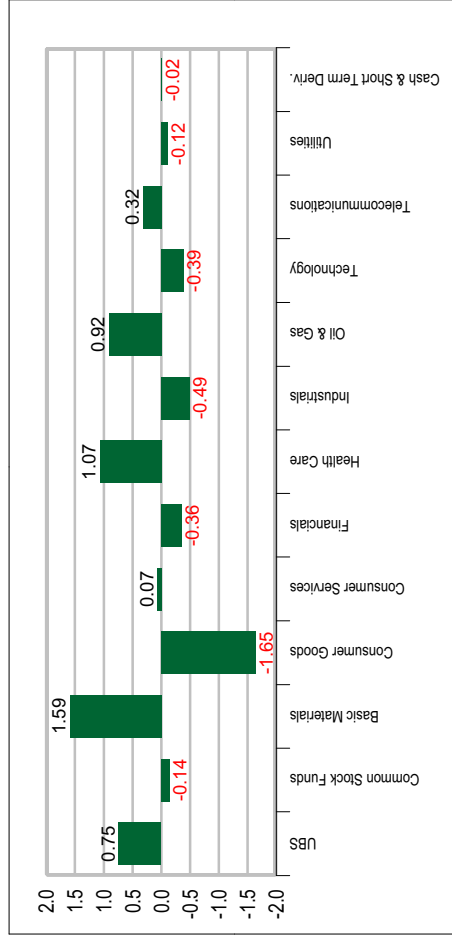


## UBS

### Relative Contribution - Three Months



### Relative Contribution - One Year



|                          | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Relative Contribution |
|--------------------------|--------|-----------|-----------------|------------------|-----------------|-----------------------|
| UBS                      | 7.84   | 6.10      | 1.63            | -0.88            | 2.53            | 1.63                  |
| Common Stock Funds       | -9.50  | -         | -9.50           | -0.02            | 0.00            | -0.02                 |
| Basic Materials          | 9.11   | 5.08      | 3.83            | 0.03             | 0.32            | 0.35                  |
| Consumer Goods           | 5.74   | 7.79      | -1.89           | -0.16            | -0.08           | -0.24                 |
| Consumer Services        | 15.28  | 4.83      | 9.96            | 0.02             | 1.24            | 1.26                  |
| Financials               | 23.12  | 16.04     | 6.10            | -0.28            | 1.04            | 0.75                  |
| Health Care              | -3.32  | -3.20     | -0.12           | -0.12            | -0.02           | -0.14                 |
| Industrials              | 14.47  | 13.33     | 1.00            | 0.13             | 0.10            | 0.23                  |
| Oil & Gas                | -3.22  | -1.12     | -2.13           | -0.13            | -0.42           | -0.54                 |
| Technology               | 44.96  | 12.57     | 28.77           | 0.02             | 0.48            | 0.50                  |
| Telecommunications       | -1.74  | -0.03     | -1.71           | -0.28            | -0.19           | -0.47                 |
| Utilities                | 6.41   | 4.99      | 1.36            | 0.02             | 0.05            | 0.07                  |
| Cash & Short Term Deriv. | 0.40   | -         | 0.40            | -0.11            | 0.00            | -0.11                 |

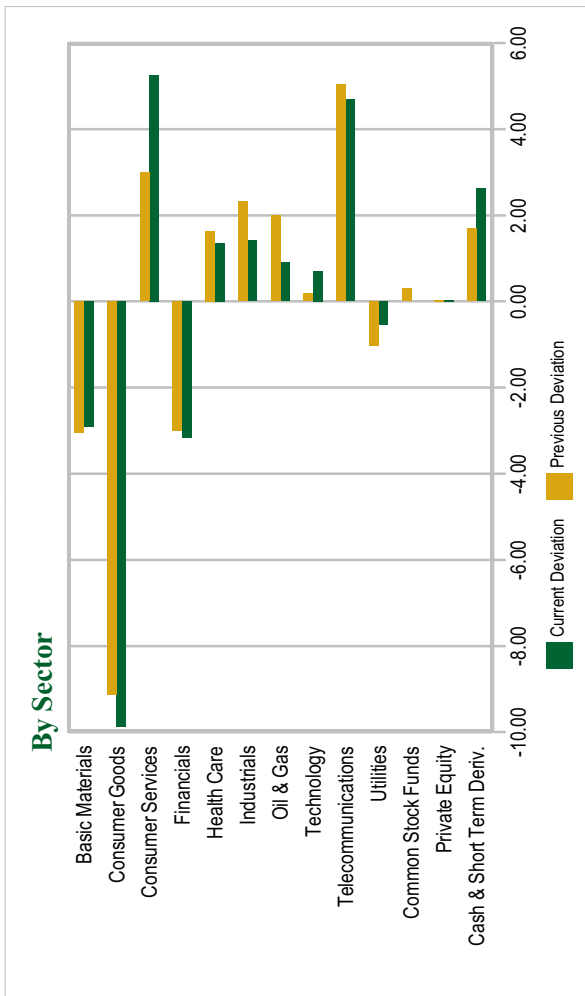
|                          | Return | Benchmark | Relative Return | Asset Allocation | Stock Selection | Relative Contribution |
|--------------------------|--------|-----------|-----------------|------------------|-----------------|-----------------------|
| UBS                      | 2.14   | 1.39      | 0.75            | 1.10             | -0.34           | 0.75                  |
| Common Stock Funds       | -32.72 | -         | -32.72          | -0.14            | 0.00            | -0.14                 |
| Basic Materials          | -16.91 | -21.21    | 5.46            | 1.16             | 0.43            | 1.59                  |
| Consumer Goods           | 17.01  | 23.70     | -5.41           | -1.35            | -0.30           | -1.65                 |
| Consumer Services        | 2.92   | 3.89      | -0.93           | 0.14             | -0.07           | 0.07                  |
| Financials               | -13.62 | -7.15     | -6.97           | 0.57             | -0.93           | -0.36                 |
| Health Care              | 23.48  | 14.14     | 8.18            | 0.34             | 0.73            | 1.07                  |
| Industrials              | 2.70   | 11.13     | -7.59           | 0.21             | -0.70           | -0.49                 |
| Oil & Gas                | 4.89   | -0.01     | 4.90            | -0.06            | 0.98            | 0.92                  |
| Technology               | -19.67 | 13.56     | -29.26          | 0.00             | -0.39           | -0.39                 |
| Telecommunications       | 7.79   | 6.83      | 0.90            | 0.24             | 0.08            | 0.32                  |
| Utilities                | 8.03   | 12.66     | -4.11           | 0.02             | -0.14           | -0.12                 |
| Cash & Short Term Deriv. | 0.74   | -         | 0.74            | -0.02            | 0.00            | -0.02                 |



UBS

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|                          | Current Qtr | Previous Qtr | Current Benchmark | Previous Benchmark | Current Deviation | Previous Deviation |
|--------------------------|-------------|--------------|-------------------|--------------------|-------------------|--------------------|
| Basic Materials          | 8.23        | 8.13         | 11.13             | 11.19              | -2.91             | -3.06              |
| Consumer Goods           | 3.63        | 4.24         | 13.51             | 13.37              | -9.88             | -9.13              |
| Consumer Services        | 14.67       | 12.49        | 9.42              | 9.49               | 5.25              | 3.00               |
| Financials               | 17.67       | 16.06        | 20.84             | 19.08              | -3.17             | -3.01              |
| Health Care              | 8.56        | 9.66         | 7.20              | 8.01               | 1.36              | 1.64               |
| Industrials              | 10.02       | 10.34        | 8.60              | 8.03               | 1.42              | 2.32               |
| Oil & Gas                | 18.57       | 20.92        | 17.66             | 18.92              | 0.91              | 2.00               |
| Technology               | 2.25        | 1.65         | 1.54              | 1.45               | 0.71              | 0.19               |
| Telecommunications       | 10.85       | 11.56        | 6.16              | 6.52               | 4.69              | 5.04               |
| Utilities                | 3.38        | 2.90         | 3.93              | 3.93               | -0.55             | -1.03              |
| Common Stock Funds       | 0.00        | 0.30         |                   |                    | 0.00              | 0.30               |
| Private Equity           | 0.04        | 0.04         |                   |                    | 0.04              | 0.04               |
| Cash & Short Term Deriv. | 2.62        | 1.69         |                   |                    | 2.62              | 1.69               |

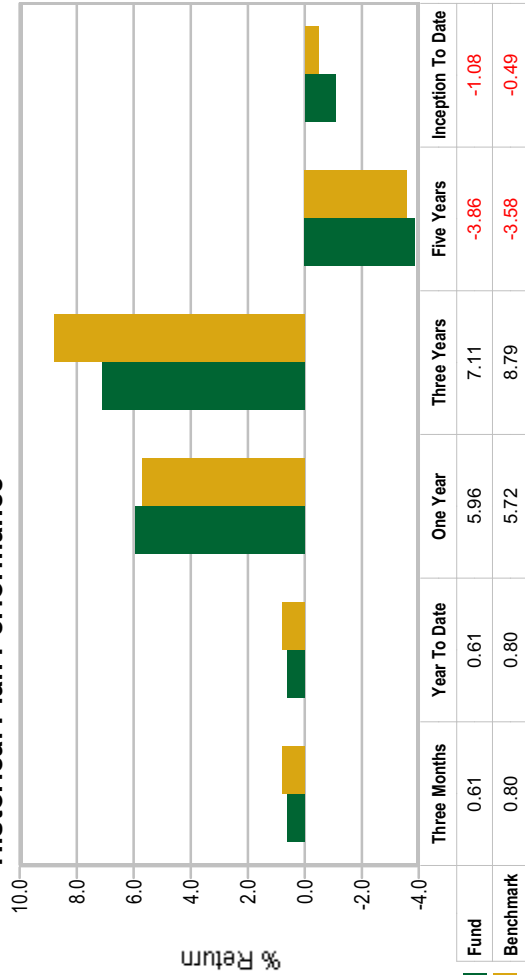


**UBS Property**

1st Quarter, 2012

London Borough of Hillingdon

**Historical Plan Performance**



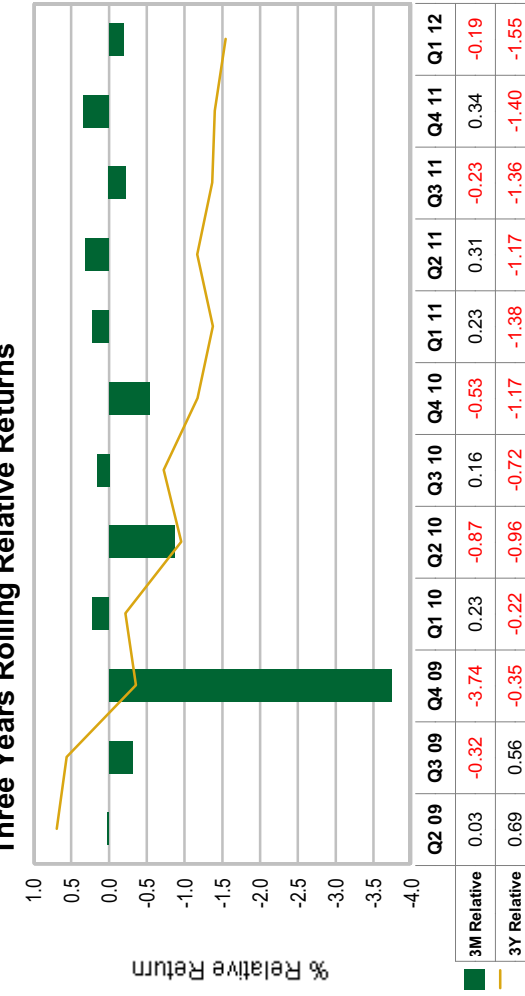
**Risk Statistics - 3 years**

|                             | Fund     | B'mark |
|-----------------------------|----------|--------|
| Performance Return          | 7.11     | 8.79   |
| Standard Deviation          | 2.90     | 2.92   |
| Relative Return             | -1.55    |        |
| Tracking Error              | 2.23     |        |
| Information Ratio           | -0.75    |        |
| Beta                        | 0.72     |        |
| Alpha                       | 0.44     |        |
| R Squared                   | 0.53     |        |
| Sharpe Ratio                | 2.00     | 2.57   |
| Percentage of Total Fund    | 8.1      |        |
| Inception Date              | Mar-2006 |        |
| Opening Market Value (£000) | 48,998   |        |
| Net Investment £(000)       | 0        |        |
| Income Received £(000)      | 545      |        |
| Appreciation £(000)         | -245     |        |
| Closing Market Value (£000) | 49,297   |        |

**Three Years Rolling Quarterly Returns**



**Three Years Rolling Relative Returns**

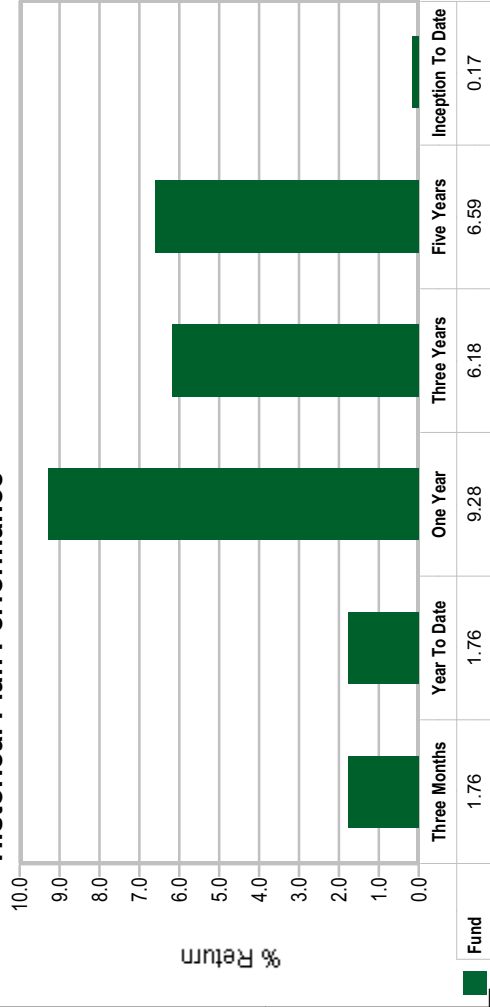


Northern Trust



Adam Street

Historical Plan Performance



Risk Statistics - 3 years

Fund B'mark

|                             |          |
|-----------------------------|----------|
| Performance Return          | 3.4      |
| Standard Deviation          | Jan-2005 |
| Relative Return             | 20,352   |
| Tracking Error              | -219     |
| Information Ratio           | 0        |
| Beta                        | 351      |
| Alpha                       | 20,484   |
| R Squared                   |          |
| Sharpe Ratio                |          |
| Percentage of Total Fund    |          |
| Inception Date              |          |
| Opening Market Value (£000) |          |
| Net Investment £(000)       |          |
| Income Received £(000)      |          |
| Appreciation £(000)         |          |
| Closing Market Value (£000) |          |

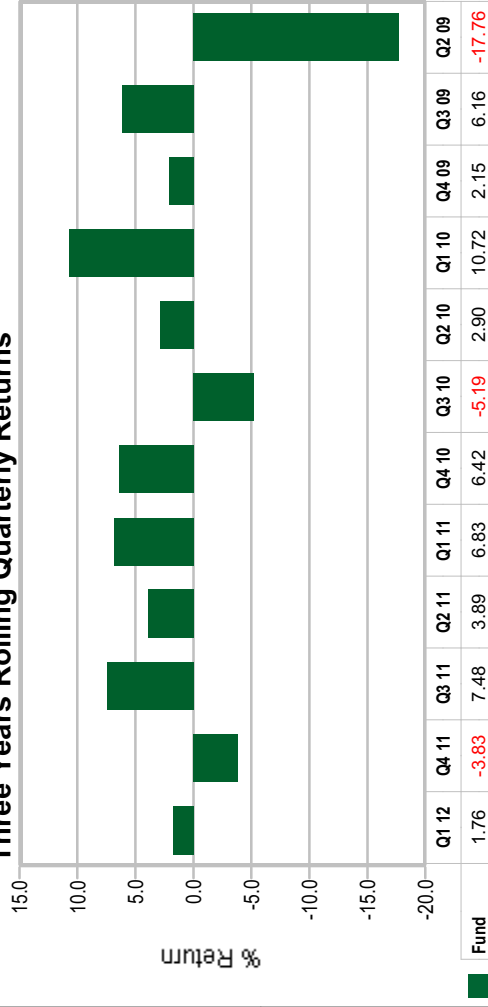
Three Years Rolling Relative Returns



% Relative Return

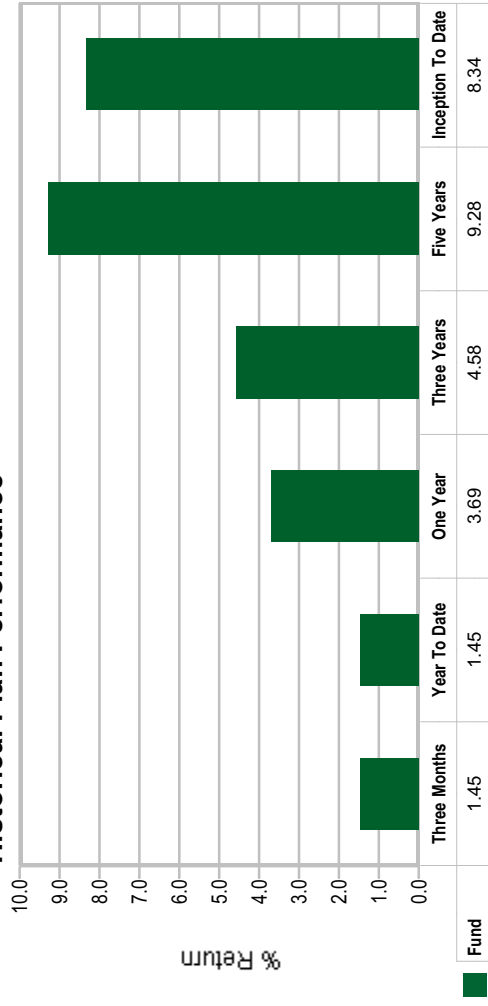
3M Relative  
3Y Relative

Three Years Rolling Quarterly Returns





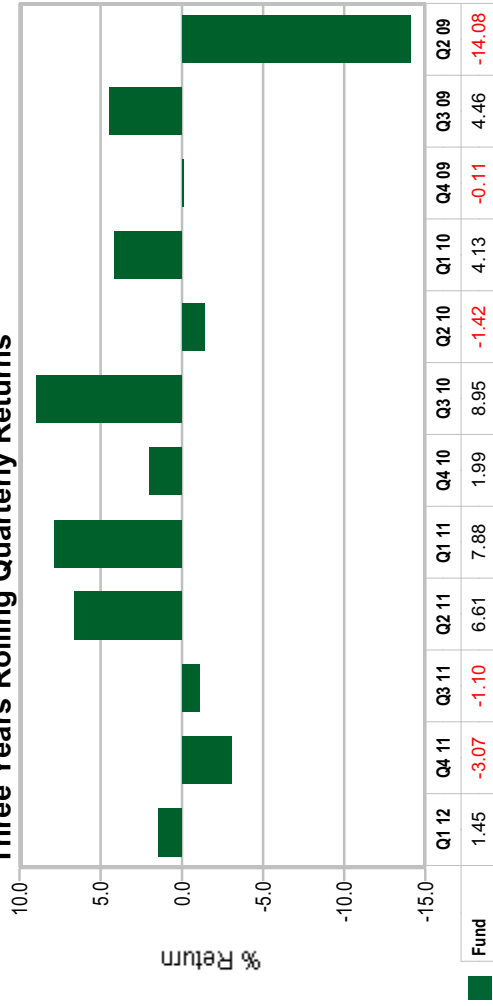
Historical Plan Performance



Risk Statistics - 3 years

|                             | Fund     | Bmark |
|-----------------------------|----------|-------|
| Performance Return          |          |       |
| Standard Deviation          |          |       |
| Relative Return             |          |       |
| Tracking Error              |          |       |
| Information Ratio           |          |       |
| Beta                        |          |       |
| Alpha                       |          |       |
| R Squared                   |          |       |
| Sharpe Ratio                |          |       |
| Percentage of Total Fund    | 2.7      |       |
| Inception Date              | May-2004 |       |
| Opening Market Value (£000) | 16,208   |       |
| Net Investment £(000)       | 138      |       |
| Income Received £(000)      | 0        |       |
| Appreciation £(000)         | 242      |       |
| Closing Market Value (£000) | 16,589   |       |

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



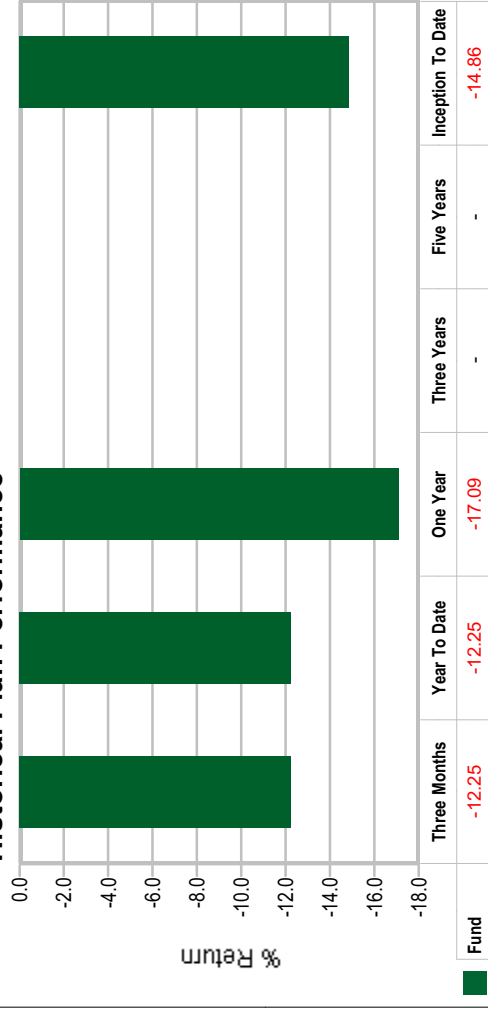
% Relative Return

|             |
|-------------|
| 3M Relative |
| 3Y Relative |



Macquarie

Historical Plan Performance

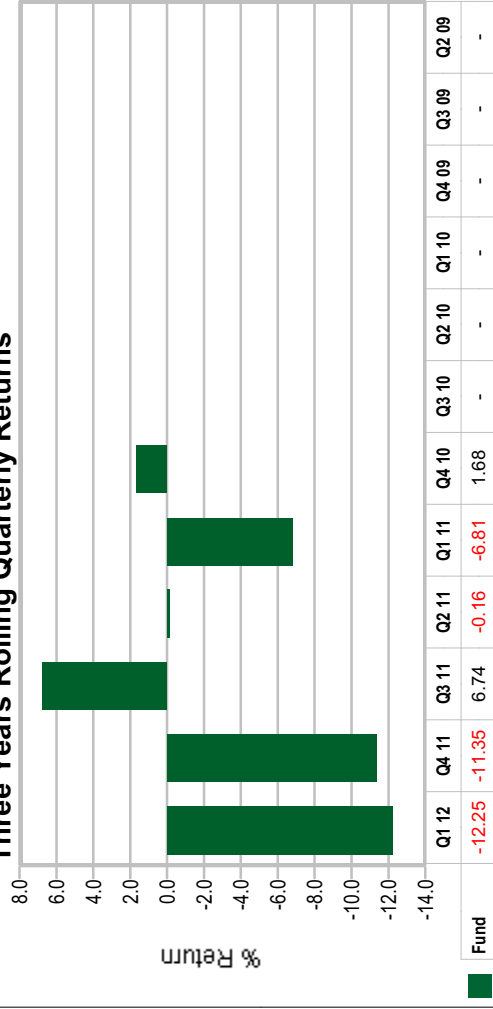


Risk Statistics - 3 years

Fund Bmark

|                             |          |
|-----------------------------|----------|
| Performance Return          |          |
| Standard Deviation          |          |
| Relative Return             |          |
| Tracking Error              |          |
| Information Ratio           |          |
| Beta                        |          |
| Alpha                       |          |
| R Squared                   |          |
| Sharpe Ratio                | 0.2      |
| Percentage of Total Fund    | Sep-2010 |
| Inception Date              | 1,334    |
| Opening Market Value (£000) | 35       |
| Net Investment £(000)       | 0        |
| Income Received £(000)      | -165     |
| Appreciation £(000)         |          |
| Closing Market Value (£000) | 1,205    |

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



% Relative Return

|             |
|-------------|
| 3M Relative |
| 3Y Relative |





**Total Plan Benchmark**

- 27.5 FTSE All Share
- 2.2 FTSE AW North America
- 2.2 FTSE AW Developed Europe ex UK
- 2.2 FTSE AW Developed Asia Pacific
- 0.4 FTSE All World All Emerging
- 4.0 FTSE Index Linked Gilts
- 3.0 IBOXX Sterling Non-Gilts
- 8.0 IPD UK PPF1 All Balanced Funds Index
- 10.0 MSCI All Countries World ND Index
- 6.5 MSCI All Countries World Index
- 34.0 LIBOR 3 Month + 3%

**Fauchier**

- 100.0 LIBOR 3 Month + 5%

**Goldman Sachs**

- 70.0 ML Sterling Broad Market
- 30.0 FTSE Index Linked Gilts 5+ Yrs

**JP Morgan**

- 100.0 LIBOR 3 Month + 3%

**Marathon**

- 100.0 MSCI World

**M&G Investments**

- 100.0 LIBOR 3 Month + 4%

**Ruffer**

- 100.0 LIBOR 3 Month GBP

**SSGA**

- 44.0 FTSE All Share
- 11.0 FTSE World North America
- 11.0 FTSE World Europe ex UK
- 11.0 FTSE Pacific Basin ex Japan
- 3.0 FTSE All World All Emerging
- 1.5 FTA British Government Conventional Gilts All Stocks
- 10.0 FTA British Government Index Linked Gilts All Stocks
- 8.5 ML Sterling Non-Gilts

**SSGA Drawdown**

- 50.0 ML Sterling Non-Gilts
- 50.0 FT 7 Day LIBID

**UBS**

- 100.0 FTSE All Share

**UBS Property**

- 100.0 IPD UK PPF1 All Balanced Funds Index





**Tracking Error**

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

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

**Where**  
**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)

**Page 53**  
 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**

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

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

**Where**  
 $\overline{ER}$  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**

$$\alpha = \frac{\sum R_{yt}}{n} - \beta \frac{\sum R_{xt}}{n}$$

**Where**  
 $R_{xt}$  Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)  
 $R_{yt}$  Portfolio excess return (Portfolio return minus Risk Free Proxy return)  
 $\beta$  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**

$$\beta = \frac{n \sum R_{xt} R_{yt} - \sum R_{xt} \sum R_{yt}}{n \sum (R_{xt})^2 - (\sum R_{xt})^2}$$

**Where**  
 $R_{xt}$  Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)  
 $R_{yt}$  Portfolio excess return (Portfolio return minus Risk Free Proxy return)  
 $\beta$  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**

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

**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<sup>2</sup> 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<sup>2</sup> 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**

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

**Where**

- Equals**
- $R_{ap}$  Annualised (portfolio) rate of return
  - $R_{af}$  Annualised risk-free rate of return
  - $\sigma_{ap}$  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 a growth 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 liabilities, 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 profitability to its 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 potential performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evaluates the bond issues and assigns a code with Aaa as the highest and C as the lowest.



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The following summary is based on 70 funds with a total Market Value of £109,090m.

Update 2 - 14/05/2012

| CATEGORY                 | ASSET MIX (%)  |              | RETURNS (%)    |            |                     |            |                |            |
|--------------------------|----------------|--------------|----------------|------------|---------------------|------------|----------------|------------|
|                          | Latest Quarter |              | Latest Quarter |            | Fiscal Year to Date |            | Last 12 Months |            |
|                          | IMV (%)        | FMV (%)      | Average        | Index      | Average             | Index      | Average        | Index      |
| TOTAL EQUITIES           | 62.9           | 64.1         | 8.4            | 9.0        | -0.2                | -0.2       | -0.2           | -0.2       |
| GLOBAL POOLED INC UK     | 4.0            | 4.1          | 9.3            | 9.0        | 0.3                 | -0.2       | 0.3            | -0.2       |
| UK EQUITIES              | 27.1           | 27.0         | 6.8            | 6.1        | 2.0                 | 1.4        | 2.0            | 1.4        |
| OVERSEAS EQUITIES        | 31.9           | 33.0         | 9.7            | 9.4        | -2.1                | -0.3       | -2.1           | -0.3       |
| North America            | 10.8           | 11.0         | 9.2            | 9.3        | 5.7                 | 6.9        | 5.7            | 6.9        |
| Europe                   | 7.9            | 8.1          | 10.0           | 9.8        | -9.2                | -11.4      | -9.2           | -11.4      |
| Japan                    | 3.5            | 3.6          | 8.3            | 7.9        | 1.4                 | 0.9        | 1.4            | 0.9        |
| Pacific (ex Japan)       | 3.6            | 3.7          | 9.9            | 9.7        | -3.0                | -4.6       | -3.0           | -4.6       |
| Emerging Markets         | 4.6            | 5.2          | 11.1           | 10.6       | -8.0                | -8.6       | -8.0           | -8.6       |
| Global ex UK             | 1.5            | 1.5          | 10.2           | 9.4        | 0.4                 | -0.3       | 0.4            | -0.3       |
| TOTAL BONDS              | 18.8           | 18.0         | 0.5            | -          | 12.9                | -          | 12.9           | -          |
| U.K. BONDS               | 11.1           | 10.6         | 1.4            | -1.7       | 11.3                | 14.5       | 11.3           | 14.5       |
| OVERSEAS BONDS           | 2.1            | 2.1          | 0.6            | 0.6        | 7.2                 | 5.4        | 7.2            | 5.4        |
| INDEX LINKED             | 4.7            | 4.5          | -1.9           | -1.5       | 19.6                | 18.1       | 19.6           | 18.1       |
| POOLED BONDS             | 0.9            | 0.9          | 2.2            | -3.0       | 6.2                 | 23.9       | 6.2            | 23.9       |
| TOTAL CASH               | 3.7            | 3.8          | -0.6           | 0.1        | 0.8                 | 0.5        | 0.8            | 0.5        |
| ALTERNATIVES             | 7.0            | 6.7          | 1.2            | -          | 1.9                 | -          | 1.9            | -          |
| Total Private Equity     | 4.1            | 3.9          | 0.2            | -          | 4.9                 | -          | 4.9            | -          |
| Total Hedge Funds        | 1.8            | 1.8          | 2.2            | -          | 0.1                 | -          | 0.1            | -          |
| Other Alternatives       | 1.1            | 1.0          | 3.6            | -          | -1.5                | -          | -1.5           | -          |
| TOTAL POOLED MULTI ASSET | 0.1            | 0.1          | 4.8            | -          | 0.6                 | -          | 0.6            | -          |
| <b>TOTAL EX-PROPERTY</b> | <b>92.7</b>    | <b>93.0</b>  | <b>6.0</b>     | <b>6.0</b> | <b>2.5</b>          | <b>1.4</b> | <b>2.5</b>     | <b>1.4</b> |
| TOTAL PROPERTY           | 7.3            | 7.0          | 1.1            | 0.9        | 5.6                 | 6.6        | 5.6            | 6.6        |
| <b>TOTAL ASSETS</b>      | <b>100.0</b>   | <b>100.0</b> | <b>5.6</b>     | <b>5.6</b> | <b>2.6</b>          | <b>1.8</b> | <b>2.6</b>     | <b>1.8</b> |

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**London Borough of Hillingdon Pension Fund  
Adams Street Partners Update: Fourth Quarter 2011**

**Industry Update**

**Buyouts**

In 2011, financing was more readily available for high-quality deals than it had been in the prior two calendar years. Although transaction volume slowed in the second half as investors focused on macro-economic concerns, this has again begun to reverse itself in early 2012. Credit availability and pricing has differed depending on transaction size, with the largest buyouts generally commanding higher debt multiples than small or medium-sized deals. We expect our GPs to take advantage of the improved credit environment through investing efforts that balance access to financing with price, recognizing that there continues to be a significant amount of uninvested capital targeted for buyout transactions. After a couple years of limited appetite for mega buyouts, more pronounced fundraising efforts in that space resumed in 2011, although, in general, we continue to see more robust demand for small-to-mid sized buyout funds from the LP community. Investment returns from buyouts have been strong over the past couple of years. Performance gains have been driven largely by valuation improvements in the meaningful amount of unrealized investments made during the 2005-2007 vintage years as these portfolio companies continue to rebound from the challenges of the financial crisis. The pace of realizations and associated distributions from GPs worldwide steadily advanced in 2011, with notable examples in the fourth quarter including Endurance International and within the energy space, Liberty JV. The sale of Liberty had a particularly positive impact on performance as Adams Street portfolios had exposure through primary, secondary and direct co-investment strategies. Although early 2012 exit activity has slowed, this is not unusual as GPs tend to favor distributing capital to LPs before year end. The opportunities to realize gains associated with investments made in prior years continue to improve.

**Venture Capital**

The volume of global IPO activity was volatile in 2011, starting the year strongly before drying up in the third quarter and then ending the year with a collection of high-profile companies like Groupon, Zynga, Angie's List and Michael Kors, which all went public in the fourth quarter. During the first quarter of 2012, global IPO activity slowed compared to recent and historical measures. That said, the tone of the market has become more receptive. With a substantial backlog of filed S1s and a strong global equity market, the IPO market appears to be poised to turn a corner. Much of the demand in IPO activity has focused on technology companies engaged in social networking or mobile devices. The highly-anticipated Facebook IPO is expected to happen in late spring and may pull a number of additional companies in the IPO pipeline to market around the same time. While headlines have been focused on Facebook and its market debut, we, as investors, must remain diligent as we monitor valuations, especially in the aforementioned sub-segments of technology, which have higher valuations relative to other opportunities in venture space. Like buyouts, venture capital has generated strong investment performance over the past couple of years. This is due to a combination of improving company fundamentals, up rounds of follow-on financing and more realizations. We believe that many of our more fundamentally sound and established portfolio companies will receive attractive valuations and be afforded more exit opportunities either through the public markets or strategic acquisition.

**Portfolio Statistics as of December 31, 2011**

|                                   | Inception Date | Committed / Subscription | Drawn / Subscription | Drawn / Committed | Total Value / Drawn | IRR Since Inception* | Public Market | 4Q11 Gross IRR |
|-----------------------------------|----------------|--------------------------|----------------------|-------------------|---------------------|----------------------|---------------|----------------|
| <b>Total Hillingdon Portfolio</b> | <b>02/2005</b> | <b>98%</b>               | <b>73%</b>           | <b>74%</b>        | <b>1.12x</b>        | <b>6.00%</b>         | <b>0.08%</b>  | <b>5.34%</b>   |
| 2005 Subscription                 | 02/2005        | 100%                     | 82%                  | 82%               | 1.14x               | 6.11%                | 0.40%         | 4.95%          |
| 2006 Subscription                 | 01/2006        | 100%                     | 75%                  | 75%               | 1.08x               | 5.10%                | -0.01%        | 4.53%          |
| 2007 Subscription                 | 01/2007        | 100%                     | 64%                  | 64%               | 1.16x               | 9.91%                | 1.16%         | 4.08%          |
| 2009 Subscription                 | 01/2009        | 60%                      | 27%                  | 46%               | 1.14x               | 26.36%               | 4.14%         | 6.77%          |
| Direct Co-Investment Fund         | 09/2006        | 100%                     | 96%                  | 96%               | 0.97x               | 0.68%                | -2.71%        | -0.63%         |
| Co-Investment Fund II             | 01/2009        | 100%                     | 28%                  | 28%               | 1.56x               | 42.02%               | 4.90%         | 47.49%         |

\*Gross of client's management fees paid to Adams Street Partners, LLC.

Note: The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

**Main Drivers of Performance**

Our portfolios rebounded very nicely in the fourth quarter after a dip in the third quarter. Overall, 2011 was a very strong year with total distributions from our GPs reaching a record level. Across our Direct Funds, the fourth quarter saw mark-ups of 10% in aggregate, with the combined portfolio up 23% for the calendar year. A much-improved financing environment, combined with more receptive exit markets, has led to upward pressure on valuations, particularly in certain sectors. Those higher valuations bode well for existing portfolio investments but warrant caution when making new investments.

**Portfolio Outlook**

While from an economic standpoint the history of 2011 will be written as the tale of two halves, many are hopeful that the story of 2012 will be a steady and consistent global recovery. Although economic activity in the first half of 2011 was encouraging, the tide changed abruptly in mid-year. As we enter 2012, glimmers of economic stability are appearing and are being reflected in the continued rebound in risky asset prices worldwide. While concerns about the future sovereign debt issues remain, expectations seem to be moving in a more consistent, upward direction as fears of a global recession diminish.

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# Portfolio overview – Q1 2012



- ◆ Since the last report, net invested capital has remained unchanged as the underlying managers have returned the same amount as they have invested
- ◆ Distributions as a proportion of paid-in capital rose to 0.45x from 0.44x last quarter
- ◆ Total portfolio gains now amount to Euro 5.3 million, being Euro 19.9 million of NAV less Euro 14.5 million of net invested capital
- ◆ The USD weakened by 3% against the Euro in the period which had a minor negative effect on portfolio performance

| Q1 2012   | LBH Commitment |              |             | Net Performance (in millions of Euros) |            |             | Cash Multiple |            |            | Drawn |  |
|---|----------------|--------------|-------------|--|------------|-------------|---------------|------------|------------|-------|--|
|   | Drawn          | Returned     | Net         | NAV                                    | Gain       | D/PI        | TV/PI         | Gross      | Net        |       |  |
| Total Euro Exposure                                 | 32.7           | -10.0        | 11.7        | 15.9                                   | 4.2        | 0.46        | 1.20          | 66%        | 36%        |       |  |
| Euro equivalent Dollar Exposure @ 1.3329 USD / Euro | 6.2            | -1.9         | 2.8         | 3.9                                    | 1.1        | 0.40        | 1.23          | 78%        | 46%        |       |  |
| <b>Total Exposure (in Euro millions)</b>            | <b>38.8</b>    | <b>-11.9</b> | <b>14.5</b> | <b>19.9</b>                            | <b>5.3</b> | <b>0.45</b> | <b>1.20</b>   | <b>68%</b> | <b>37%</b> |       |  |
| Q4 2011   | 1.2949         | -11.2        | 14.5        | 19.6                                   | 5.1        | 0.44        | 1.20          | 66%        | 37%        |       |  |
| Q3 2011   | 1.3387         | -10.0        | 14.7        | 19.9                                   | 5.2        | 0.40        | 1.21          | 0%         | 38%        |       |  |
| Q2 2011   | 1.4510         | -9.1         | 14.4        | 18.8                                   | 4.4        | 0.39        | 1.19          | 61%        | 38%        |       |  |
| Q1 2011   | 1.4158         | -8.3         | 14.2        | 18.4                                   | 4.2        | 0.37        | 1.19          | 58%        | 37%        |       |  |
| Q4 2010   | 1.3384         | -7.3         | 14.6        | 17.5                                   | 2.9        | 0.33        | 1.13          | 57%        | 38%        |       |  |
| Q3 2010   | 1.3633         | -7.0         | 13.9        | 16.2                                   | 2.3        | 0.33        | 1.11          | 54%        | 36%        |       |  |
| Q2 2010   | 1.2257         | -5.9         | 13.8        | 15.5                                   | 1.7        | 0.30        | 1.08          | 50%        | 35%        |       |  |
| Q1 2010   | 1.3509         | -5.7         | 13.0        | 14.2                                   | 1.2        | 0.31        | 1.06          | 48%        | 34%        |       |  |
| Q4 2009   | 1.4341         | -5.4         | 13.0        | 13.6                                   | 0.7        | 0.29        | 1.04          | 48%        | 34%        |       |  |
| Q3 2009   | 1.4643         | -5.1         | 12.2        | 12.1                                   | 0.0        | 0.30        | 1.00          | 45%        | 32%        |       |  |
| Q2 2009   | 1.4033         | -4.9         | 12.0        | 12.3                                   | 0.2        | 0.30        | 1.02          | 44%        | 31%        |       |  |

Q1 figures as of 31 March 2012  
D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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**LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 December 2011**

| LBH PRIVATE EQUITY FUNDS                         | COMMITMENTS   |             | CALLED TO DATE |             | DISTRIBUTIONS |             | NET CURRENT   |             | IRR    |
|--|---------------|-------------|----------------|-------------|---------------|-------------|---------------|-------------|--------|
|  | BASE CURRENCY | % of Fund   | % of Fund      | % of Fund   | RECEIVED      | % of Fund   | INVESTMENT    | % of Fund   |        |
| <b>LGT CAPITAL PARTNERS</b>                      | £             | %           | £              | %           | £             | %           | £             | %           | %      |
|  | 000           |             | 000            |             | 000           |             | 000           |             | Mar 12 |
| Crown private Equity European Buyout Opport.     | 11,395        | 1.86        | 9,275          | 1.52        | 6,550         | 1.07        | 2,725         | 0.45        | 7.58   |
| Crown Global Secondaries Plc (US\$)              | 1,876         | 0.31        | 1,624          | 0.27        | 1,107         | 0.18        | 517           | 0.08        | 5.16   |
| Crown Private Equity European Fund               | 4,171         | 0.68        | 3,310          | 0.54        | 832           | 0.14        | 2,478         | 0.41        | 5.56   |
| Crown Private Equity European Buyout Opport. II  | 8,342         | 1.36        | 4,375          | 0.72        | 813           | 0.13        | 3,562         | 0.58        | 1.25   |
| Crown Asia-Pacific Private Equity Plc (US\$)     | 1,876         | 0.31        | 1,437          | 0.23        | 311           | 0.05        | 1,126         | 0.18        | 7.52   |
| Crown European Middle Market II plc              | 3,337         | 0.55        | 1,106          | 0.18        | 105           | 0.02        | 1,001         | 0.16        | 12.63  |
| Crown Global Secondaries II Plc (US\$)           | 1,376         | 0.22        | 920            | 0.15        | 194           | 0.03        | 726           | 0.12        | 29.87  |
| <b>TOTAL(S) LGT CAPITAL PARTNERS</b>             | <b>32,373</b> | <b>5.29</b> | <b>22,047</b>  | <b>3.60</b> | <b>9,912</b>  | <b>1.62</b> | <b>12,135</b> | <b>1.98</b> |        |
| <b>ADAMS STREET PARTNERS</b>                     | £             |             | £              |             |               |             |               |             | Dec 11 |
| Adam Street Partnership Fund - 2005 US Fund      | 8,756         | 1.43        | 7,328          | 1.20        | 2,026         | 0.33        | 5,302         | 0.87        | 6.16   |
| Adam Street Partnership Fund - 2005 Non-U.S Fund | 3,752         | 0.61        | 3,210          | 0.52        | 788           | 0.13        | 2,422         | 0.40        | 5.99   |
| Adam Street Partnership Fund - 2006 Non-U.S Fund | 2,814         | 0.46        | 2,084          | 0.34        | 217           | 0.04        | 1,867         | 0.31        | 4.36   |
| Adam Street Partnership 2006 Direct Fund         | 938           | 0.15        | 875            | 0.14        | 120           | 0.02        | 755           | 0.12        | 2.01   |
| Adam Street Partnership Fund - 2006 US Fund, L.P | 5,629         | 0.92        | 4,072          | 0.67        | 795           | 0.13        | 3,277         | 0.54        | 6.32   |
| Adams Street Direct Co-Investment Fund, L.P.     | 1,876         | 0.31        | 1,792          | 0.29        | 0             | 0.00        | 1,792         | 0.29        | N/A    |
| Adams Street Partnership 2007 Direct Fund LP     | 313           | 0.05        | 289            | 0.05        | 65            | 0.01        | 224           | 0.04        | 8.62   |
| Adams Street Partnership - 2007 Non -US Fund     | 1,094         | 0.18        | 659            | 0.11        | 63            | 0.01        | 596           | 0.10        | 4.93   |
| Adams Street Partnership - 2007 US Fund          | 1,720         | 0.28        | 1,133          | 0.19        | 303           | 0.05        | 830           | 0.14        | 12.92  |
| Adams Street Partnership - 2009 US Fund          | 938           | 0.15        | 279            | 0.05        | 0             | 0.00        | 279           | 0.05        | 28.21  |

|   |               |             |               |             |              |             |               |             |       |
|---|---------------|-------------|---------------|-------------|--------------|-------------|---------------|-------------|-------|
| Adams Street Partnership - 2009 Direct Fund           | 188           | 0.03        | 93            | 0.02        | 13           | 0.00        | 80            | 0.01        | 30.35 |
| Adams Street Direct Co-Investment Fund II.            | 1,564         | 0.26        | 481           | 0.08        | 199          | 0.03        | 282           | 0.05        | N/A   |
| Adams Street 2009 Non-US Emerging Mkt Fund            | 188           | 0.03        | 38            | 0.01        | 0            | 0.00        | 38            | 0.01        | -6.39 |
| Adams Street Partnership 2009 Non-US Developed Market | 563           | 0.09        | 140           | 0.02        | 0            | 0.00        | 140           | 0.02        | 22.07 |
| <b>TOTAL(S) ADAMS STREET PARTNERS FUNDS</b>           | <b>30,333</b> | <b>4.96</b> | <b>22,473</b> | <b>3.67</b> | <b>4,589</b> | <b>0.75</b> | <b>17,884</b> | <b>2.92</b> |       |

|   |                |       |
|---|----------------|-------|
| <b>FUND VALUE</b>                               | <b>611,818</b> |       |
| <b>COMMITMENT STRATEGY TO ACHIVE INVESTMENT</b> | 53,534         | 8.75% |
|   | 30,591         | 5.00% |
| <b>CURRENT INVESTMENT BOOK COST</b>             | 30,019         | 4.91% |
| <b>CURRENT INVESTMENT MARKET VALUE</b>          | 37,073         | 6.06% |

# Investor Update

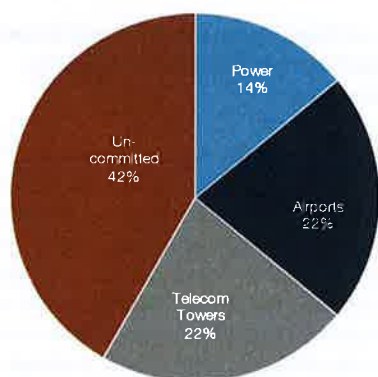
03 April 2012

We are pleased to present to you the Macquarie SBI Infrastructure Fund ("MSIF" or "the Fund") Investor Update for the period from the date of the last Quarterly Investor Report, being 10 February 2012 ("Last Reporting Date") to 03 April 2012. This update provides an overview of the Fund's activities in the intervening period between two consecutive quarterly investor reports and is intended to supplement regular discussions with our investors and other stakeholders.

## MSIF Snapshot

|                                       |                    |                               |           |
|---------------------------------------|--------------------|-------------------------------|-----------|
| <b>Total commitments:</b>             | USD 910 m          | <b>Assets in portfolio:</b>   | 5         |
| <b>Capital drawn:</b>                 | USD 514.0m (56.5%) | <b>Total deals evaluated:</b> | 99        |
| <b>Capital committed<sup>1</sup>:</b> | USD 529.8m (58.2%) | <b>Active deals:</b>          | 3         |
| <b>Uncommitted capital:</b>           | USD 380.2m (41.8%) | <b>Active deals value:</b>    | USD 350 m |

## MSIF Portfolio<sup>1</sup>



| Sector                         | Investment   | Commitment USD m |
|--------------------------------|--------------|------------------|
| Power                          | Adhunik      | 21.5             |
|                                | MB Power     | 86.6             |
|                                | Soham        | 19.5             |
| Airports                       | GMR Airports | 200.0            |
| Telecom Towers                 | Viom         | 202.2            |
| <b>Total Capital Committed</b> |              | <b>529.8</b>     |
| <b>Capital Uncommitted</b>     |              | <b>380.2</b>     |

## Asset Management Update

At the beginning of February 2012, the Supreme Court of India ordered the cancellation of 122 2G telecom licenses allocated to telecom operators in 2008 due to irregularities in the process followed for the issuance of these licenses. Some of Viom Network's customers, most significantly Uninor, were impacted by the cancellations. The Manager is in the process of evaluating the impact of the impending cancellations on the valuation of Viom Networks in MSIF's portfolio. Based on preliminary analysis, the Manager expects a reduction in the valuation of Viom as at 31 March 2012.

The Manager is working with the Board of Viom to monitor key operational and financial developments within the company, as well as introducing several initiatives aimed at strengthening the operations and financial position of the company. This includes a focus on receivables management, operating expenditure management, hiring of the Chief Executive Officer, resolution of customer disputes and management of working capital. A detailed update on the 2G license cancellations, the resulting valuation impact on MSIF's portfolio and the initiatives being undertaken will be provided in the next quarterly Investor Report.

1. Based on amounts committed to assets (converted at exchange rates used at the time of financial closure), excluding transaction costs.

## Transaction Pipeline

At the time of preparing this update, the Manager is actively pursuing **three transactions** with a total investment value of approximately **USD 350 million**. A brief description of each of the active opportunities is provided below.

**Project Sonaka** is an opportunity to invest USD 140 million to acquire a significant minority stake in a roads holding company. The Company has three operational roads and five roads under development, which are expected to be operational within the next three years. The Manager executed a term sheet with the Promoter in February 2012 which, in addition to revised commercial terms, also includes an exclusivity period during which due diligence and closure may occur. The Manager has started Phase I of its due diligence, which includes a traffic study on the 8 roads. Based on findings from Phase I of due diligence, the Manager will consider approaching its Investment Committee with a proposal to carry out Phase II of the due diligence by mid-April 2012.

**Project Transco** is an opportunity to invest USD 100 million to acquire a significant minority stake in a holding company currently developing a USD 1.1 billion power transmission project. The project involves construction and operation of 1,600 km of high voltage transmission lines. The Company is also bidding for secondary acquisition opportunities, which may require additional equity in the future amounting to USD 200-250 million. A non-binding term sheet is likely to be executed in the near future subject to satisfactory resolution of a small number of key items.

**Project Acme** is an opportunity to acquire two NHAI roads (each approximately 80 Kms long) located near Bengaluru city in South India for USD 110 million. Construction on both roads is almost complete with commercial operations expected to commence within 60-90 days. The Manager's negotiations with the Promoter are on a non-exclusive basis and involve three other potential investors. The Manager has conducted limited traffic due diligence and based on the findings has recently submitted a non-binding offer. The offer is subject to further due diligence on accounting, tax, legal and other areas.

The Manager is also considering further acquisition of operational roads as "bolt-ons" to the Acme initial portfolio. One such opportunity is currently being pursued (early stage).

**Project Enzo** was an opportunity to invest into a company with a portfolio of 11 roads under various stages of development. A non-binding term sheet was executed in mid October 2011. Detailed traffic due diligence was conducted on two of the operational roads along with a preliminary review of the remaining nine roads. The valuation of the portfolio was significantly lower than initially expected based on revised traffic assumptions. The Manager and the

Promoter could not agree on the revised downward valuation and hence the Manager is no longer actively pursuing this opportunity. Total due diligence incurred by the Fund with respect to this opportunity was USD 31,000.

## Investment Environment

India's gross domestic product ("GDP") growth rate dropped to 6.1% for the quarter ended December 2011, compared to a growth rate of 6.9% and 7.7% respectively for the previous two quarters. This is the Indian economy's lowest rate of growth in over three years. The worst performing sector was manufacturing (0.4% growth in the current quarter against 7.8% in the corresponding period last year).

The Union Budget of India was presented in the Indian Parliament on 16 March 2012 and introduced certain measures that have negative implications on the foreign investment climate for India. Relevant highlights include:

- Introduction of General Anti Avoidance Rule ('GAAR') to counter aggressive tax avoidance schemes;
- Introduction of provisions to cover all direct and indirect transfer of shares/ assets of Indian companies under the Indian tax net with retrospective effect (a follow on from the Vodafone judgement); and
- Introduction of Advance Pricing Agreements ("APA"), where the Central Board of Direct Taxes, would be empowered to enter into an APA with any person to determine the arm's length price of an international transaction. The APA would be legally binding on the both the taxpayer and the income tax authorities.

The Manager is working through steps it needs to take to minimize any negative impact on the Fund from the measures described above.

Inflation rates (measured by the monthly Wholesale Price Index) edged up for the first time in five months in February 2012 to 6.95% from a year earlier. With inflation continuing to be higher than the Reserve Bank of India's ("RBI") comfort level and to ease the liquidity crunch impacting the economy, the RBI cut the cash reserve ratio ("CRR") by 0.75% earlier in March. This is expected to result in an additional USD 9.4 billion approximately of liquidity being made available. It is widely expected that RBI will cut interest rates in the coming months to stimulate growth. Meanwhile, listed Indian equities have seen robust net capital inflows of USD 9 billion<sup>2</sup> from foreign institutional investors in 2012 to date.

The Manager's assumptions in evaluating an investment opportunity are conservative and reflect the current economic environment such as lower GDP growth rates and higher interest rates. The Manager expects this to result in valuation mismatches with promoters resulting in protracted negotiations before any transaction achieves closure.

2. Up to 28 Mar 2012



### Summary of Key Economic and Financial Market Data


|   |                              |  |                    |
|---|------------------------------|--|--------------------|
| GDP Growth Forecast (March 2013) <sup>1</sup> | 7.30% (-)                    | Risk Free Rate <sup>1,3</sup>                | 8.31% (↓0.19)      |
| Exchange Rate (INR/USD) <sup>2</sup>          | 51.1565 (3.0% <sup>5</sup> ) | Inflation Forecast (March 2013) <sup>1</sup> | 7.30% (-)          |
| RBI policy rates <sup>2</sup>                 |                              | Base Rate <sup>2</sup>                       | 10.00% -10.75% (-) |
| - Repo rate                                   | 8.50% (-)                    | BSE Sensex <sup>4</sup>                      | 17,404.20 (↓1.9%)  |
| - Reverse repo rate                           | 7.50% (-)                    |  |                    |


1. Macquarie Capital and Consensus Economics forecasts as at 29 February 2012; 2. Reserve Bank of India as at 2 April 2012, [www.rbi.org.in](http://www.rbi.org.in); 3. Risk free rate is calculated as the average of the annualised closing yields on the 10-year government bond rates over the last three months; 4. [www.bseindia.co.in](http://www.bseindia.co.in) as at 2 April 2012; 5. Represents depreciation in INR against USD.

### Contacts

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The Manager's obligations do not represent deposits or other liabilities of State Bank of India, any of its associates or subsidiaries. State Bank of India, any of its associates or subsidiaries do not guarantee or otherwise provide any assurance whatsoever in respect of the obligations of the Manager.

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## RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR

|                                |                            |
|--------------------------------|----------------------------|
| <i>Contact Officers</i>        | Ken Chisholm, 01895 250847 |
| <i>Papers with this report</i> | Nil                        |

### SUMMARY

This report summarises the number of Early Retirements in the year 2011/2012. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

### RECOMMENDATIONS

**That the contents of the report be noted.**

### EARLY RETIREMENT PERFORMANCE STATISTICS

At Committee Meeting on 25<sup>th</sup> June 2008 it was agreed that as there was no statutory requirement to report figures against the previous BVPI 14 & BVI 15 targets, local performance indicators would be recorded and presented to Committee.

New performance indicators relevant to the revised Performance Indicators will be reported in all future reports to the Committee.

#### Number of Cases in the year ending 31 March 2012

The table below shows the number of employees, by category, whose LGPS benefits have been put into payment. In the case of redundancy and efficiency this relates to employees over 55 years of age.

|                  | Redundancy | Efficiency | Ill Health | Voluntary over 60 |
|------------------|------------|------------|------------|-------------------|
| 2007/2008        | 14         | 2          | 6          | 36                |
| 2008/2009        | 19         | 3          | 24         | 29                |
| 2009/2010        | 26         | 0          | 12         | 37                |
| 2010/2011        | 20         | 0          | 11         | 34                |
| <b>2011/2012</b> | 65         | 0          | 12         | 24                |
|                  |            |            |            |                   |

From 1<sup>st</sup> April 2008, employees retired on the grounds of permanent ill health, will be subject to the “New Scheme” assessment by the Occupational Health Practitioner. There are 3 tiers of enhancement, and these are:-

- There is no reasonable prospect of the employee obtaining gainful employment\* before reaching normal retirement age (age 65). In these cases service is awarded up to age 65

- The employee cannot obtain gainful employment\* within a reasonable period\*\* of leaving local government employment\*\*\*, it is likely that they will be able to obtain gainful employment\* before their normal retirement age (age 65). In these cases 25% of their potential service to age 65 is awarded.
- The employee may be capable of obtaining gainful employment\* within a reasonable period\*\* of leaving local government employment\*\*\*. In these cases no additional award of service is applied. The benefits payable are subject to the individual undergoing a medical review after 18 months to ascertain whether the medical condition is such that the employee is still unable to perform the duties of their previous employment. The maximum period that a third tier pension may be paid is 3 years. When the 3 year period has expired the pension will cease. Upon the employee attaining the age of 65, the pension is brought back into payment.

Note: \* gainful employment is defined as paid employment for not less than 30 hours in each week for a period of not less than 12 months.

\*\* reasonable period is defined as 3 years.

\*\*\* the term local government employment is used to indicate that the employee a member of the Local Government Pension Scheme, not that they work for a local authority.

The Local Government Pension Scheme Regulations 2008 introduced a protection for employees aged 45 and over who were members of the LGPS as at 31<sup>st</sup> March 2008. The protection ensures that any benefits paid as the result of ill health retirement are at least the same level as any potential benefits under the new regulations.

## **EARLY RETIREMENT COSTS MONITOR**

As a result of a key recommendation by the Audit and Accounts Commission, local authorities were advised to calculate and monitor early retirement costs as they occurred within the LGPS between formal triennial valuations.

The Audit Commission recommended that each administering authority should ask their actuary to provide them with methods for determining early retirement costs. Our actuary, Hymans Robertson, consulted with other actuarial firms to agree a national approach. Our software provider subsequently programmed this into our 'Axis' pension system. As a result, the costs to the fund are automatically calculated each time an early retirement is processed.

This authority took the decision, in agreement with the fund actuary, to increase the employer's contribution rates as prescribed in the last valuation by 1%, effective from 1 April 2011, to meet anticipated early retirement costs. This 1% employer's contribution is locked in to the rate until March 2014.

This report is brought to committee quarterly to report on how the actual costs of early retirements compare to the 1% employer payment, over the 3 year valuation period.

## **MONITOR**

Detail for Valuation Period 01.04.2011 to 31.03.2014

|  | <b>Capital Cost of early retirement to the fund</b> | <b>Payroll Total</b> | <b>Cost as a % of payroll</b> |
|--|---|----------------------|-------------------------------|
| 2011/2012                              | £1,107,819  | 110,136,000          | 1.01                          |
|  |   |                      |                               |
|  |   |                      |                               |
| Average over previous valuation period |   |                      | 0.59                          |

## **FINANCIAL IMPLICATIONS**

The cost to the pension fund of early retirements on the grounds of ill health, is recorded by the pensions administration system and reported to the scheme Actuary. The cost includes the benefits being paid before the employees normal retirement date and any period of service awarded. Depending on which tier the retirement falls in to, determines the length of service to be awarded. Details of the service to be awarded against each Tier are shown above. All Employers within the fund have a notional budget built in to their Employers Contribution Rate to fund ill health retirements. If the notional figure is exceeded, this will result in an increase to that Employers Contribution Rate, at the next valuation of the fund.

## **LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

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## PENSION FUND OUTTURN 2011 - 2012

|                         |                             |
|-------------------------|-----------------------------|
| Contact Officers        | Nancy le Roux, 01895 250353 |
| Papers with this report | None                        |

### SUMMARY

Although not explicit within the Terms of Reference of the Pensions Committee, as part of its role in governance of the pension fund, the Committee has responsibility to oversee the annual budget for the operation of the Pension Fund and to member monitor income and expenditure. This report is being put before the Committee to enable them to fulfil this responsibility and to explain the outturn position for the 2011/12 budget.

### RECOMMENDATION

**It is recommended that committee note the budget outturn position for the 2011/12 financial year.**

### BUDGET OUTTURN 2011/12

As explained previously, preparing a budget for the Pension Fund is complex and the investment areas are very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. However, there is a need to monitor member income and expenditure and the overall "Surplus/Deficit from Operations".

Total member income at the end of the 2011/12 year was £790k less than during 2010/11. This fall can be largely attributed to falling staff numbers as a result of the Council's implementation of its savings programme, with the highest level of savings being delivered in 2011/12.

Member's expenditure was £1,759k higher than 2010/11 levels. The most significant element of this related to the higher level of pension payments, of which £837 was as a result of the 3.6% pensions increase. Both pension payments and lump sum retirement benefits were impacted by the high number of staff retiring on the grounds of redundancy. However the rising age of the workforce also had an impact as an additional 191 members having pensions brought into payment. A full analysis of the scheme membership will be done shortly to map out the impact over the coming year.

Net administration expenditure increased from last year by £14k. The increase results from an increase in the number of staff in the administration team and a strengthening in the governance arrangements for the fund. (Some of these costs haven reclassified, hence the change in presentation although this did not impact on the bottom line.)

Overall there is a deficit of £2,045k from operations, an increase of £2.5m form 2010/11, due to the increase number of members now claiming pensions and the fall in member income. Further work will now be undertaken to profile this over the coming months to

quantify the impact on the fund and to plan any resulting cash management requirements and this further analysis will be reported to Committee.

## **FINANCIAL IMPLICATIONS**

As part of the governance responsibilities for the Pensions Committee they are required to approve and monitor an annual budget for the Fund. The management of the Pension Fund, including the setting of the budget, ensures that the Pension Fund is managed in an efficient and cost effective way. Poor management of the finances of the Pension Fund would lead to increased costs which would need to be reflected in higher contributions being paid by employers in the Pension Fund.

## **LEGAL IMPLICATIONS**

There are no legal implications in this report.



**Pension Fund Budget 2011/12**

| <b>September 2011</b>                    | <b>2010-11<br/>Actual</b> | <b>2011-12<br/>Actual<br/>M12</b> | <b>Variance</b> |
|--|---------------------------|-----------------------------------|-----------------|
| <b>Member Income</b>                     |                           |                                   |                 |
| Employers Contributions                  | 22,688                    | 22,520                            | (168)           |
| Employees Contributions                  | 8,357                     | 8,000                             | (357)           |
| Transfer Values Receivable               | 3,968                     | 3,703                             | (265)           |
| <b>Net Member Income</b>                 | <b>35,013</b>             | <b>34,223</b>                     | <b>(790)</b>    |
| <b>Member Expenditure</b>                |                           |                                   |                 |
| Pension Payments                         | (23,243)                  | (24,873)                          | (1,630)         |
| Lump Sum Retirement Benefits             | (5,850)                   | (6,441)                           | (591)           |
| Lump Sum Death Benefits                  | (991)                     | (693)                             | 298             |
| Refunds of Contributions                 | (8)                       | (8)                               | 0               |
| State Scheme Premiums                    | (2)                       | 2                                 | 4               |
| Transfer Values Payable                  | (3,663)                   | (3,503)                           | 160             |
| <b>Net Member Expenditure</b>            | <b>(33,757)</b>           | <b>(35,516)</b>                   | <b>(1,759)</b>  |
| <b>Net Member Surplus</b>                | <b>1,256</b>              | <b>(1,293)</b>                    | <b>(2,549)</b>  |
| <b>Administration Expenditure</b>        |                           |                                   |                 |
| Pensions Administration                  | (344)                     | (673)                             | (329)           |
| Miscellaneous Costs                      | (108)                     | (3)                               | 105             |
| Investment Administration                | (286)                     | (76)                              | 210             |
| <b>Net Administration Expenditure</b>    | <b>(738)</b>              | <b>(752)</b>                      | <b>(14)</b>     |
| <b>Surplus/(Deficit) from Operations</b> | <b>518</b>                | <b>(2,045)</b>                    | <b>(2,563)</b>  |

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## PENSIONS ADMINISTRATION PERFORMANCE

Contact Officers

Nancy Leroux, 01895 250353

Papers with this report

Nil

### SUMMARY

This report summarises the key work areas of the pension's administration section for each month during the period 1 January 2012 to 31 March 2012. Performance has previously been reported quarterly, however, to improve transparency and to review trends this has been done monthly for this report. The local targets shown are within the nationally agreed targets for England and Wales. Previous full year performance data is included in the Annual Report for the fund. All data shown is extracted from the London Borough of Hillingdon Pensions Administration System.

### RECOMMENDATION

**That the contents of the report be noted.**

### Background

From September 2010, Pensions Administration was combined with Payroll under a single manager. The performance report below shows the monthly performance for the last quarter of 2011. The monthly performance indicator reports are sent to officers in HR responsible for the day to day administration of the scheme. Current monthly performance is being closely monitored.

From 1 April 2012 CAPITA Hartshead has been managing the Pensions Administration contract and so, going forward, this report will be amended to include details of the administration contract in addition to administration performance.

## PENSIONS ADMINISTRATION PERFORMANCE

| WORK AREA   | Hillingdon<br>Target | Jan 2012    |                         | Feb 2012    |                         | Mar 2012    |                         |
|---|----------------------|-------------|-------------------------|-------------|-------------------------|-------------|-------------------------|
|   |                      | Total Cases | Percentage in<br>target | Total Cases | Percentage in<br>target | Total Cases | Percentage in<br>target |
| Condolence Letter   | 2 Days               | 22          | 95.45%                  | 8           | 100.00%                 | 18          | 100.00%                 |
| Actual Retirement Benefits<br>Letter notifying Dependants<br>Bens | 5 Days               | 24          | 79.17%                  | 14          | 85.71%                  | 12          | 75.00%                  |
| Process Refund  | 5 Days               | 8           | 75.00%                  | 4           | 100.00%                 | 3           | 33.33%                  |
| Transfers in Actual   | 5 Days               | 0           | N/A                     | 2           | 100.00%                 | 0           | N/A                     |
| Transfers in quote  | 5 Days               | 6           | 33.33%                  | 6           | 83.33%                  | 1           | 0.00%                   |
| Answer General Letter   | 5 Days               | 6           | 50.00%                  | 2           | 50.00%                  | 4           | 100.00%                 |
| Calc/Notify Deferred  | 7 Days               | 81          | 100.00%                 | 70          | 100.00%                 | 51          | 100.00%                 |
| Estimate of Retirement<br>Benefits                                | 10 Days              | 13          | 30.77%                  | 10          | 60.00%                  | 2           | 0.00%                   |
| Transfers Out Quote   | 10 Days              | 49          | 91.84%                  | 79          | 92.41%                  | 28          | 78.57%                  |
| Transfers Out Actual  | 5 Days               | 1           | N/A                     | 9           | 77.78%                  | 4           | 50.00%                  |
| New Entrants  | 9 Days               | 2           | 100.00%                 | 1           | 100.00%                 | 1           | 100.00%                 |
| Answer ABS Query  | 20 Days              | 54          | 100.00%                 | 32          | 93.75%                  | 31          | 96.77%                  |
| Added Years   | 10 Days              | 1           | 0.00%                   | 0           | N/A                     | 0           | N/A                     |
|   | 10 Days              | 0           | N/A                     | 0           | N/A                     | 0           | N/A                     |
| <b>TOTALS</b>   |                      | <b>267</b>  | <b>88.76%</b>           | <b>237</b>  | <b>92.41%</b>           | <b>155</b>  | <b>89.03%</b>           |
| Redundancy Under 55   | 5 Days               | 0           | N/A                     | 4           | 25%                     | 2           | 50.00%                  |

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PART I - MEMBERS, PRESS & PUBLIC

## GOVERNANCE ISSUES

Contact Officers

Nancy Leroux

Papers with this report

None

### SUMMARY

This report is to provide an update on Pension Fund Governance issues. The report covers the transfer of pensions' administration to CAPITA Hartshead from 1 April 2012, and an update on the current position regarding the proposed new LGPS from 1 April 2014.

### RECOMMENDATIONS

**That the contents of the report be noted**

### INFORMATION

#### 1. Transfer of Pensions Administration to Capita Hartshead

The pensions' administration function transferred to CAPITA Hartshead on 1 April 2012.

Following the transfer a few issues were raised by scheme members regarding the service provided by CAPITA Hartshead. These issues have been discussed with the Client Manager and CAPITA Hartshead has undertaken further training for their staff.

At the first client meeting CAPITA submitted a project improvement plan which will be monitored on a weekly basis. Service provision has improved noticeably over the last few weeks and CAPITA are confident that they will be able to maintain this improvement. A quarterly report on administration performance, based on the service provided by CAPITA Hartshead, will be brought to Committee.

An officer forum, consisting of officers representing each authority in the framework is due to meet in July to discuss any cross cutting and relevant issues. The output from that meeting will then be followed up with CAPITA.

#### 2. Scheme Developments

On 31 May 2012 proposals for the new LGPS were announced. The proposals resulted from the joint working group consisting of LGA, GMB, UNISON and Unite.

The main proposed provisions of the LGPS 2014 scheme are:

- benefits will accrue at the rate of 1/49 per annum
- the scheme will be a Career Average Revalued Earnings (CARE) scheme
- contributions be banded with the revised bandings set between 5.5% and 12.5%
- retirement age will be aligned with State Retirement Age

- a '50/50' option which will enable members to pay half their normal rate of contribution and in return build up half pension during that period
- death in service lump sum of three times salary.

Once details are agreed further reports will be brought to Committee.

### **3. Risk Report**

A review of the pension fund risks was undertaken at the end of the quarter and there are no changes to report to Committee.

### **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising directly from the report.

### **LEGAL IMPLICATIONS**

There are no direct financial implications arising directly from the report.

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