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HILLINGDON
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Pensions Committee

Date: **WEDNESDAY, 12 DECEMBER 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
David Simmonds

Advisory Members

John Holroyd
Andrew Scott

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Contact: Khalid Ahmed
Tel: 01895 250833
Fax: 01895 277373
Email: kahmed@hillingdon.gov.uk

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Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
3E/05, Civic Centre, High Street, Uxbridge, UB8 1UW
www.hillingdon.gov.uk

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Useful information

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This Committee

To discharge the functions of the Pensions Committee aimed at improving market governance across the Pension Fund and the operational effectiveness of Investment Strategy.

Terms of Reference

The Constitution defines the terms of reference of the Pensions Committee as:

1. To maintain a business plan for its activity and evaluates progress against this plan.

2. To monitor financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework, and reports any issues or breaches to the Pension Committee.

3. To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Sub-Committee has delegated authority to:

- Increase or decrease the allocation to equities, bonds or property
- Increase or decrease the amounts / proportions of assets in manager mandates
- Increase or decrease the level of currency hedging in place
- Select investments for, or dispose of existing investments in, the "opportunity fund" (5% of assets), using the feeder fund.

4. To consider the framework for the allocation of new money among managers. Similarly, in the event that assets need to be realised, the Sub-Committee also considers this matter.

5. To formally review annually the mandates of the managers, and their adherence to their expected investment process and style. This ensures that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.

6. To consider the need for any changes to the investment managers' mandates (e.g. in relation to continuing appropriateness of benchmarks and operating guidelines).

7. To consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) and makes recommendations to the Pension Committee.

8. In the event of a proposed change of managers, to evaluate the credentials of potential managers. To make recommendations to the Pension Committee in respect of any change of managers.

9. To monitor the investment advice from their investment consultant and investment adviser at least annually. To also review their own decision making process at the same time.

10. To be responsible for maintenance of the Fund’s Statement of investment Principles (SIP).

11. To carry out any additional tasks delegated to it by the Pension Committee.

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

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Minutes

PENSIONS COMMITTEE

19 September 2012

Meeting held at Committee Room 3a - Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

	Committee Members Present: Councillors Richard Lewis (Vice Chairman), Josephine Barrett, Beulah East, Neil Fyfe and Raymond Graham **Advisory Members/Co-optee Members Present:** John Holroyd **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Harry Lawson, Nancy LeRoux, Paul Whaymand, Danielle Watson and Nikki O'Halloran **Also Present:** Advisors - John Hastings and Scott Jamieson External Audit Deloitte - Heather Bygrave and Mark Browning	
15.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Councillors Philip Corthorne (Chairman), Janet Duncan, Paul Harmsworth (Labour Lead) and David Simmonds. Councillors Josephine Barrett, Beulah East and Neil Fyfe were present as substitutes.	**Action by**
16.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Barrett and John Holroyd declared a pecuniary interest in all agenda items, in that they were members of the Local Government Pension Scheme, and remained in the room during the consideration thereof. Councillor Lewis declared a pecuniary interest in all agenda items, in that he was a member of the Local Government Pension Scheme and had links to the corporate side of UBS, and remained in the room during the consideration thereof.	**Action by**
17.	**MINUTES OF THE MEETING - 20 JUNE 2012** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting held on 20 June 2012 be agreed as a correct record.**	**Action by**
18.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)*	**Action by**

	RESOLVED: That Agenda Items 5 to 9 be considered in public and Agenda Items 10 to 11 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.	
	PART II - MARATHON PRESENTATION The Committee received a presentation from Mr Graeme Neuff and Mr Neil Ostrer from Marathon Asset Management. **RESOLVED: That the presentation be noted.**	
19.	**REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND** *(Agenda Item 5)* Consideration was given to the report on the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 30 June 2012. The total value of the fund's investments was £602m. Although the previous year had been challenging for the markets, Members were advised that, at the end of August 2012, the Fund's value had increased to around £612m. **RESOLVED: That the report be noted.**	**Action by**
20.	**EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS** *(Agenda Item 6)* Consideration was given to the report which summarised the findings of the External Auditor on the audit of the 2011/2012 Pension Fund Annual Report and Accounts. It was noted that key findings included: • An adjustment to increase deficit contributions and decrease normal contributions by £0.2m to address the risk surrounding the identification, calculation and payment of contributions; • Work had been completed with no issues identified in relation to benefits; • An adjustment of £467k was posted to correct the over valuation of the assets held by LGT Partners; and • There were no concerns in relation to the management override of controls. Members were advised that an unmodified audit opinion was anticipated. **RESOLVED: That:** **1. the auditor's findings be noted; and** **2. the Annual Report of the Pension Fund be approved.**	**Action by**
21.	**RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR** *(Agenda Item 7)* Consideration was given to the report which summarised the number of early retirements in the year 2012/2013. The report also provided Members with an update on the current situation on the cost to the fund	**Action by**

	of early retirements. **RESOLVED: That the report be noted.**	
22.	**PENSIONS ADMINISTRATION PERFORMANCE** *(Agenda Item 8)* Consideration was given to the report which summarised the pension administration performance across key areas of work for the period 1 April 2012 to 30 June 2012. It was noted that performance targets were agreed as part of the service level agreement with Capita and conformed to national targets set for England and Wales. Members were advised that, since Capita Hartshead took over pensions administration on 1 April 2012, representatives from the organisation had been meeting on a monthly basis with the Corporate Pensions Manager to monitor performance against the service level agreement. It was noted that the 5 year contract included a performance standard of 100% which meant that, if Capita achieved less than 100%, it would be subject to an underperformance 'claw back' arrangement. This underperformance arrangement would be reviewed each year. Although there had initially been a number of minor transitional issues, Capita had been quick to put measures in place to satisfactorily address any problems that had arisen. Members were advised that the pension fund would next be valued on 31 March 2013 – it had been approximately 2½ years since the last valuation. The results of this valuation were likely to be presented by the actuary in December 2013 and, although it was anticipated that there would be a drop in funding levels since 2010, Members were advised that this was a long term fund and that potential deficits would not need to be recovered over a short period. **RESOLVED: That the report be noted.**	**Action by**
23.	**GOVERNANCE ISSUES** *(Agenda Item 9)* Consideration was given to the report which provided an update on Pension Fund Governance issues. It was noted that, over the last quarter the Governance Policy Statement and the Funding Strategy Statement had been updated and required approval from the Committee. **RESOLVED: That the Committee:** **1. approves the revised Governance Policy Statement;** **2. agrees the amendments to the Funding Strategy Statement; and** **3. notes the other items in the report.**	**Action by**

24.	**REPORT FROM INVESTMENT SUB COMMITTEE & UPDATE ON INVESTMENT STRATEGY** *(Agenda Item 10)* This item was discussed as a Part II 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).	**Action by**
25.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** *(Agenda Item 11)* This item was discussed as a Part II 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).	**Action by**
	The meeting, which commenced at 5.30 pm, closed at 6.58 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nikki O'Halloran on 01895 250472. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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 30 September 2012. The total value of the fund's investments as at the 30 September was £618.8m. This represents an increase of £16.8m over the value of fund's assets at the end June 2012.

RECOMMENDATION

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

1. INFORMATION

The performance of the Fund for the quarter to 30 September 2012 showed an outperformance of 0.03%, with a return of 2.64% compared to the benchmark of 2.61%. All Managers except SSgA (Drawdown portfolio) outperformed or matched their relative benchmark during the quarter. One year figures show returns of 9.80%, an underperformance of (0.93)%.

Performance Attribution Relative to Benchmark

	Q3 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
UBS	5.75	18.95	6.65	2.37	9.64
UBS Property	0.43	2.96	7.91	(4.01)	(0.90)
SSgA	3.77	14.53	7.44	-	12.62
SSgA Drawdown	1.73	4.45	4.03	-	5.21
Ruffer	1.06	3.68	-	-	3.83
M&G	4.19	5.21	-	-	4.58
Marathon	4.34	20.02	-	-	9.31
JP Morgan	2.41	-	-	-	6.08
Total Fund	**2.64**	**9.80**	**6.55**	**0.91**	**6.32**

Market Commentary

Equity markets performed fairly well over the third quarter of 2012 with most major markets showing gains on the back of losses for the second quarter of 2012.

Reports show the US market slowing to a growth rate of just over 1% for the year compared with an annualised rate of 3.0% for Q4 2011. Despite this and other weak economic data, the markets continued to advance to reach multi-year highs with low levels of volatility. The market advances are largely a result of additional stimulus in the form of QE3 from the Fed. Unlike QE1 and QE2, QE3 does not have a fixed term or a targeted total dollar amount and the open-ended nature has provided the flexibility and commitment markets had hoped for.

The European sovereign debt crisis continued to bounce from one country to the next with economic growth in the region being at record lows. In spite of the continuing weakness of peripheral European Union countries, the Eurozone markets performed well compared with the prior quarter albeit with a higher level of volatility. The strong performance of the European markets comes on the back of ECB's announcement to support bond prices through an unlimited buying program in an attempt to ease the ongoing challenges in the region.

Emerging markets performed relatively well, with the strongest gains coming from emerging European countries. In addition to the monetary easing measures announced in developed markets, several economic stimulus packages were unveiled in emerging markets including:

- China's $157 billion infrastructure commitment
- Brazil's $66 billion infrastructure program
- South Korea's $5.2 billion stimulus package

In addition to the stimulus measures, the major emerging economies including China, Brazil, Taiwan and South Korea all cut interest rates to spur economic growth.

2. MANAGER PERFORMANCE

2.1 Manager: JP Morgan

Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have outperformed since inception (Nov 2011) by 2.53% and in the quarter under review, outperformed by 1.48 % with a return of 2.41 % against benchmark return of 0.93%.

2.2 Manager: M&G

Performance Objective: The investment objective of the Prudential/M&G UK Companies Financing Fund LP is to seek to maximise returns consistent with prudent investment management. The Fund aims to provide an absolute return of Libor +4% (net of fees). Additional returns may be achieved through equity participation or success fees.

Approach: The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market.

Performance
Over the third quarter of 2012, M&G investments more than made up for the previous period's results with figures of 4.19% versus 1.17% for the 3 Month LIBOR +4% p.a. target. For one year the returns now stand at 5.21% against 4.99%, whilst since inception at the end of May 2010, the portfolio registers a 4.58% pa return against the benchmark of 4.89% pa, underperforming by (0.31)%. The since inception Internal Rate of Return for this portfolio is now ahead of the target with a figure of 5.27% opposed to the comparator of 5.12%.

2.3 Manager: MARATHON (Assets transitioned during October)
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
Performance: In the 3rd quarter Marathon investments grew 4.34%, which was 0.57% above the MSCI World index return of 3.77%. This continues the run of all three quarters of 2012 beating the index, meaning for the year to date and 1 year outperformance of 5.75% and 3.22% respectively is the highest seen from all mandates. This coupled with the results in Q3 2010 means since inception (June 2010) they beat the index by 1.90%, returning 9.31% pa against 7.27% pa benchmark.

2.4 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 believe are central to absolute return investing which are to be agnostic about market direction and also to remove market timing from the portfolio.
Performance: The Ruffer portfolio returned 1.06% during the quarter and against the return of 0.26% for LIBOR 3 Month GBP delivers an outperformance of 0.80%. This partly

offsets the previous quarter and means that the year to date and 1 year numbers are now ahead of target. This culminates in a since inception return from May 2010 of 3.83% pa, which translates as an excess return of 2.96% against the benchmark of 0.87% pa.

2.5 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.
Performance:
The SSGA passively managed portfolio produced a return of 3.77% in the quarter to match the benchmark; further analysis confirms the passive nature with both allocation and performance aligned with the neutral position. This improves the year to date to 7.32%, which is still just behind target of 7.40%, while over one year the return increases further to 14.53%, also just below the benchmark of 14.63%. Positive absolute performance in line with the benchmark is seen in longer periods; with the since inception return of 12.62% pa only 0.06% above the benchmark.

2.6 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.
Performance:

	Q3 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	5.75	18.95	6.65	2.37	9.64
Benchmark	4.70	17.25	8.05	3.52	8.68
Excess Return	1.05	1.70	(1.40)	(1.15)	0.97

The UK market bounced back over the latest quarter and the FTSE All Share returned 4.70%, in this environment UBS UK Equity posted the highest absolute return of all mandates with 5.75%, leading to outperformance of 1.05% against the benchmark. Looking into the attribution analysis, stock selection was the main driver and in contrast to last quarter investments in Financials (1.58%) were by far the biggest contributor, this was partly offset by Basic Materials which detracted -0.78%. UBS exhibits relative underperformance across longer periods, with -1.29%, -1.11% and -0.97% for three, five and ten years respectively; however they still demonstrate outperformance since inception with figures of 9.64% versus 8.68% on an annualised basis.

2.7 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.
Performance:

	Q3 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	0.43	2.96	7.91	(4.01)	(0.90)
Benchmark	0.40	2.83	9.51	(3.57)	(0.34)
Excess Return	0.03	0.13	(1.60)	(0.44)	(0.55)

The UBS Property portfolio posted a return of 0.43% during the period, to continue the run of consecutive positive returns; this was slightly above the IPD UK PPFI All Balanced Funds index, return of 0.40%. Over one year the portfolio achieved a growth of 2.96%, now 0.13% above the benchmark. However, driven by the underperformance of Q4 2009 the three year period still falls below target with figures of 7.91% versus 9.51%, an underperformance of (1.60) %. Since inception, in March 2006, there are losses of (0.90) % and while the benchmark also falls, at (0.34) % this translates to a (0.55) % underperformance on an annualized basis.

3. ABSOLUTE RETURNS FOR THE QUARTER

	Opening Balance £000's	Appreciation £000's	Income Received £000's	Net Investment	Closing Balance £000's	Active Management Contribution £000's
UBS	109,429	5,278	1,019	0	115,726	1,203
UBS Property	49,421	(479)	690	(3)	49,629	13
SSgA	114,518	4,316	0	0	118,833	4
SSgA Drawdown	14,663	198	0	(4,240)	10,621	(113)
Ruffer	115,070	569	646	0	116,286	922
M&G	11,350	482	0	950	12,782	353
Marathon	57,498	2,494	0	0	59,991	335
JP Morgan	71,736	1,726	0	0	73,462	1,061

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 all fund managers apart from SSgA Drawdown had a positive impact on the appreciation of holdings contributing £3,891k in total. Whilst underperformance by the latter reduced overall appreciation by £113k.

4. M&G Update

M& G UK Companies Fund
The NAV was valued at £847 million on September 30, 2012 compared with £837 million at the end of the previous quarter. The increase resulted from the earned income and fees, which was offset by the change in market value of the interest rate swap. The fund

committed a new £100 million loan during the quarter. The fund's return since inception was 5.07%, same as the previous period. The loans are performing in line with expectations and remain marked at par.

M&G Debt Opportunities Fund IV
Two draw-downs totalling £1.2m for the M&G Debt opportunities fund was made in September 2012, representing 8.28% of our commitments (£15m) to the fund. The whole fund has a NAV of £15.8m and total return since inception of 4.01%. Though the debt opportunities fund started on 30 June 2012, various investment opportunities are being pursued by the managers and at the time of this report two further draw-downs totalling about £531k had been submitted for the month of October.

5. Macquarie Update

MEGCIF
Macquarie Everbright Greater China Infrastructure Fund (MEGCIF) issued one capital call notice to investors during the quarter ended 30 September 2012 totalling US$3.00 million. The capital call was made in relation to the US$1.96 million base management fee for the quarter ended 30 September 2012 and US$1.04 million fund operating expenses. MEGCIF has cumulatively drawn capital of US$95.81 million which represents 18.47% of its total capital commitment of US$518.75 million.

MEIF4
The Manager’s valuation of the Fund’s net assets at 30 September 2012 was €258.4 million. The valuation of the portfolio consisted of the OGE, which was held at acquisition cost, and the cash/other assets and liabilities in the portfolio.

OGE
A Macquarie European Infrastructure Fund 4 led consortium completed the acquisition of Open Grid Europe (OGE) on 23 July 2012. OGE is the owner and operator of the longest regulated supra-regional gas transmission network in Germany, with approximately 12,000km of gas pipeline and 27 compressor stations. Due to its position as the hub transmission network operator for pan-European gas flows, OGE represents the epitome of a core strategic infrastructure asset, not just in Germany but for the broader European economy. Germany is Europe’s largest and strongest economy with a well developed, reliable regulatory framework. MEIF4’s final commitment to OGE was €260.0 million, representing a 23.6 per cent interest.

6. Other Items

At the end of September 2012, £28.9m (book cost) had been invested in private equity, which equates to 4.68% of the fund against the target investment of 5.00%. In terms of cash movements over the quarter, Adams Street called £294k and distributed £432k, whilst LGT called £750k and distributed £226k. This trend is set to continue in the next few years as the fund's investments in private equity enters its' vintage years and more distributions will be received as the various funds mature.

The securities lending programme for the quarter resulted in income of £18.2k. Offset against this was £6.4k of expenses leaving a net figure earned of £11.8k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 September 2012 the average value of assets on loan during the quarter totalled £27.7m representing approximately 13.9% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro and 50% Australian dollars (June 2012) hedges. The latest quarterly roll occurred on the 7 November 2012 and resulted in a realised loss of £296k. Since inception, the programme has made a net profit of £1.9m.

For the quarter ending 30 September 2012, Hillingdon returned 2.64%, underperforming against the WM average of 3.30% by (0.66)%. The one year figure shows an underperformance of 2.80%, returning 9.80% against the WM average return of 12.6%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

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London Borough of Hillingdon

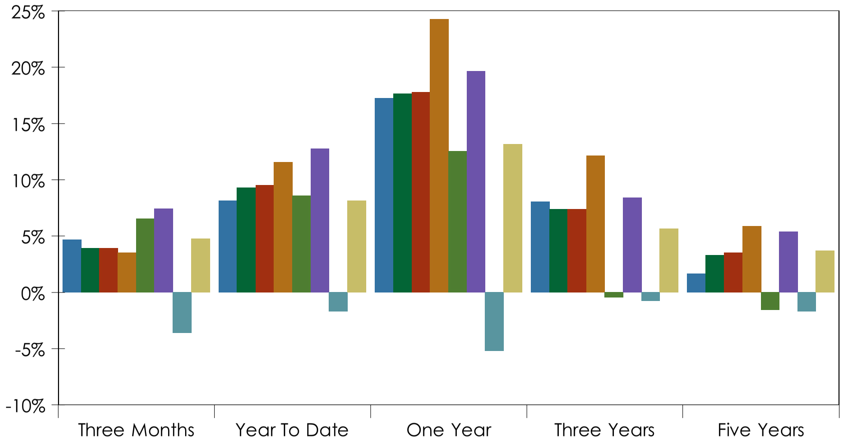
3rd Quarter, 2012

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	4.7	8.2	17.2	8.0	1.7
FT: World	3.9	9.3	17.7	7.4	3.3
FT: World ex UK	3.9	9.5	17.8	7.4	3.5
FT AW North America	3.5	11.6	24.2	12.1	5.9
FT: Developed Europe ex UK	6.6	8.6	12.5	-0.4	-1.5
FT: Developed Asia Pac x Jp	7.4	12.7	19.7	8.4	5.4
FT AW: Japan	-3.6	-1.7	-5.2	-0.7	-1.7
MSCI Emerging Markets GD	4.8	8.1	13.2	5.6	3.7

Developed and developing markets have been neck and neck, back in the black over the last three months the only laggard being Japan, languishing in the red across the short and long term. The world's most valuable company of all time launched the iPhone 5 to mixed reviews but record sales with more than 2m pre-orders in the first 24 hours. Corn prices at $8.50 per bushel were up 70% from January following the devastating drought across the American Midwest; nearly a third of crops have been lost from the world's biggest source of exports. The UN fears a repeat of the food riots that swept the developing world in 2008 and claims that financial speculators are as responsible as Mother Nature for the current crisis. The IMF reduced its global growth forecast for 2013 down to 3.6% from 3.9%. Globally, Utilities was the weakest sector and Oil & Gas was the strongest followed by Financials. The price of crude oil futures ended the quarter up at $112 per barrel. The FTSE World was up by 3.9% (GBP) over quarter three 2012 and is now ahead by 17.7% over one year (GBP).

UK GDP fell by 0.4% in the second quarter of 2012, up from the previous estimate of a 0.5% decline but down from Q1. Manufacturing output fell by 0.8% and the output of the construction industry fell by 3%. Grim reading backed up by the revised IMF 2012 forecast from growth of 0.2% to a contraction of 0.4%. High profile figures clashed after New York regulator Benjamin Lawsky accused Standard Chartered of being a rogue institution and having been blindsided amid allegations it had laundered $250bn for Iran. The share price subsequently fell 20% in one day in August and UK investors responded to accuse the US of using quasi-protectionism to advantage its own players. Those same investors made it clear that this incident should be dealt with swiftly and the bank settled with the New York regulator on a fine of $340m. The London Olympics were a huge success despite some patchy weather but retail sales did not fare as well dropping 0.2% in August as people watched the games instead of shopping online. Technology was the strongest sector over the quarter and Telecoms, although still positive, was the weakest. The FTSE All Share was up 4.7% (GBP) over the third quarter and has moved ahead over one year by 17.2% (GBP).

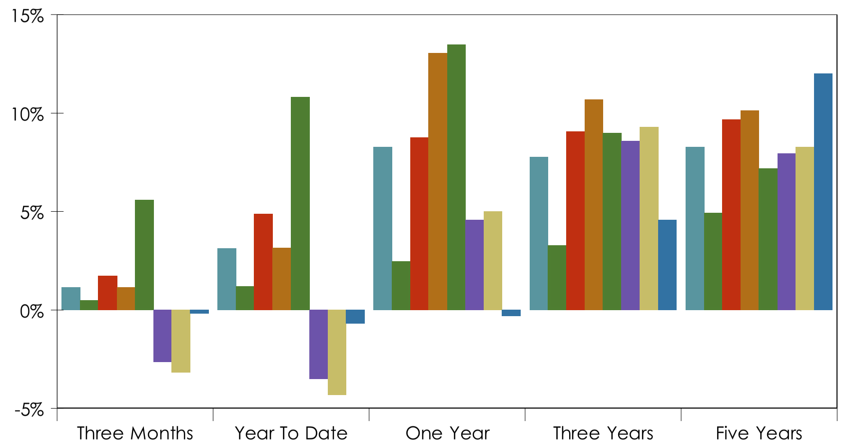
The EU has completed 20 "make or break" summits in a little over two years. Greece remains in financial peril and is yet to get on target. Portugal announced tax increases in an attempt to keep its bailout programme on track. The deficit in Cyprus is more than twice as large as originally feared; more than EUR 20bn. Europe's banks have been disposing of large swathes of their real estate portfolios ahead of tough regulatory changes increasing the amount of capital that has to be held against commercial property loans. The ECB has said that it expects the Eurozone to be in recession by autumn as services and manufacturing output continue to fall. Daimler warned that profits at Mercedes Benz would be down. Ford reported a 29% year on year fall in its European motor sales. Nearly 90% of Nokia shares that can be borrowed for short selling are already out on loan as the Finnish handset maker falls further behind Apple and Samsung. Equities in more than 30% of European companies are yielding more than their bonds as current dividend yields beat their 15 year averages. Eurozone GDP contracted by 0.2% in quarter two and unemployment increased to a record 11.4% at 18.2 million out of work. The FTSE Developed Europe ex UK index returned 6.6% (GBP) over quarter three and 12.5% (GBP) over the year.

QE3 commenced with the first $40bn monthly injection and will proceed on that basis until such time as the labour market improves. The US economy grew at an annualised rate of 1.3% in quarter two. Payroll growth was stronger in quarter three but the unemployment rate remains elevated at 8.1% due to the increase in part-time workers. The bumper sales of the new iPhone 5 were touted as evidence of increased optimism along with rising share and house prices and despite increasing petrol costs. Yahoo is set to return $4.3bn to shareholders, its proceeds from the sale of half its stake in China's Alibaba Group. In contrast investors "defriended" Facebook's shares as they slipped below $20 in August. Manufacturing activity continued to contract except during September and factory orders fell off over the quarter. Oil & Gas were by far the strongest sector, Telecoms being the next best performer. Utilities were the only sector to lose value over three months. The FTSE North America index returned 3.5% (GBP) over the third quarter and 24.2% (GBP) for the year.

Japan's industrial output fell as factories cut exports to Chinese markets. Those companies reported extended customs delays entering the country amid fears of damage to both economies. Exports to Europe also dropped, plunging 25% in July. The high Yen is making life for companies difficult but the economy still grew by 0.3% in the second quarter. The FTSE Japan returned -3.6% (GBP) for quarter three and the FTSE Developed Asia Pacific ex Japan returned 7.4% (GBP). Anti Japan protests flared across China following the diplomatic crisis over the disputed Diaoyu / Senkaku Islands of the East China Sea. Several Japanese consumer outlets were forced to close in the face of angry mobs rampaging through the streets of Chinese cities. The Kremlin moved to shield Gazprom from European anti-monopoly investigations over gas prices by decreeing that all requests for information must go through the Russian government. The Indian economy grew more than estimated last quarter up to 5.5% from 5.3% over Q1. Brazil launched a $65.6bn stimulus package to support investment in infrastructure and investor confidence in the second largest emerging economy. Gold resumed its inexorable climb ending the quarter up at $1,770 per ounce. The MSCI Emerging Markets index returned 4.8% (GBP) for the third quarter and 13.2% (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	1.1	3.1	8.3	7.8	8.3
FTSE All Stock 0-5 Yr. Gilts	0.5	1.2	2.5	3.3	4.9
FTSE All Stock 5-15 Yr. Gilts	1.7	4.9	8.8	9.1	9.7
FTSE All Stock > 15 Yr. Gilts	1.1	3.2	13.0	10.7	10.1
ML STG N-Gilts All Stocks	5.6	10.8	13.5	9.0	7.2
FTSE Index Linked	-2.6	-3.5	4.6	8.6	8.0
FTSE Index Linked 5+ yrs	-3.2	-4.3	5.0	9.3	8.3
JPM GBI Global	-0.2	-0.7	-0.3	4.6	12.0

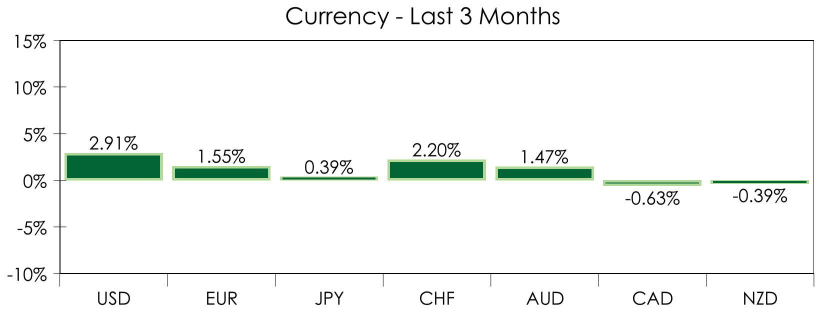
Global growth continued to slow over the third quarter of 2012, as the IMF revised down its outlook for economic growth to just 3.3% down from 3.5% earlier this year. Austerity measures and the still weak financial system are cited as the main factors. However uncertainty linked to the Eurozone debt crisis and the US "fiscal cliff" is noted by the IMF to be playing a major role, preventing companies from investing and households from spending. Trade flows have been impacted, as global exports rose at an annual rate of 0.7% in July, down from 13% a year ago and the weakest rate since late 2009. Central banks continued to step up stimulus measures to boost confidence. The Bank of Japan extended its asset purchase programme by JPY10trn (USD126bn, GBP78bn) in September, while downgrading Japan's export-led economic view. China's industrial production grew at its slowest rate for three years to 8.9% year on year, largely due to the deteriorating export environment. The Bank of China acted to alleviate credit conditions by injecting RMB365bn (USD58bn, GBP36bn) into its banking system via reverse repurchase agreements. This was the largest injection in six years and interbank lending rates fell. European Central Bank (ECB) President Mario Draghi announced a new bond buying plan called Outright Monetary Transactions (OMT). The Federal Open Market Committee (FOMC) also acted, announcing further QE and its expectation that the Federal Funds rate would stay at the exceptionally levels through to mid-2015. Euro-peripheral bond yields fell sharply while core yields climbed from the lows in July to close almost unchanged from June. Over the quarter the JPM Global Govt Bond index has returned -0.2% (GBP), while the Barclays Capital Global Aggregate Corporate Bond index delivered +1.8% (GBP).

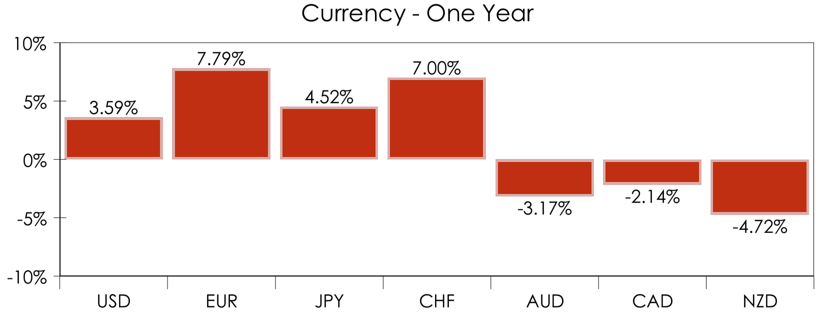
In the UK the Monetary Policy Committee (MPC) left policy unchanged, maintaining the Bank rate at 0.5%. Credit availability to corporations appears to be improving as revealed by the Bank of England's Credit Conditions Survey while it's Funding for Lending Scheme (FLS) initial impact on lending rates is encouraging. The UK GDP fell less than previously thought as the fall in Q2 was revised to -0.4%. Inflation eased down to 2.5% in August, following a downward trend since peaking at 5.2% a year ago. The economy does remain extremely weak however, with the deterioration in the budget deficit. Borrowing is GBP11.6bn higher over the fiscal year to date, than in the same period for 2011-2012. UK Bond yields have reacted to improved risk sentiment following the ECB's new bond purchase plan announcement and the Federal Reserve's commitment to open ended QE. The benchmark 10-year gilt yield over the quarter dipped as low as 1.47% but closed virtually unchanged from June at 1.72%. The FTSE All Stock Gilt index returned +1.1% (GBP) for the quarter while the ML Sterling Non Gilts gained +5.6% (GBP).

The Eurozone economy contracted further at the end of the third quarter, according to the Markit Eurozone Composite PMI which came in at a four month low of 46.1 in September. France and Spain suffered accelerated downturns, the main factor a sharp decline in total new output. Job losses are increasing as unemployment rose to a record 11.4%. Markets responded well to ECB President Mario Draghi's launch of the sovereign bond buying scheme - Outright Monetary Transactions. Although subject to conditions requiring that governments commit to strict fiscal consolidation and structural reform plans, the OMT announcement has helped to reduce sovereign borrowing costs for Spain and Italy. Ten year yields on Spanish and Italian bonds have fallen respectively from 6.8% and 5.9% at the end of August to below 6.0% and 5.2% in September. Markets also reacted positively to the latest austerity measures announced by the Spanish Government, while France also revealed their plan to eliminate the deficit by 2017.The benchmark German Bund 10-year yield fell to 1.30% in July before closing September at 1.46%. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, tightened considerably from 165.8 at the end of June reaching 118.1 mid September before closing the quarter at 136.2. The JPM European Govt Bond index returned +3.4% (EUR) and the Barclay Capital Global Aggregate Credit index was up at +3.1% (EUR) for the 3rd Quarter.

US growth in Q2 was revised down to 1.3% (annualised) from the previous estimate of 1.7%, slowing from the 2% expansion in Q1. More recent data indicates some improvement as the Institute for Supply Management (ISM) PMI survey registered 51.5% returning to expansion after contracting for 3 consecutive months. Unemployment fell to 7.8%, its lowest level in almost four years however the decline is undermined by evidence of a large body of discouraged workers who are not officially unemployed. As anticipated, at the September meeting the FOMC delivered a third round of QE, under which the Fed indicated that it would buy USD40bn of mortgage backed securities per month until the outlook for the labour market improves substantially. It also changed its guidance on interest rates remaining exceptionally low 'at least through to mid-2015'.The 10-year benchmark Treasury yield fluctuated widely in September, reaching a high of 1.87% after the FOMC announcement on the 13th September before falling back to close the quarter at 1.64%. For the quarter the JPM US Govt Bond index was up 0.6% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned +3.8% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	2.91	3.83	3.58	0.32	-4.64
European Union euro	1.55	4.73	7.77	4.57	-2.64
Japanese yen	0.39	4.94	4.51	-4.36	-12.45
Swiss franc	2.20	4.33	6.98	-2.98	-8.99
Australian dollar	1.47	2.41	-3.16	-5.14	-7.87
Canadian dollar	-0.63	0.40	-2.14	-2.57	-4.84
New Zealand dollar	-0.39	-2.45	-4.71	-4.29	-6.54

The third quarter of 2012 saw a strengthening of Sterling against the Dollar, Euro and Yen. The Dollar saw losses against the Sterling, Dollar and Yen. In the same period, the Yen strengthened against the Euro and Dollar. In China, the CPI rose 2.0% year on year in August, while business costs have fallen for the seventh straight month. China's trade surplus widened in August to $26.7bn. Exports rose 2.7% year-on year in August to $178.0bn, slightly weaker than expected. Meanwhile, imports fell 2.6% year-on-year to $151.8bn. Trade with the United State, China's second-largest trade partner, climbed to $313.0bn, a rise of 9.6% year-on-year in the January to August time period. In the same period, trade with the European Union, its largest trading partner, dropped by 1.9% year-on-year to $365.1bn. In Japan, major manufacturers are increasingly gloomy over an outlook darkened by weakening growth both at home and overseas. Sinking exports due to feeble demand in crisis-stricken Europe and anti-Japanese protests in China have reinforced the gloom. As expected, the Reserve Bank of Australia eased its interest rates again by 0.25%, to 3.25%, on 2/October/2012. Key commodity prices for Australia remain significantly lower than earlier in the year, weakening this commodity dependent currency.

In the UK, Q3 2012 saw Sterling strengthen against the Euro, Dollar and Yen. Minutes from the latest Monetary Policy Committee meeting, held in early September, showed some members thought that more quantitative easing was "more likely than not to be needed in due course". However, all nine MPC members voted to keep rates at the historic low of 0.5% and not to increase the QE programme above £375bm. The annual rate of inflation in the UK, as measured by the consumer price index, fell back to 2.5% in August, down 0.3% from the May figure of 2.8%. The fall was partly due to smaller than expected rises in furniture and gas prices. Apart from two monthly rises, the rate of inflation has been falling steadily since peaking at 5.2% in September 2011. Unemployment in the UK fell by 7,000 to 2.59 million in the 3 months to July 2012. The jobless rate fell to 8.1%. Overall, there are 29.56 million people in work, up 236,000 on the previous quarter. The number of people in part time work rose by 134,000 to 8.12 million, the highest level since 1992, when the numbers began to be collected. Nationwide reported a 0.4% fall in UK house prices in September, increasing the annual rate of decline to 1.4%. The lender's monthly snapshot of the market, which is based on mortgages it has approved during the month, puts the average price of a home at £163,964. Sterling closed the quarter up against the Dollar, Euro and Yen by 2.9%, 1.5% and 0.4% respectively.

In the US, momentum looks to be returning to the world's largest economy with stronger employment figures and a surge in applications to refinance mortgages. Refinancing applications have soared as Americans rush to take advantage of record low rates triggered by the Federal Reserve's programme of quantitative easing. Consumer sentiment going into the November 6 elections remains one of the critical factors in the race for the White House. House prices rose in 20 of America's largest cities rose in July for the third month in a row, according to the Case Stiller home-price indices, giving further evidence that the fractured housing market is finally on the mend. House prices in 16 of the 20 cities measured are now positive compared to 12 months ago. In August, consumer spending rose by the most in six months as higher prices at petrol pumps took their toll. At the same time, people were more upbeat about economic prospects. Spending rose 0.5% in August, following a 0.4% rise in July. Most of the increase was due to higher prices. Inflation rose 0.4% over the month, the largest gain since March 2011. Year-on-year it climbed 1.5%. The US un-employment rate has fallen from 8.2% in June to 7.8% in September. This is the first time it has fallen below 8% since February 2009, raising hopes that the pace of US job creation is picking up. The number of unemployed in the US now stands at 12.1 million. This fall in the headline jobless rate did not suggest a sudden turnaround in the US economy and remains at a level at which presidents have failed to be re-elected in recent decades. The US trade deficit stood at $44.2bn in August, with exports falling to the lowest level in six months. In August, exports dropped 1% to $181.3bn as demand for American-made cars and farm goods declined. Imports edged down 0.1% to $225.5 bn. Purchase of foreign-made autos , aircraft and heavy machinery fell. The Dollar ended the quarter down against the Sterling, Yen and Euro by 2.9%, 2.5% and 1.4% respectively.

In the Euro area, the Euro weakened against the Sterling and Yen and saw a small gain against the Dollar. The governing council of the European Central Bank reduced the single currency's interest rate by 0.25%, to 0.75%, on 5th of July. In the 17-nation eurozone, inflation rate rose again, reaching 2.6% in August compared to 2.4% in June. However, at 2.6%, this inflation rate remains above the ECB's 2% target which could restrict policy maker's choices. Spain has set out its austerity budget for 2013, with new spending cuts but protection for pensions, amid a shrinking economy and 25% unemployment. The new programme of savings, tax rises and structural reforms will be overseen by a new budget authority. Expectations are growing that Spain will seek a financial bailout from its eurozone partners. Unemployment in the Eurozone hit a fresh high of 18.2 million in August. The jobless in the 17-country region was 11.4% in August, the highest since the launch of Europe's monetary union in 1999. The highest unemployment rate was recorded in Spain, where 25.1% of the workforce is out of a job, and the lowest of 4.5% was recorded in Austria. Youth unemployment remains a particular concern, with the rate among under-25s hitting 22.8% across the Eurozone, and an astonishing 52.9% in Spain. The Euro ended the quarter up against the Dollar by 1.4% and down against Sterling and Yen by 1.5% and 1.2% respectively.

Scheme Performance

During the third quarter of 2012 equity markets across the globe rallied, with the exception of Japan; while UK bond instruments (not including Index-linked) continued to grow. Against this backdrop the London Borough of Hillingdon returned 2.64%, just 3 basis points ahead of the Total Plan composite benchmark of 2.61%. In monetary terms this is a growth in assets of £15.9 million and the value of the combined scheme now stands at £618.85 million as at 30th September 2012. During this period just over £1 million was brought in the scheme and invested with M&G Investments, while over £4 million was moved from SSGA Drawdown to Macquarie. Looking further into the analysis the main drivers were the outperformance of JP Morgan and UBS, who between them make up nearly a third of the fund, although this was offset by the Private Equity assets. In allocation terms most mandates are in line with the neutral position with the only notable impact coming from Fauchier due to the termination of this account.

For the year the Fund remains slightly ahead of target, but due to the results seen in Q4 2011 the one year still shows an underperformance. Over the year the -0.84% relative return is mainly caused by the Private Equity assets, while Ruffer and Marathon added value, in terms of allocation a negative impact is seen with the notable impacts being underweighting UBS and overweighting Macquarie. Better figures prior to this helps the 3 year number back to parity with the benchmark, but then underperformance is seen again for the 5 year and since inception, although since September 1995 this is just 8 basis points with an annualised return of 6.32% against 6.41%.

Manager Performance

JP Morgan

Over the latest quarter JP Morgan investments grew 2.41% which compared to the 0.93% target of the 3 Month LIBOR + 3% translates as a 1.47% relative underperformance. This offset last quarter's losses, and means they increase the outperformance seen for the year so far with a return of 5.45% versus 2.95%. Similar results are seen for the inception to date (November 2011) with figures of 6.08% for the fund versus the benchmark of 3.55%.

Macquarie

Macquarie portfolio provided the lowest return of all mandates with a figure of -4.01% over the recent quarter. This now means all longer periods show negative performance with a one year figure of -24.90% while since inception (September 2010) is better, but still showing an annualised loss of -12.92%.

At present no benchmark has been applied to this mandate.

Marathon

In the 3rd quarter Marathon investments grew 4.34%, which was relatively 0.55% above the MSCI World index return of 3.77%. This continues the run of all three quarters of 2012 beating the index, meaning for the year to date and 1 year outperformance of 5.75% and 3.22% respectively is the highest seen from all mandates. This coupled with the results in Q3 2010 means since inception (June 2010) they beat the index by 1.90%, returning 9.31% pa against 7.27% pa.

M&G Investments

Over the third quarter of 2012, M&G investments more than made up for the previous period's results with figures of 4.19% versus 1.17% for the 3 Month LIBOR +4% p.a. target. For one year the account now stands ay 5.21% against 4.99% whilst since inception at the end of May 2010, the portfolio registers a 4.58% pa return against the benchmark of 4.89% pa. While the since inception Internal Rate of Return for this portfolio is now ahead of the target with a figure of 5.27% opposed to the comparator of 5.12%.

Manager Performance

Ruffer
The Ruffer portfolio returned 1.06% during the quarter and against the return of 0.26% for LIBOR 3 Month GBP delivers an outperformance of 80 basis points. This partly offsets the previous quarter and means that the year to date and 1 year numbers are now ahead of target. This culminates in a since inception return from May 2010 of 3.83% pa, which translates as a relative return of 2.93% against the benchmark of 0.87% pa.

Private Equity
The private equity assets, consisting of funds with Adam Street and LGT, posted losses over the last three months returning -3.70% and -0.30% respectively; along with Macquarie the only accounts in the red this period. Over the year mixed results are seen with Adam Street managing to produce positive figures of 1.12% while LGT remained in the red with -0.99%. Over the longer periods, the outlook over which private equity investments should be measured, improvements in the absolute returns are seen with Adam Street increasing to 12.31% for the three years and LGT with 8.66% for the same period. However, since their respective inceptions in May 2004 and January 2005, while LGT posts 7.91% pa, Adam Street drops to just 0.58% pa.
At present no benchmark has been applied to these mandates.

SSGA
The SSGA passively managed portfolio produced a return of 3.77% in the quarter which was exactly the same as the benchmark; further analysis confirms the passive nature with both allocation and performance aligned with the neutral position. This improves the year to date to 7.32%, which is still just behind target, while over one year the return increases further to 14.53%, also just below the benchmark. Positive absolute performance in line with the benchmark is seen in longer periods; with the since inception return of 12.62% pa only 6 basis points above the benchmark, but the passive nature is best demonstrated by the 3 year R squared and beta figures of 1, while the tracking error a mere 0.16.

SSGA Drawdown
The SSGA Drawdown fund posted 1.73% in the latest period with the blended benchmark showing 2.80%, the only account showing underperformance this quarter. The -1.04% relative return is entirely due to the shift in weights with the mandate now being 67% in cash fund as opposed to the 50/50 split of the benchmark. The results seen in 2012 feed into all longer periods, with the year-to-date and 1 year showing particular large underperformance. However, from the inception of the fund in June 2009 the weights average out over time and the gap over longer periods closes slightly with the funds annualised return of 5.21% against 5.70% for the benchmark.

UBS
The UK market bounced back over the latest quarter and the FTSE All Share returned 4.70%, in this environment UBS UK Equity posted the highest absolute return of all mandates with 5.75%, leading to a relative return of 1.01%. Looking into the attribution analysis, stock selection was the main driver and in contrast to last quarter investments in Financials (1.58%) were by far the biggest contributor, this was partly offset by Basic Materials which detracted -0.78%. Whilst asset allocation was balanced with the positive decisions of overweighting Consumer Services (0.16%) and underweighting Consumer Goods (0.15%) was slightly offset by the underweight in Financials (-0.13%) and 2.5% allocation to cash (-0.11%). This leads to improved year-to-date and one year figures, with the latter showing 18.95% against 17.25%. This 1.45% relative return is also attributable to selection, and again the most notable is Financials (1.21%) which is offset by negative asset allocation with the main impact being underweighting Consumer Goods (-0.47%). UBS exhibits relative underperformance across longer periods, with -1.29%, -1.11% and -0.97% for three, five and ten years respectively; however they still demonstrate outperformance since inception with figures of 9.64% versus 8.68% on an annualised basis.

UBS Property
The UBS Property portfolio posted a return of 0.43% during the period, to continue the run of consecutive positive returns; which was slightly above the IPD UK PPFI All Balanced Funds index, which returned 0.40%. Over one year the portfolio achieved a growth of 2.96%, now 13 basis points above the benchmark. However, driven by the underperformance of Q4 2009 the three year period still falls below target with figures of 7.91% versus 9.51%, a relative underperformance of -1.46%. Since inception, in March 2006, there are losses of -0.90% and while the benchmark also falls, at -0.34% this still translates as a 55 basis points underperformance on an annualised basis.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 07/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 08/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 09/12	Active Contribution 3Q 2012
Adam Street	0.09	-	0.09	-	19,970.81	-1.35	-	-1.35	-	-293,449.93	-2.47	-	-2.47	-	-528,535.17	-802,014.30
JP Morgan	1.44	0.32	1.13	1.12	811,486.56	0.19	0.31	-0.12	-0.12	-85,218.65	0.76	0.30	0.46	0.46	334,684.23	1,060,952.14
LGT	-2.44	-	-2.44	-	-418,245.50	0.86	-	0.86	-	142,999.11	1.32	-	1.32	-	216,044.93	-59,201.46
Macquarie	-1.97	-	-1.97	-	-118,121.56	-0.43	-	-0.43	-	-25,479.64	-1.66	-	-1.66	-	-98,569.32	-242,170.52
Marathon	0.59	1.48	-0.88	-0.87	-516,240.46	1.40	0.79	0.61	0.61	356,591.03	2.29	1.46	0.83	0.82	494,961.00	335,311.58
M&G Investments	2.70	0.40	2.30	2.29	262,392.79	0.00	0.39	-0.39	-0.39	-45,242.23	1.45	0.38	1.07	1.07	135,383.46	352,534.03
Nomura	-1.31	-	-1.31	-	-936.17	0.25	-	0.25	-	40.28	-0.33	-	-0.33	-	-52.82	-948.71
Ruffer	-0.09	0.11	-0.20	-0.20	-225,996.28	0.41	0.07	0.33	0.33	381,137.00	0.74	0.07	0.66	0.66	766,953.34	922,094.07
SSGA	1.49	1.49	-0.00	-0.00	-1,445.05	1.38	1.39	-0.01	-0.01	-6,688.11	0.85	0.84	0.01	0.01	12,153.58	4,020.42
SSGA Drawdown	1.13	1.95	-0.82	-0.80	-86,870.46	0.31	0.43	-0.12	-0.12	-12,323.73	0.28	0.40	-0.13	-0.12	-13,333.02	-112,527.20
UBS	0.38	1.33	-0.95	-0.94	-1,058,028.23	2.76	2.21	0.54	0.53	610,210.24	2.53	1.09	1.45	1.43	1,650,361.01	1,202,543.02
UBS Property	0.69	0.17	0.52	0.52	259,017.16	0.81	0.23	0.58	0.58	290,880.52	-1.07	0.00	-1.07	-1.07	-536,479.87	13,417.82

Total Fund Market Value at Qtr End: £618.8 M

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Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	618.8	100.00	2.64	2.61	0.03	0.03	5.76	5.70	0.07	0.06	9.80	10.73	-0.93	-0.84

By Manager

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
Adam Street	20.9	3.37	-3.70	-	-	-	5.14	-	-	-	1.12	-	-	-
JP Morgan	73.5	11.87	2.41	0.93	1.48	1.47	5.45	2.95	2.50	2.43	-	-	-	-
LGT	16.6	2.68	-0.30	-	-	-	2.15	-	-	-	-0.99	-	-	-
Macquarie	5.8	0.94	-4.01	-	-	-	-15.29	-	-	-	-24.90	-	-	-
Marathon	60.0	9.69	4.34	3.77	0.57	0.55	14.01	7.82	6.19	5.75	20.02	16.27	3.74	3.22
M&G Investments	12.8	2.07	4.19	1.17	3.02	2.99	3.91	3.70	0.21	0.20	5.21	4.99	0.22	0.21
Ruffer	116.3	18.79	1.06	0.26	0.80	0.80	0.85	0.82	0.03	0.03	3.68	1.04	2.64	2.61
SSGA	118.8	19.20	3.77	3.77	0.00	0.00	7.32	7.40	-0.08	-0.08	14.53	14.63	-0.10	-0.09
SSGA Drawdown	10.6	1.72	1.73	2.80	-1.07	-1.04	3.11	5.46	-2.35	-2.23	4.45	6.76	-2.31	-2.16
UBS	115.7	18.70	5.75	4.70	1.06	1.01	10.34	8.17	2.17	2.01	18.95	17.25	1.70	1.45
UBS Property	49.6	8.02	0.43	0.40	0.03	0.03	1.29	1.51	-0.21	-0.21	2.96	2.83	0.13	0.13

Total Fund Market Value at Qtr End: £618.8 M

Scheme Performance

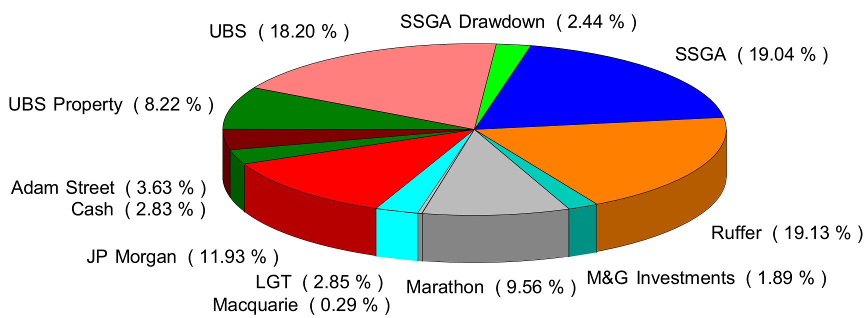
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	6.55	6.54	0.00	0.00	0.91	2.16	-1.25	-1.23	30/09/95	6.32	6.41	-0.09	-0.08

By Manager

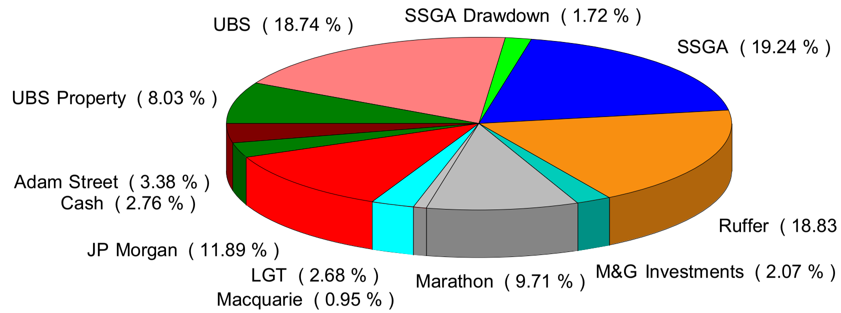
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	12.31	-	-	-	7.41	-	-	-	31/01/05	0.58	-	-	-
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	6.08	3.55	2.53	2.45
LGT	8.66	-	-	-	6.66	-	-	-	31/05/04	7.91	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	-12.92	-	-	-
Marathon	-	-	-	-	-	-	-	-	09/06/10	9.31	7.27	2.04	1.90
M&G Investments	-	-	-	-	-	-	-	-	31/05/10	4.58	4.89	-0.31	-0.30
Ruffer	-	-	-	-	-	-	-	-	28/05/10	3.83	0.87	2.96	2.93
SSGA	7.44	7.41	0.03	0.03	-	-	-	-	30/11/08	12.62	12.56	0.07	0.06
SSGA Drawdown	4.03	4.61	-0.57	-0.55	-	-	-	-	30/06/09	5.21	5.70	-0.49	-0.46
UBS	6.65	8.05	-1.40	-1.29	2.37	3.52	-1.15	-1.11	31/12/88	9.64	8.68	0.97	0.89
UBS Property	7.91	9.51	-1.59	-1.46	-4.01	-3.57	-0.44	-0.45	31/03/06	-0.90	-0.34	-0.55	-0.55

Total Fund Market Value at Qtr End: £618.8 M

Weighting at Beginning of Period



Weighting at End of Period



Adam Street, Cash, JP Morgan, LGT, Macquarie, Marathon, M&G Investments, Ruffer, SSGA, SSGA Drawdown, UBS, UBS Property

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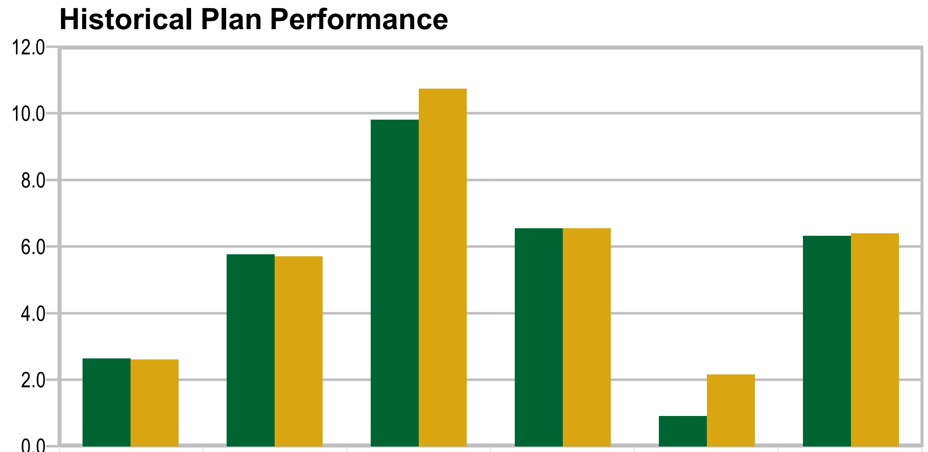
	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	601,953	100.00	1,013	13,513	2,367	618,846	100.00
Adam Street	21,824	3.63	-137	-804	0	20,882	3.37
Cash	17,014	2.83	0	1	12	17,027	2.75
JP Morgan	71,736	11.92	0	1,726	0	73,462	11.87
LGT	17,159	2.85	-522	-56	0	16,580	2.68
M&G Investments	11,350	1.89	950	482	0	12,782	2.07
Macquarie	1,724	0.29	4,314	-198	0	5,840	0.94
Marathon	57,498	9.55	0	2,494	0	59,991	9.69
Nomura	71	0.01	-54	-1	-0	16	0.00
Ruffer	115,070	19.12	-0	569	646	116,286	18.79
SSGA	114,518	19.02	0	4,316	0	118,833	19.20
SSGA Drawdown	14,663	2.44	-4,240	198	-0	10,621	1.72
UBS	109,429	18.18	0	5,278	1,019	115,726	18.70
UBS Property	49,421	8.21	-3	-479	690	49,629	8.02

London Borough of Hillingdon



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.64	5.76	9.80	6.55	0.91	6.32
Benchmark	2.61	5.70	10.73	6.54	2.16	6.41

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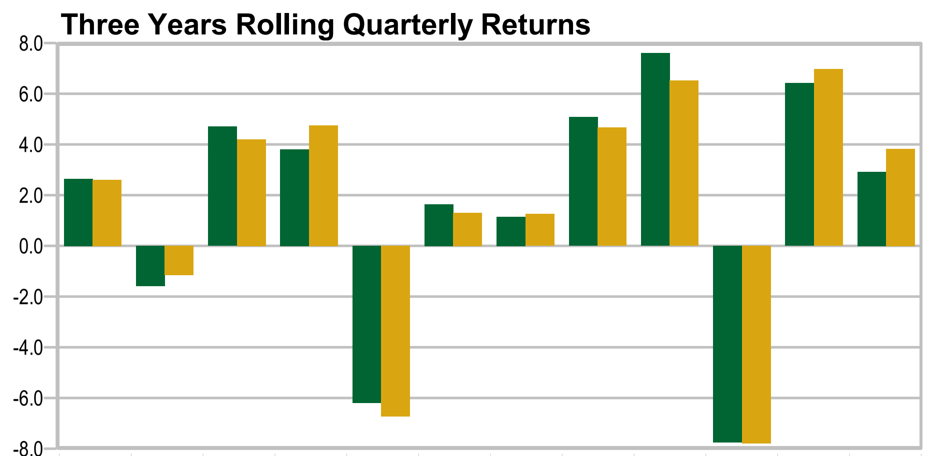
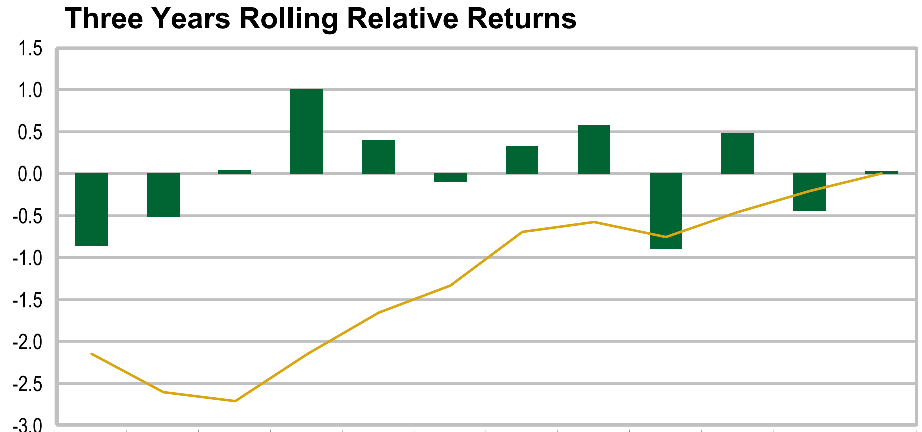
Risk Statistics - 3 years	Fund	B'mark
Performance Return	6.55	6.54
Standard Deviation	7.95	7.83
Relative Return	0.00	
Tracking Error	1.27	
Information Ratio	0.00	
Beta	1.00	
Alpha	0.00	
R Squared	0.97	
Sharpe Ratio	0.67	0.68
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	601,953	
Net Investment £(000)	1,013	
Income Received £(000)	2,367	
Appreciation £(000)	13,513	
Closing Market Value (£000)	618,846	



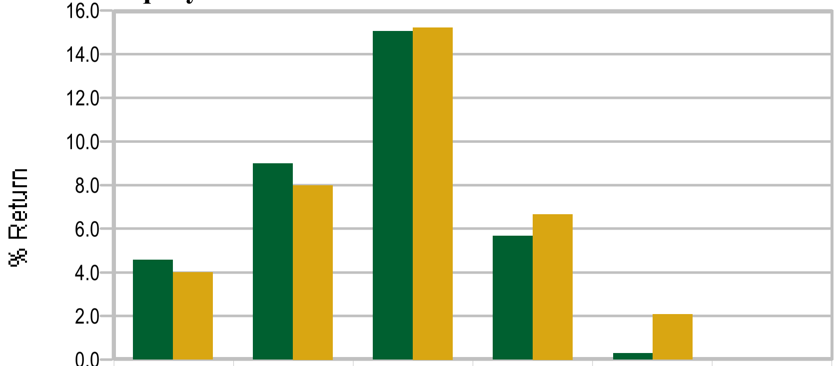
	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	2.64	-1.59	4.71	3.82	-6.20	1.64	1.15	5.08	7.60	-7.77	6.41	2.93
Benchmark	2.61	-1.14	4.20	4.76	-6.74	1.31	1.26	4.67	6.52	-7.81	6.97	3.83



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-0.87	-0.52	0.04	1.01	0.40	-0.11	0.33	0.58	-0.90	0.49	-0.45	0.03
3Y Relative	-2.15	-2.60	-2.71	-2.15	-1.66	-1.34	-0.70	-0.58	-0.75	-0.46	-0.21	0.00

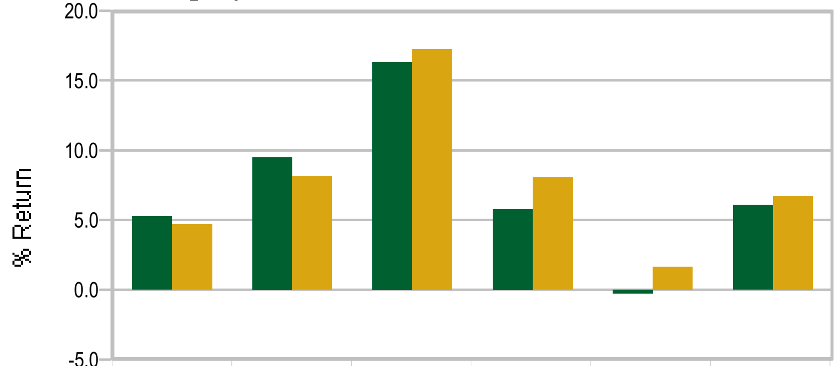
London Borough of Hillingdon

Equity



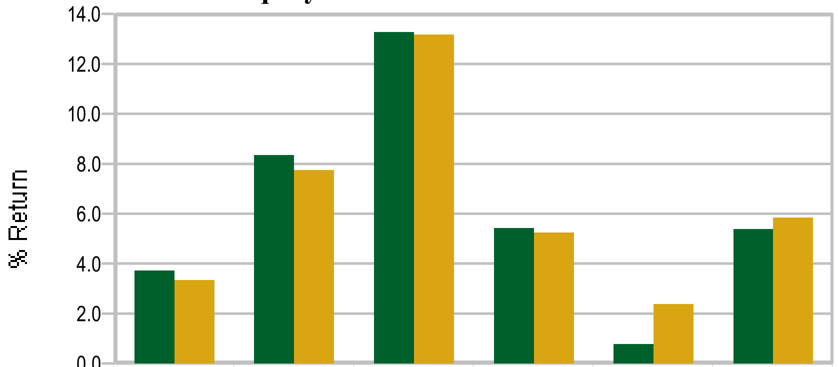
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.58	8.99	15.06	5.67	0.29	-
B'Mark	4.01	7.99	15.24	6.67	2.08	-

UK Equity



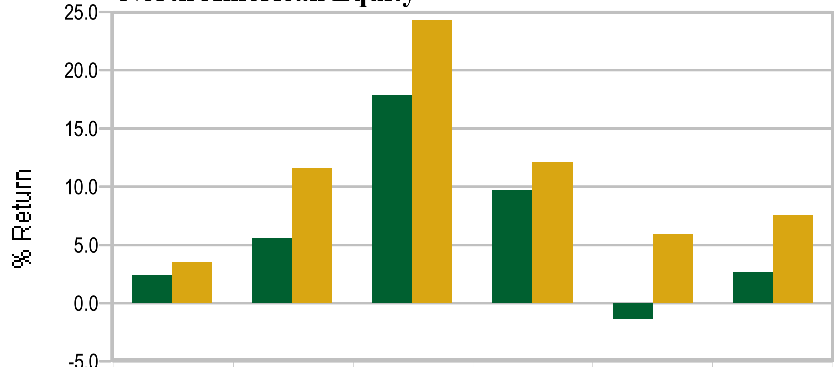
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.26	9.51	16.32	5.79	-0.27	6.09
B'Mark	4.70	8.17	17.25	8.05	1.67	6.70

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.72	8.35	13.28	5.41	0.77	5.38
B'Mark	3.33	7.75	13.18	5.24	2.37	5.83

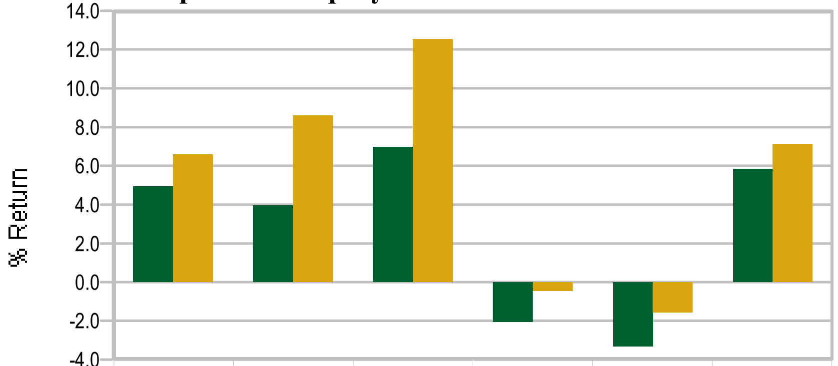
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.40	5.58	17.80	9.69	-1.34	2.69
B'Mark	3.53	11.60	24.23	12.14	5.89	7.57

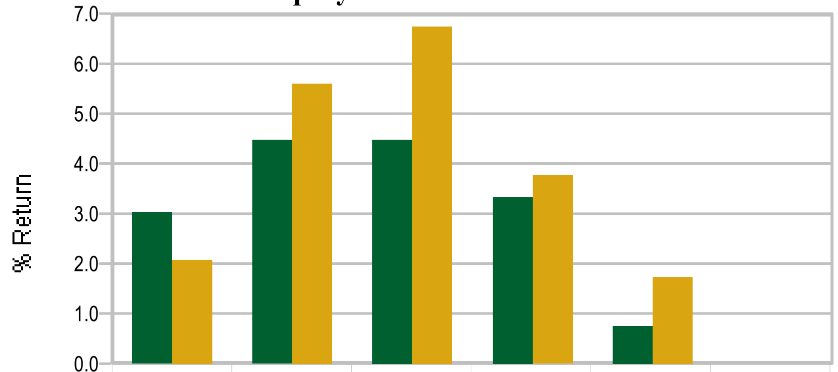
London Borough of Hillingdon

Europe ex UK Equity



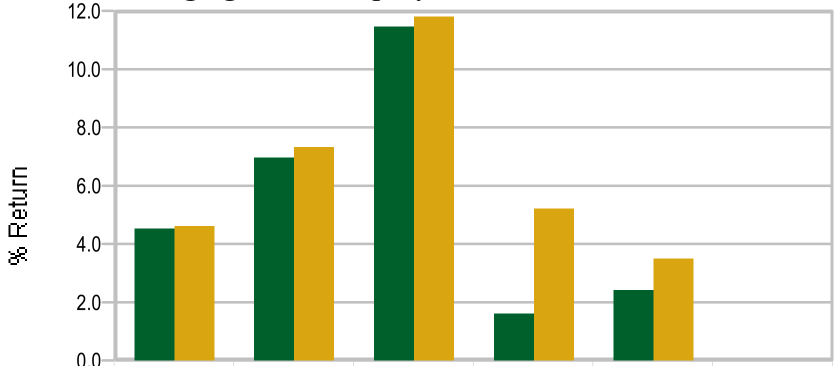
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.93	3.95	6.96	-2.04	-3.33	5.84
B'Mark	6.57	8.59	12.53	-0.44	-1.55	7.12

Asia Pacific Equity



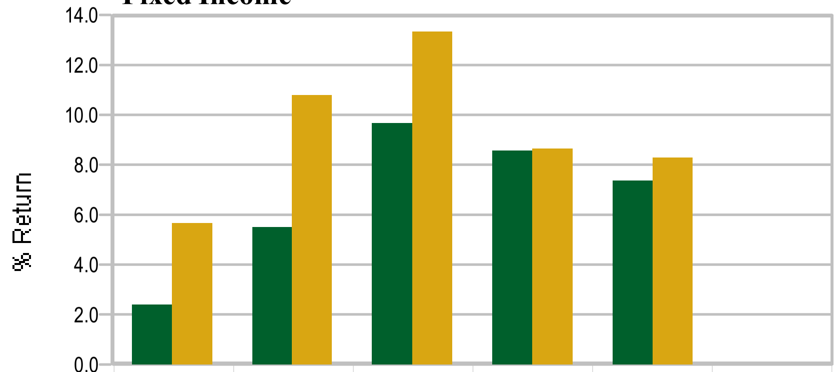
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.03	4.48	4.48	3.33	0.75	-
B'Mark	2.08	5.61	6.74	3.77	1.74	-

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.52	6.96	11.47	1.62	2.41	-
B'Mark	4.61	7.33	11.80	5.21	3.49	-

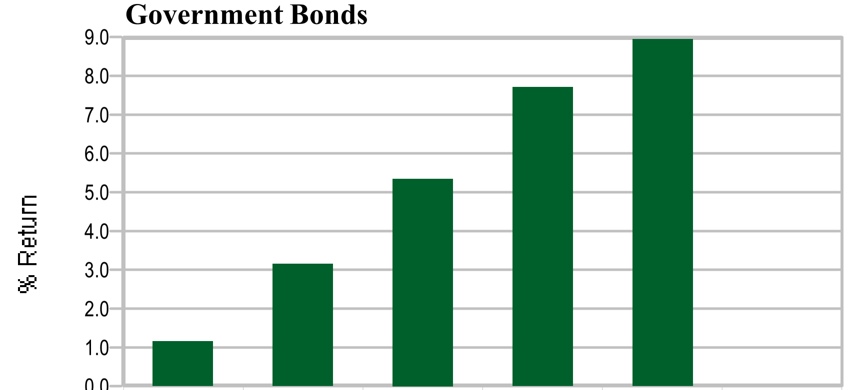
Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.39	5.49	9.66	8.57	7.36	-
B'Mark	5.67	10.78	13.34	8.65	8.29	-

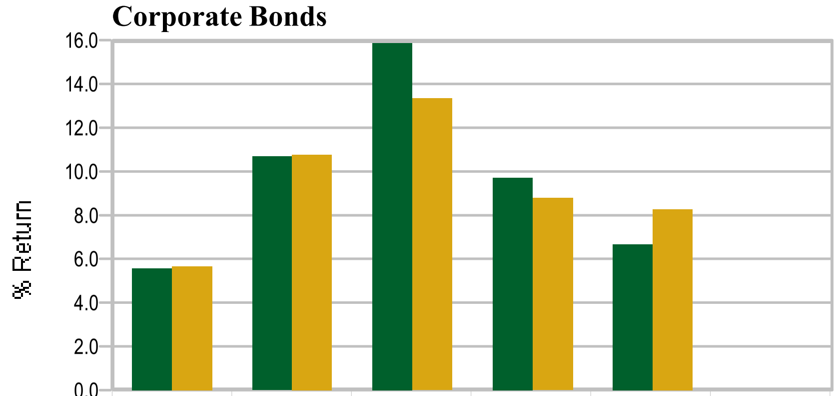
London Borough of Hillingdon

Government Bonds



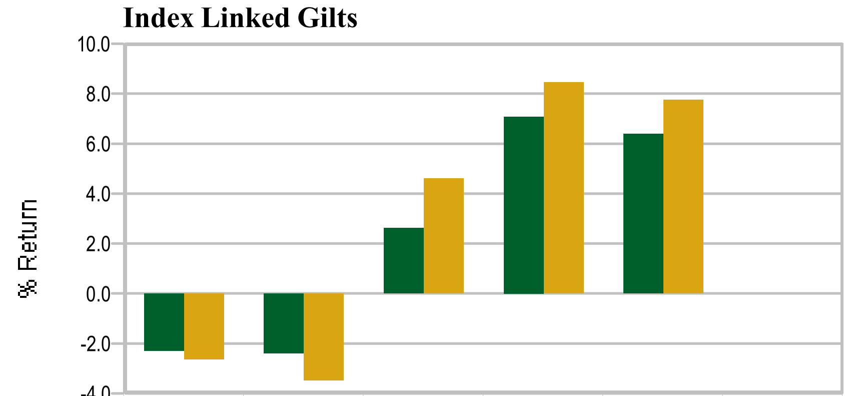
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.15	3.15	5.35	7.72	8.95	-

Corporate Bonds



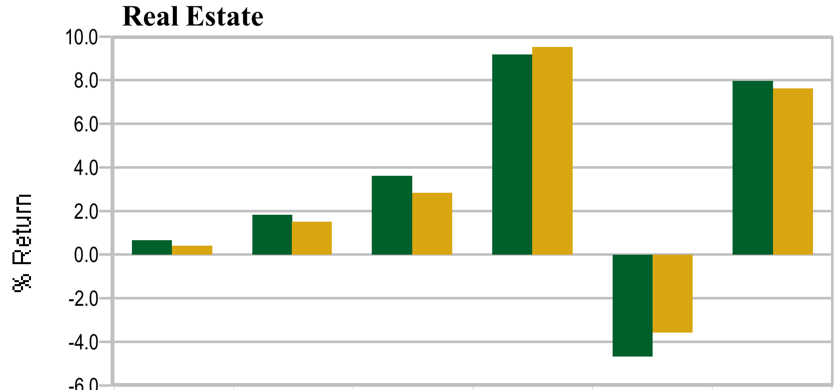
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.57	10.69	15.88	9.73	6.67	-
B'Mark	5.67	10.78	13.34	8.78	8.28	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.31	-2.40	2.61	7.07	6.38	-
B'Mark	-2.64	-3.49	4.59	8.44	7.74	-

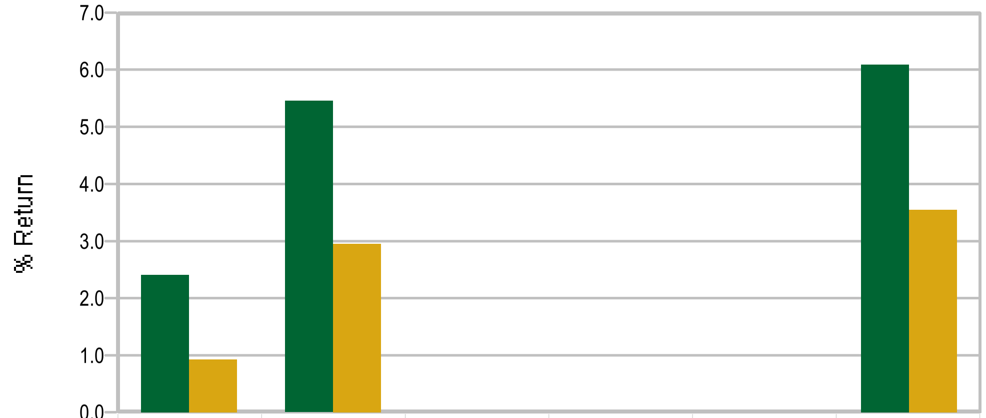
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.66	1.82	3.61	9.19	-4.66	7.97
B'Mark	0.40	1.51	2.83	9.51	-3.57	7.60

JP Morgan

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.41	5.45	-	-	-	6.08
Benchmark	0.93	2.95	-	-	-	3.55

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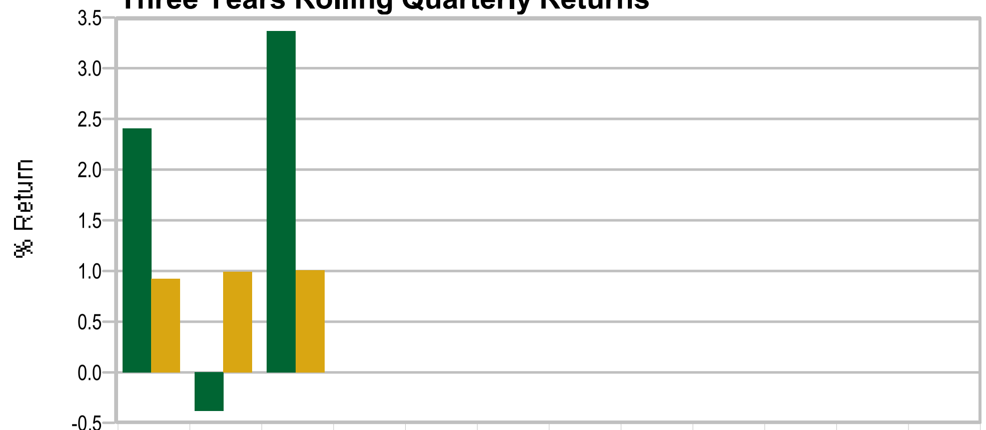
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	11.9	
Inception Date	Nov-2011	
Opening Market Value (£000)	71,736	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	1,726	
Closing Market Value (£000)	73,462	

Three Years Rolling Quarterly Returns



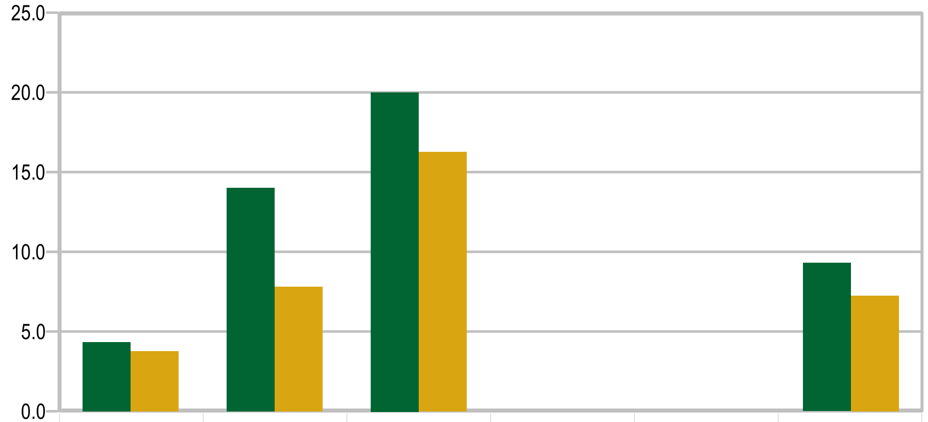
	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	2.41	-0.38	3.37	-	-	-	-	-	-	-	-	-
Benchmark	0.93	0.99	1.01	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-	-	-	-	-	-	-	-	-	2.34	-1.36	1.47
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Marathon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.34	14.01	20.02	-	-	9.31
Benchmark	3.77	7.82	16.27	-	-	7.27

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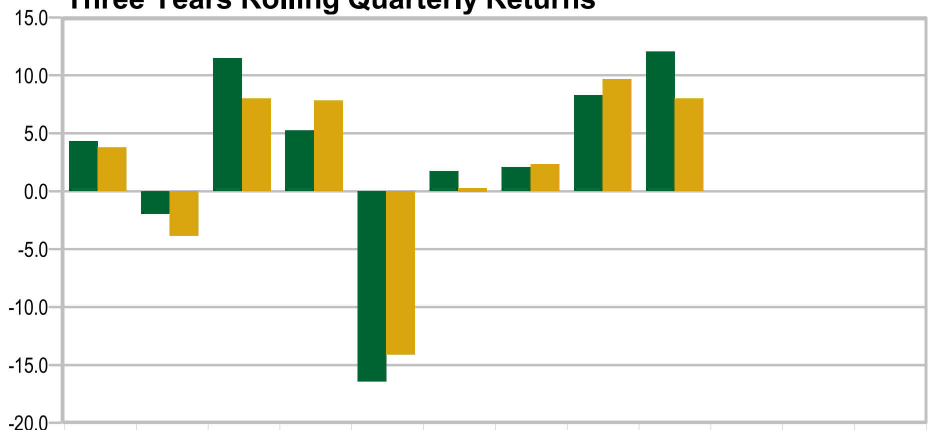
Risk Statistics - 3 years

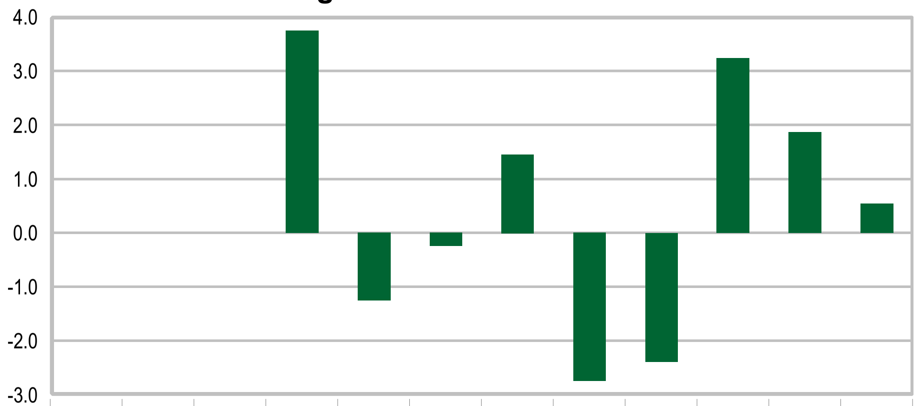
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	9.7	
Inception Date	Jun-2010	
Opening Market Value (£000)	57,498	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	2,494	
Closing Market Value (£000)	59,991	

Three Years Rolling Quarterly Returns



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	4.34	-2.00	11.50	5.27	-16.43	1.77	2.10	8.28	12.07	-	-	-
Benchmark	3.77	-3.80	8.00	7.85	-14.06	0.31	2.36	9.66	8.02	-	-	-

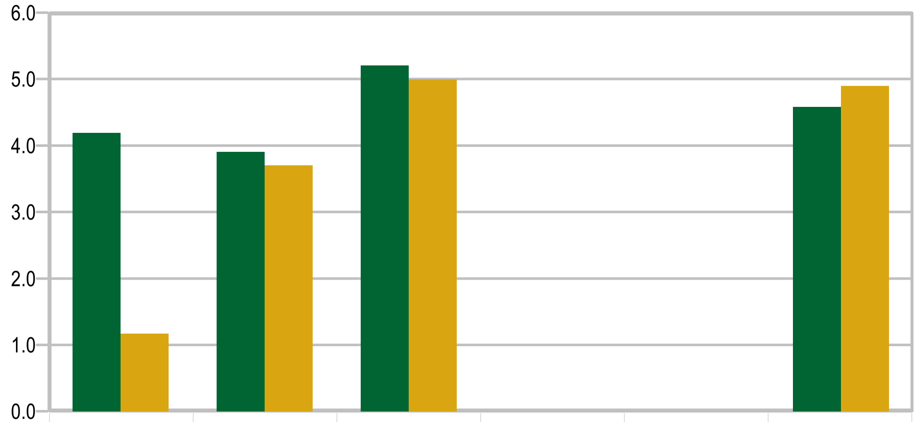
Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-	-	-	3.74	-1.26	-0.25	1.46	-2.75	-2.39	3.24	1.87	0.55
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

M&G Investments

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.19	3.91	5.21	-	-	4.58
Benchmark	1.17	3.70	4.99	-	-	4.89

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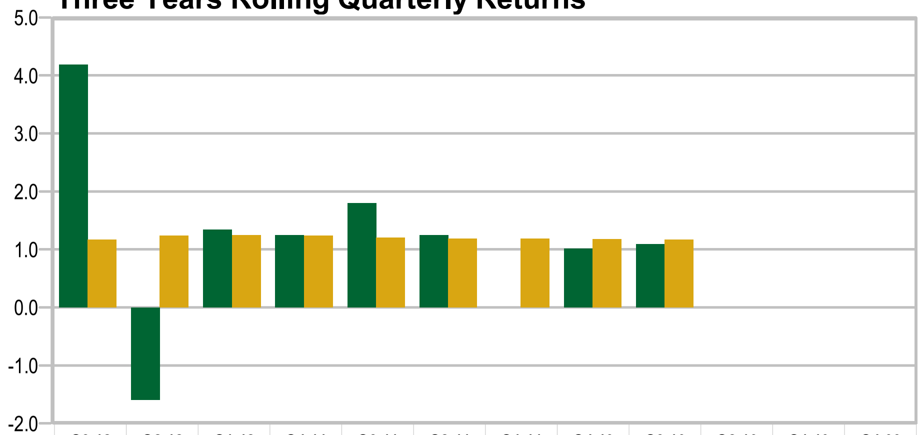
Risk Statistics - 3 years

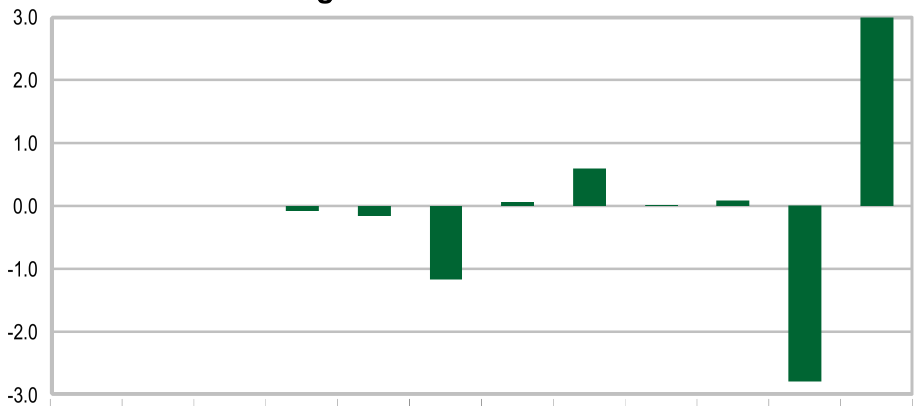
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.1	
Inception Date	May-2010	
Opening Market Value (£000)	11,350	
Net Investment £(000)	950	
Income Received £(000)	0	
Appreciation £(000)	482	
Closing Market Value (£000)	12,782	

Three Years Rolling Quarterly Returns



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	4.19	-1.59	1.34	1.25	1.80	1.25	0.00	1.01	1.09	-	-	-
Benchmark	1.17	1.23	1.25	1.24	1.21	1.19	1.18	1.17	1.17	-	-	-

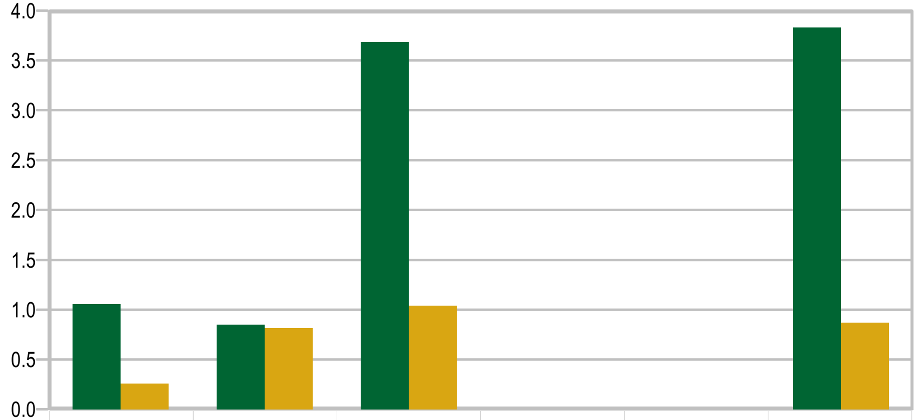
Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-	-	-	-0.08	-0.16	-1.17	0.06	0.59	0.01	0.08	-2.79	2.99
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Ruffer

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.06	0.85	3.68	-	-	3.83
Benchmark	0.26	0.82	1.04	-	-	0.87

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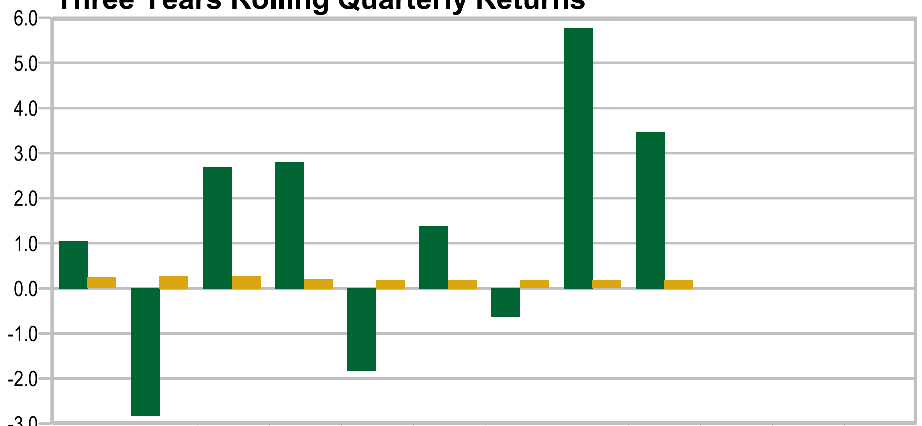
Risk Statistics - 3 years

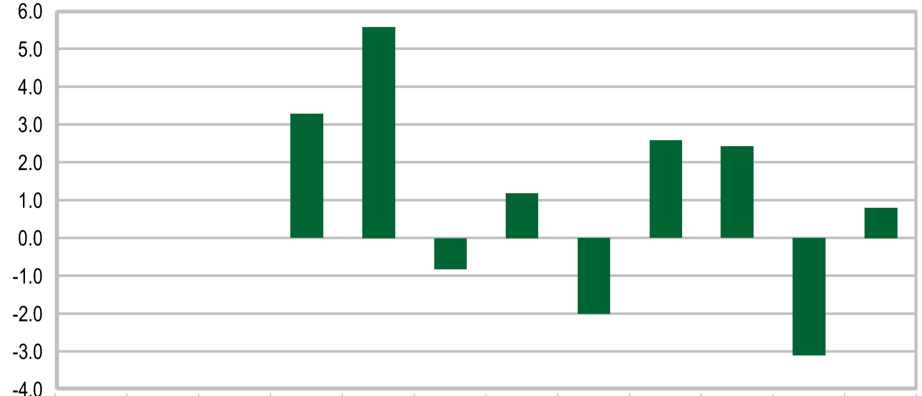
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	18.8	
Inception Date	May-2010	
Opening Market Value (£000)	115,070	
Net Investment £(000)	-0	
Income Received £(000)	646	
Appreciation £(000)	569	
Closing Market Value (£000)	116,286	

Three Years Rolling Quarterly Returns



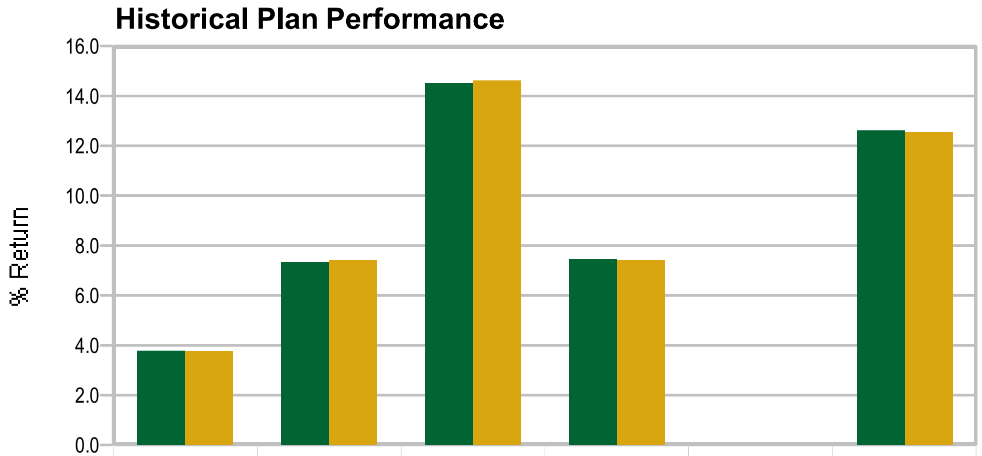
	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	1.06	-2.83	2.70	2.81	-1.82	1.39	-0.64	5.77	3.47	-	-	-
Benchmark	0.26	0.28	0.28	0.22	0.19	0.20	0.18	0.18	0.18	-	-	-

Three Years Rolling Relative Returns

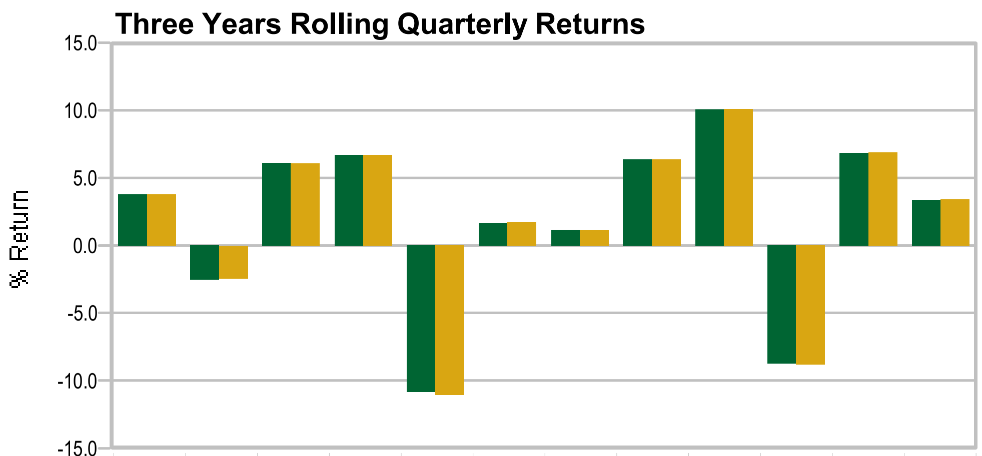


	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-	-	-	3.28	5.58	-0.82	1.18	-2.01	2.58	2.42	-3.10	0.80
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

SSGA



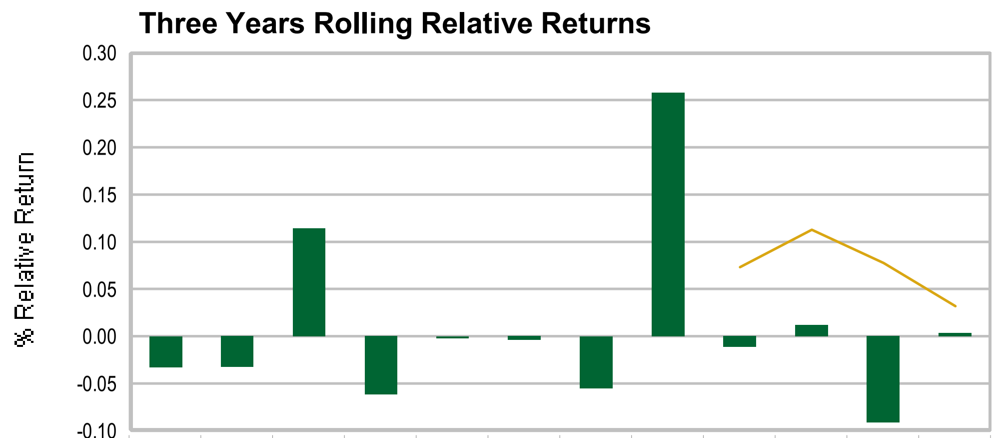
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	7.32	14.53	7.44	-	12.62
Benchmark	3.77	7.40	14.63	7.41	-	12.56



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	3.77	-2.53	6.11	6.71	-10.84	1.69	1.19	6.36	10.06	-8.72	6.85	3.38
Benchmark	3.77	-2.44	6.09	6.73	-11.07	1.75	1.20	6.36	10.13	-8.82	6.89	3.41

Risk Statistics - 3 years

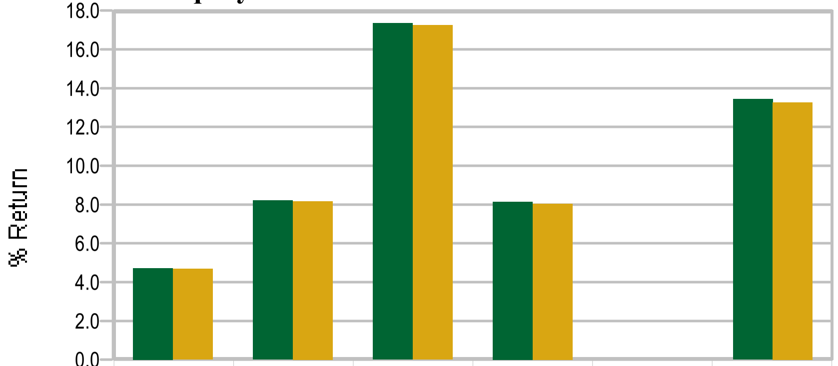
	Fund	B'mark
Performance Return	7.44	7.41
Standard Deviation	10.49	10.57
Relative Return	0.03	
Tracking Error	0.16	
Information Ratio	0.21	
Beta	0.99	
Alpha	0.08	
R Squared	1.00	
Sharpe Ratio	0.60	0.59
Percentage of Total Fund	19.2	
Inception Date	Nov-2008	
Opening Market Value (£000)	114,518	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	4,316	
Closing Market Value (£000)	118,833	



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-0.03	-0.03	0.11	-0.06	-0.00	-0.00	-0.06	0.26	-0.01	0.01	-0.09	0.00
3Y Relative	-	-	-	-	-	-	-	-	0.07	0.11	0.08	0.03

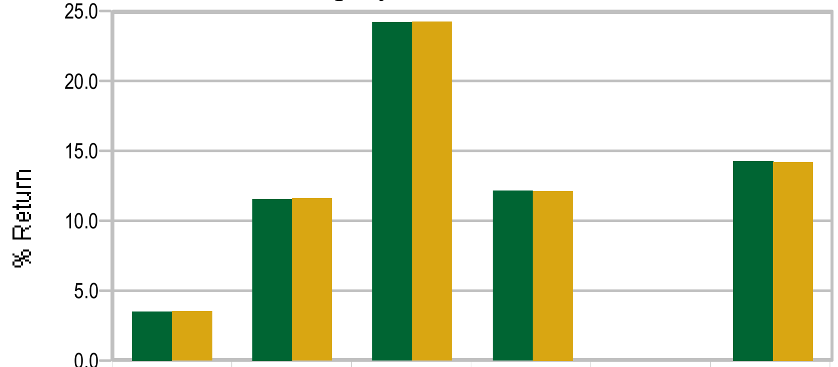
SSGA

UK Equity



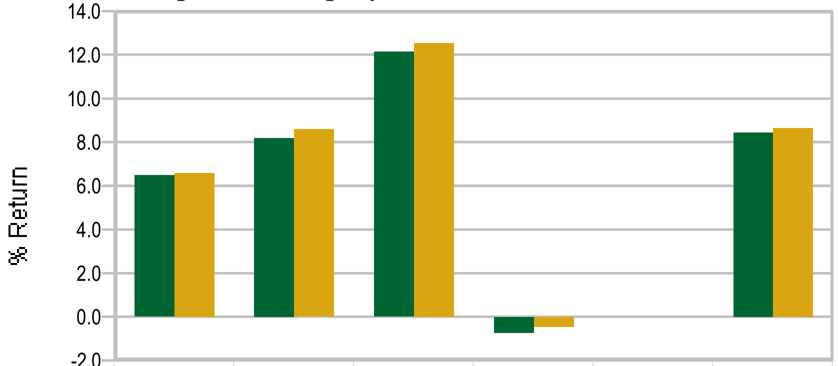
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.72	8.21	17.36	8.15	-	13.43
B'Mark	4.70	8.17	17.25	8.05	-	13.29

North America Equity



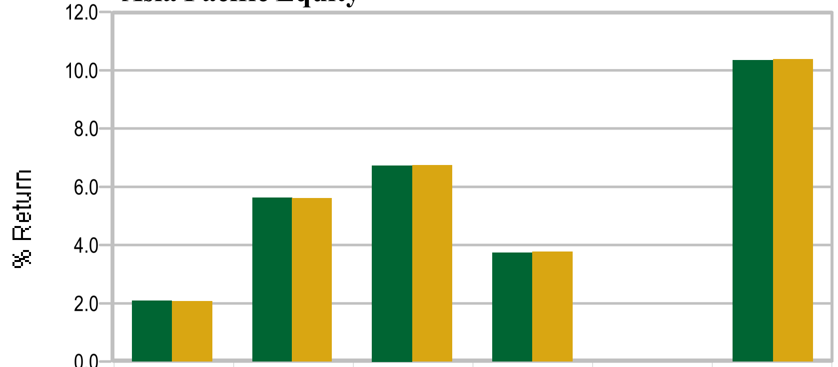
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.52	11.57	24.21	12.17	-	14.28
B'Mark	3.54	11.60	24.23	12.14	-	14.22

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.48	8.18	12.13	-0.74	-	8.43
B'Mark	6.57	8.59	12.53	-0.44	-	8.65

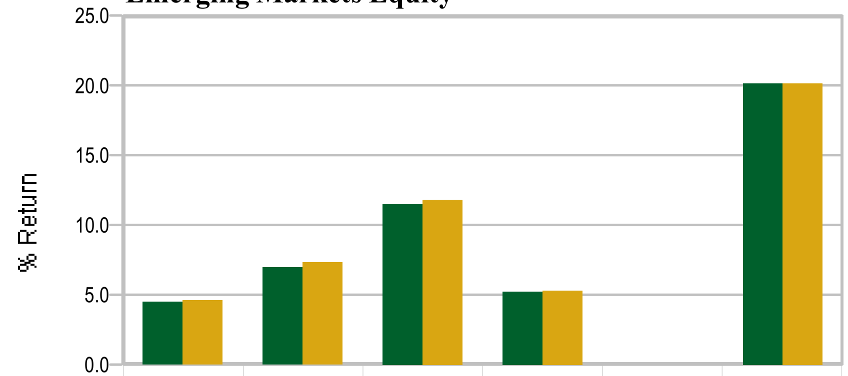
Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.09	5.63	6.73	3.74	-	10.35
B'Mark	2.08	5.61	6.74	3.77	-	10.39

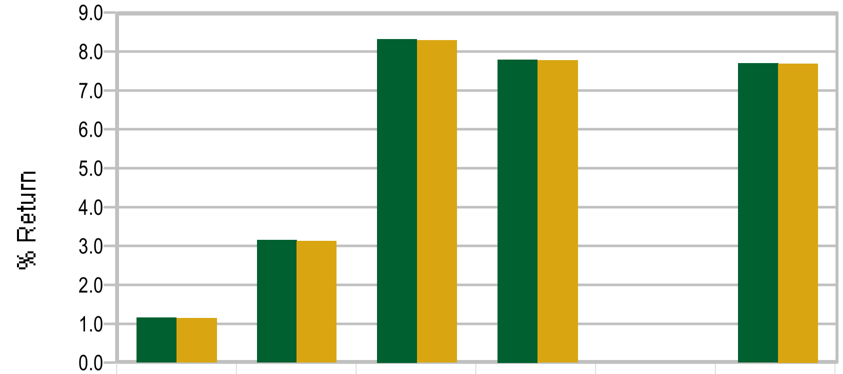
SSGA

Emerging Markets Equity



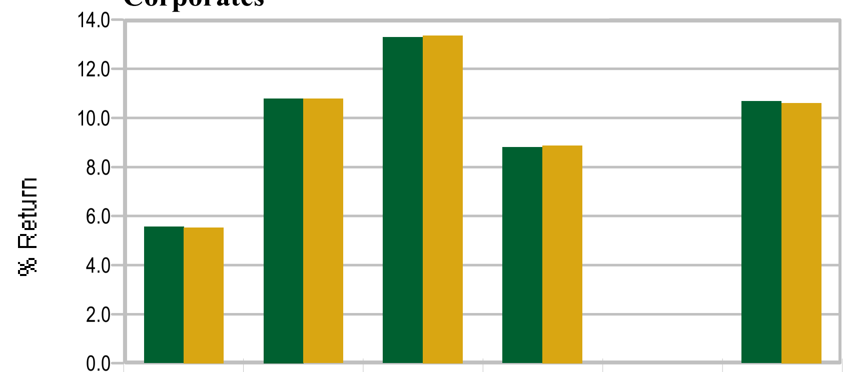
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.52	6.97	11.50	5.23	-	20.16
B'Mark	4.61	7.33	11.80	5.31	-	20.16

Government Bonds



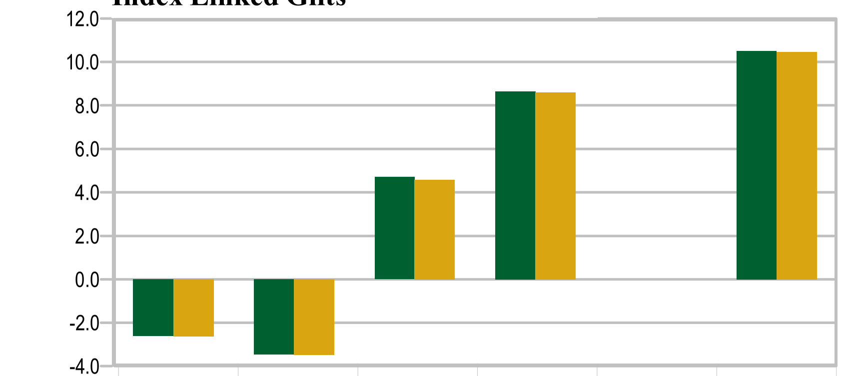
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.15	3.15	8.32	7.79	-	7.70
B'Mark	1.14	3.12	8.29	7.77	-	7.69

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.57	10.79	13.29	8.80	-	10.67
B'Mark	5.53	10.78	13.36	8.87	-	10.60

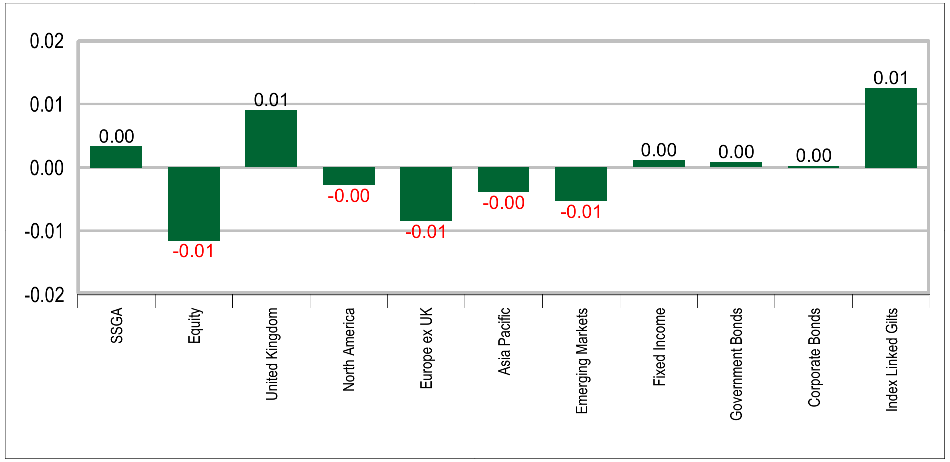
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.60	-3.45	4.71	8.66	-	10.51
B'Mark	-2.64	-3.49	4.59	8.60	-	10.46

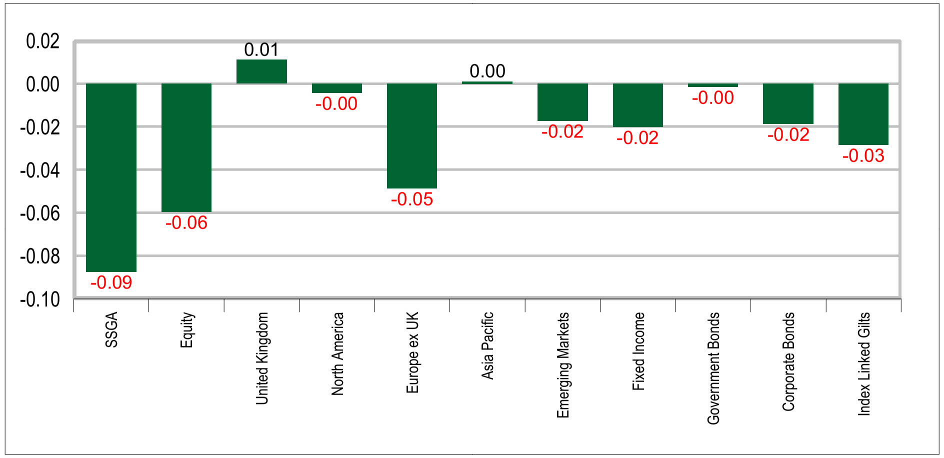
SSGA

Relative Contribution - Three Months



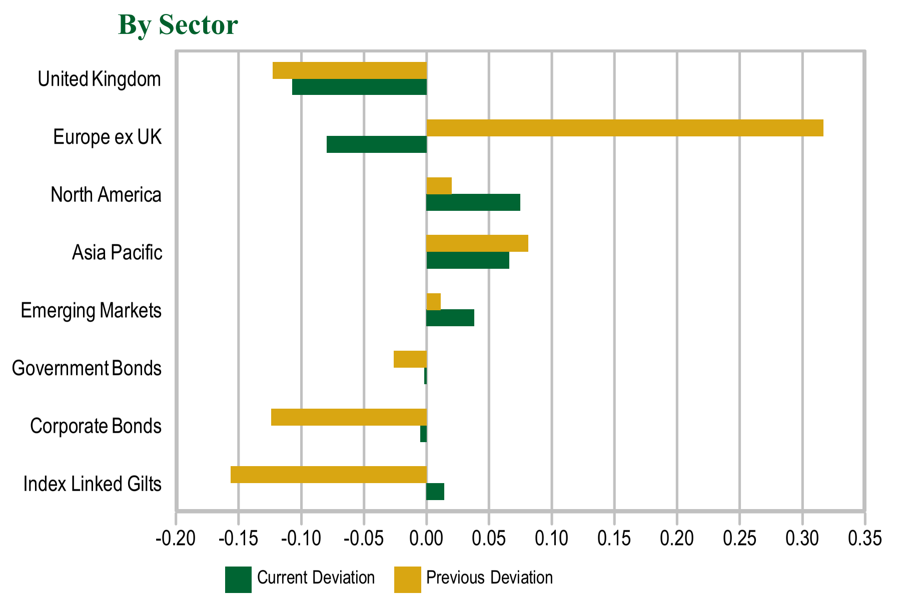
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	3.77	3.77	0.00	0.00	-0.28	0.28	0.00
Equity	4.42	-	4.42	-0.01	-0.04	0.03	-0.01
United Kingdom	4.72	4.70	0.02	-0.00	0.01	0.00	0.01
North America	3.52	3.54	-0.02	-0.00	0.03	-0.03	-0.00
Europe ex UK	6.48	6.57	-0.09	0.00	0.02	-0.03	-0.01
Asia Pacific	2.09	2.08	0.02	-0.01	-0.04	0.04	-0.00
Emerging Markets	4.52	4.61	-0.09	-0.00	-0.05	0.05	-0.01
Fixed Income	4.91	-	4.91	0.00	-0.25	0.25	0.00
Government Bonds	1.15	1.14	0.01	0.00	0.00	-0.00	0.00
Corporate Bonds	5.57	5.53	0.04	-0.00	-0.25	0.25	0.00
Index Linked Gilts	-2.60	-2.64	0.04	0.01	0.00	-0.00	0.01

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	14.53	14.63	-0.09	-0.06	0.07	-0.12	-0.09
Equity	15.90	-	15.90	-0.01	0.42	-0.47	-0.06
United Kingdom	17.36	17.25	0.10	-0.02	0.04	-0.01	0.01
North America	24.21	24.23	-0.02	-0.00	0.04	-0.04	-0.00
Europe ex UK	12.13	12.53	-0.36	-0.01	0.08	-0.12	-0.05
Asia Pacific	6.73	6.74	-0.01	0.03	0.41	-0.43	0.00
Emerging Markets	11.50	11.80	-0.27	-0.01	-0.15	0.14	-0.02
Fixed Income	12.57	-	12.57	-0.01	-0.37	0.36	-0.02
Government Bonds	8.32	8.29	0.03	-0.00	0.00	-0.00	-0.00
Corporate Bonds	13.29	13.36	-0.06	-0.01	-0.37	0.36	-0.02
Index Linked Gilts	4.71	4.59	0.11	-0.04	0.01	-0.00	-0.03

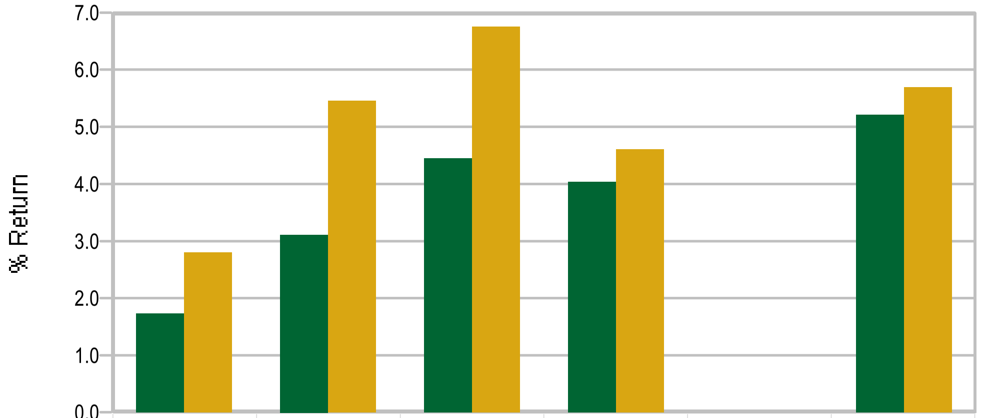
SSGA



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	79.99	80.31		79.99		80.31
United Kingdom	43.89	43.88	44.00	-0.11	44.00	-0.12
Europe ex UK	10.92	11.32	11.00	-0.08	11.00	0.32
North America	11.07	11.02	11.00	0.07	11.00	0.02
Asia Pacific	11.07	11.08	11.00	0.07	11.00	0.08
Emerging Markets	3.04	3.01	3.00	0.04	3.00	0.01
Fixed Income	9.99	9.85		9.99		9.85
Government Bonds	1.50	1.47	1.50	-0.00	1.50	-0.03
Corporate Bonds	8.50	8.38	8.50	-0.00	8.50	-0.12
Index Linked Gilts	10.01	9.84	10.00	0.01	10.00	-0.16

SSGA Drawdown

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.73	3.11	4.45	4.03	-	5.21
Benchmark	2.80	5.46	6.76	4.61	-	5.70

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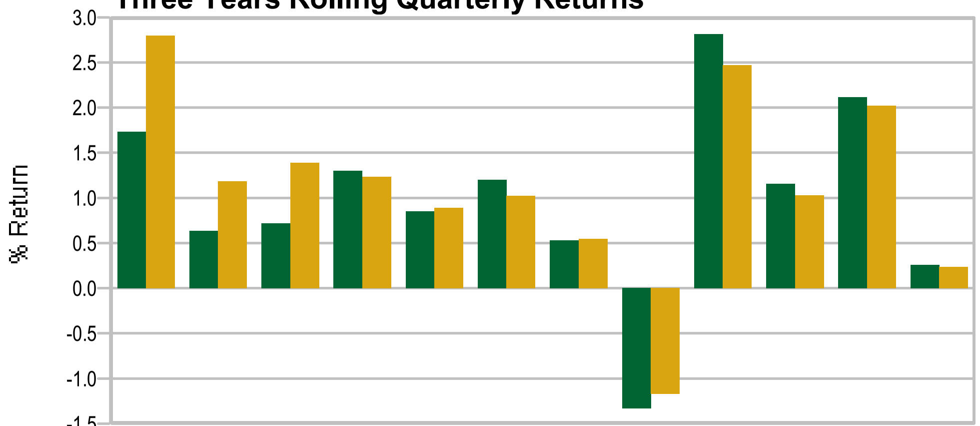
Risk Statistics - 3 years

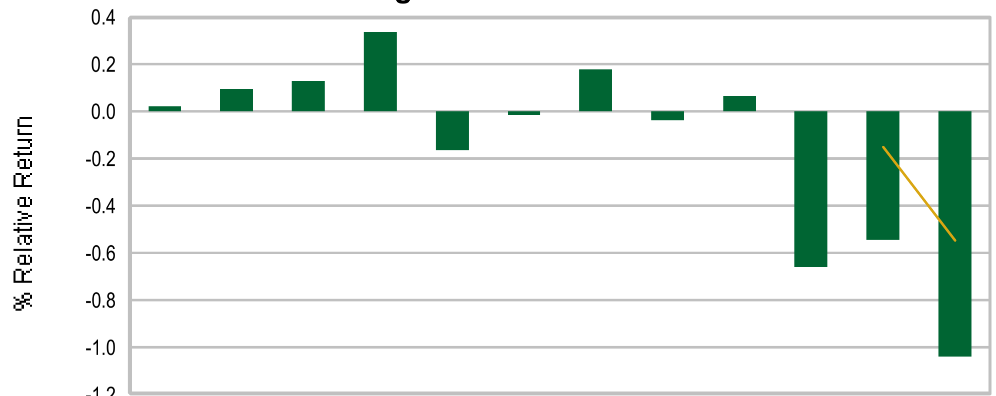
	Fund	B'mark
Performance Return	4.03	4.61
Standard Deviation	2.37	2.42
Relative Return	-0.55	
Tracking Error	0.77	
Information Ratio	-0.75	
Beta	0.93	
Alpha	-0.33	
R Squared	0.90	
Sharpe Ratio	1.20	1.41
Percentage of Total Fund	1.7	
Inception Date	Jun-2009	
Opening Market Value (£000)	14,663	
Net Investment £(000)	-4,240	
Income Received £(000)	-0	
Appreciation £(000)	198	
Closing Market Value (£000)	10,621	

Three Years Rolling Quarterly Returns



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	1.73	0.64	0.72	1.30	0.85	1.20	0.53	-1.34	2.81	1.16	2.12	0.26
Benchmark	2.80	1.19	1.39	1.23	0.89	1.02	0.55	-1.17	2.47	1.03	2.02	0.24

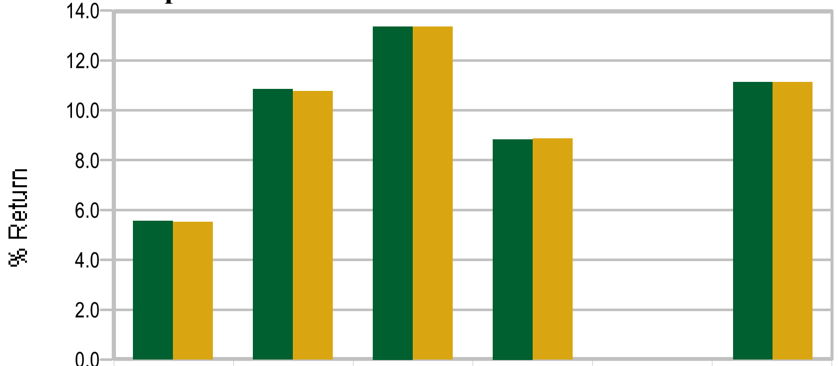
Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	0.02	0.09	0.13	0.34	-0.17	-0.01	0.18	-0.04	0.07	-0.66	-0.54	-1.04
3Y Relative	-	-	-	-	-	-	-	-	-	-	-0.15	-0.55

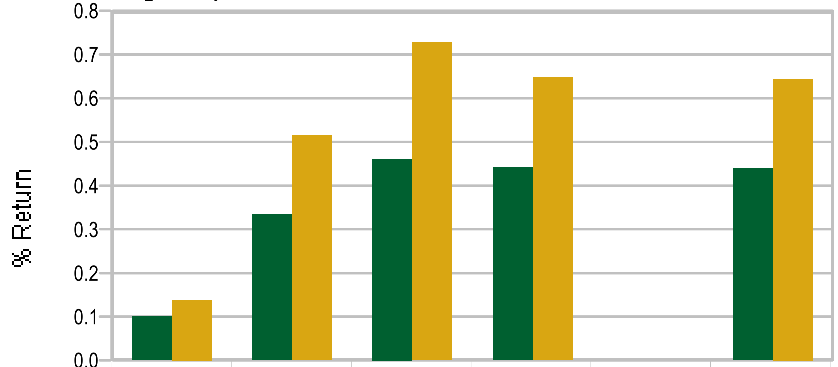
SSGA Drawdown

Corporate Bond Fund



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.57	10.85	13.37	8.85	-	11.14
B'Mark	5.53	10.78	13.36	8.87	-	11.13

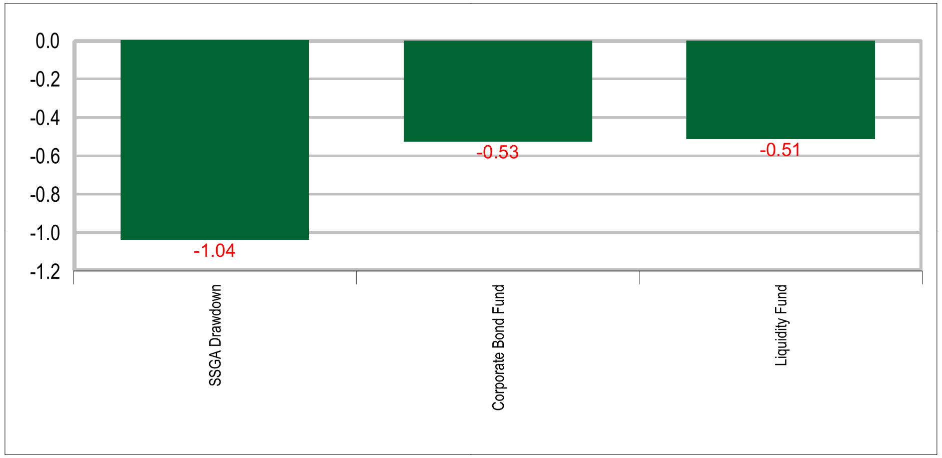
Liquidity Fund



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.14	0.51	0.73	0.65	-	0.64
B'Mark	0.10	0.33	0.46	0.44	-	0.44

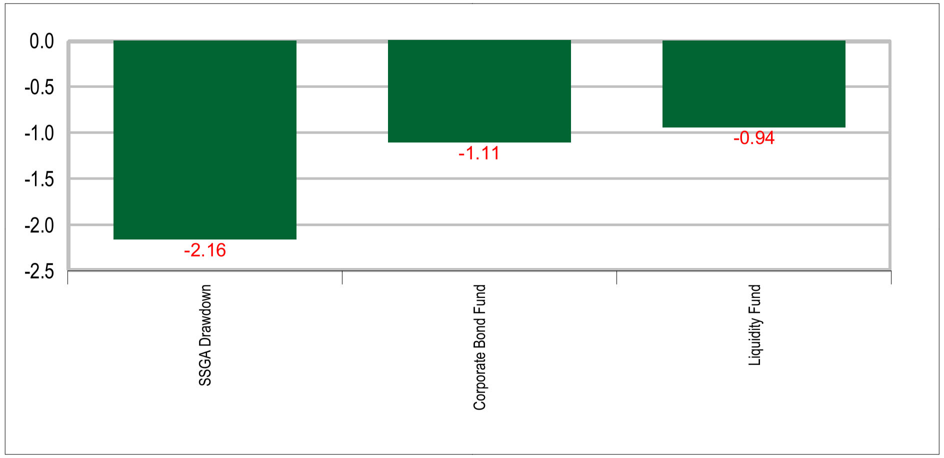
SSGA Drawdown

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	1.73	2.80	-1.04	-1.08	0.04	-1.04
Corporate Bond Fund	5.57	5.53	0.04	-0.54	0.01	-0.53
Liquidity Fund	0.14	0.10	0.04	-0.54	0.03	-0.51

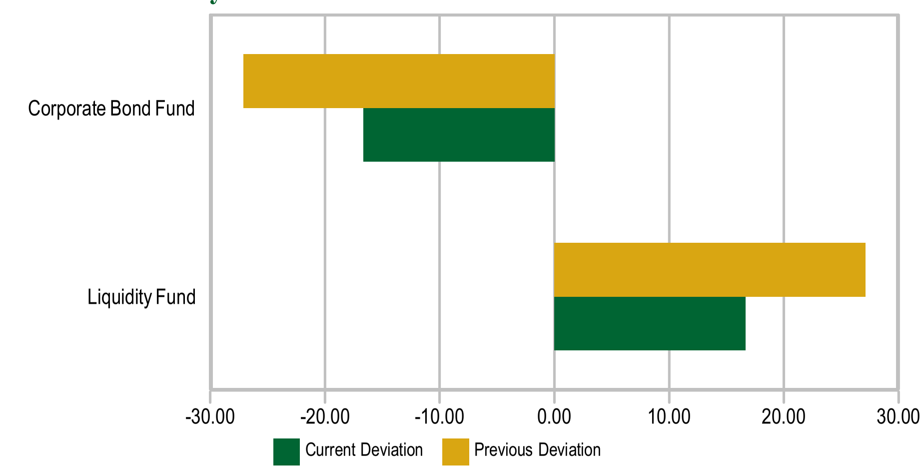
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	4.45	6.76	-2.16	-2.21	0.17	-2.16
Corporate Bond Fund	13.37	13.36	0.01	-1.10	-0.01	-1.11
Liquidity Fund	0.73	0.46	0.27	-1.12	0.18	-0.94

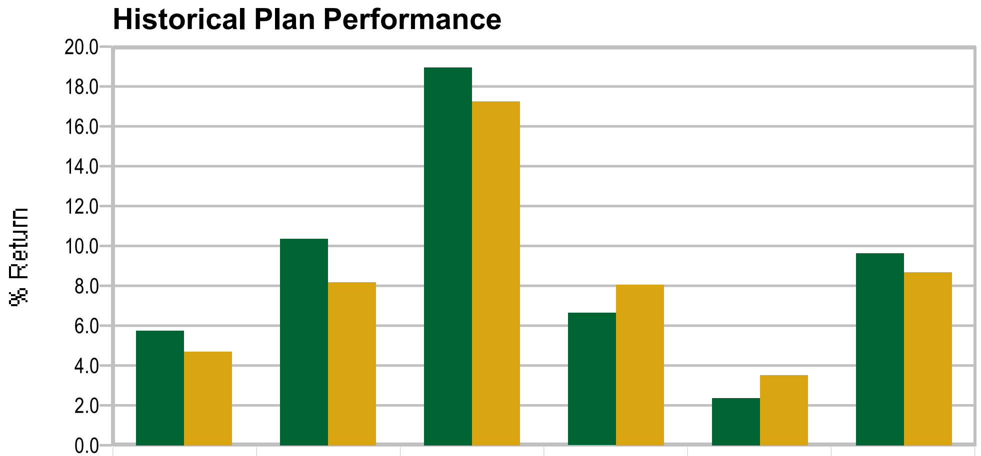
SSGA Drawdown

By Sector



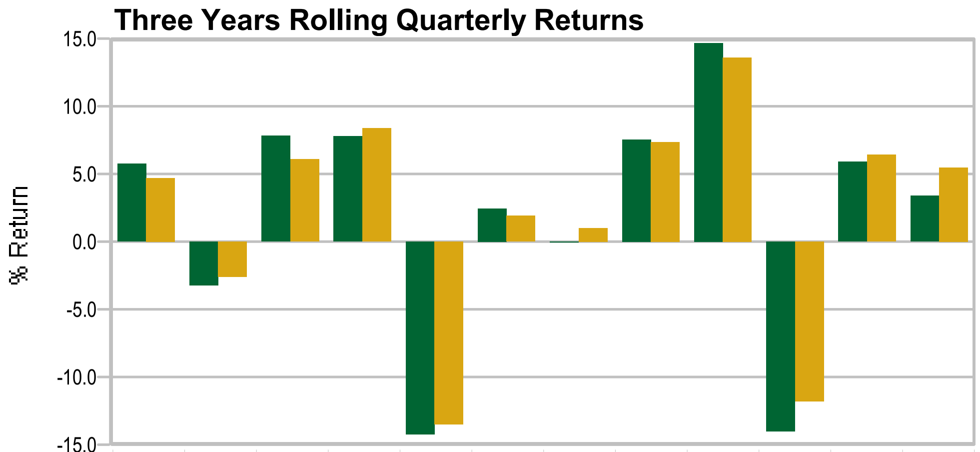
	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Corporate Bond Fund	33.35	22.88	50.00	-16.65	50.00	-27.12
Liquidity Fund	66.65	77.12	50.00	16.65	50.00	27.12

UBS

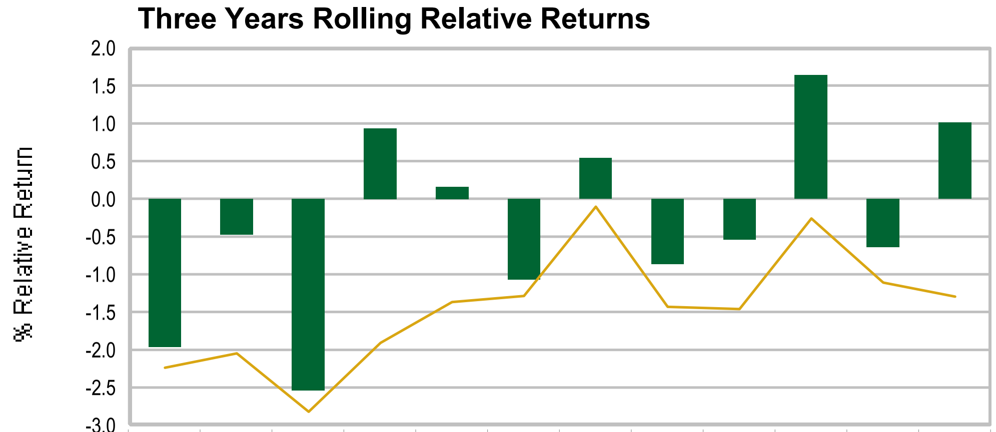


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.75	10.34	18.95	6.65	2.37	9.64
Benchmark	4.70	8.17	17.25	8.05	3.52	8.68

Risk Statistics - 3 years	Fund	B'mark
Performance Return	6.65	8.05
Standard Deviation	15.32	13.64
Relative Return	-1.29	
Tracking Error	3.46	
Information Ratio	-0.40	
Beta	1.10	
Alpha	-1.79	
R Squared	0.96	
Sharpe Ratio	0.36	0.50
Percentage of Total Fund	18.7	
Inception Date	Dec-1988	
Opening Market Value (£000)	109,429	
Net Investment £(000)	0	
Income Received £(000)	1,019	
Appreciation £(000)	5,278	
Closing Market Value (£000)	115,726	



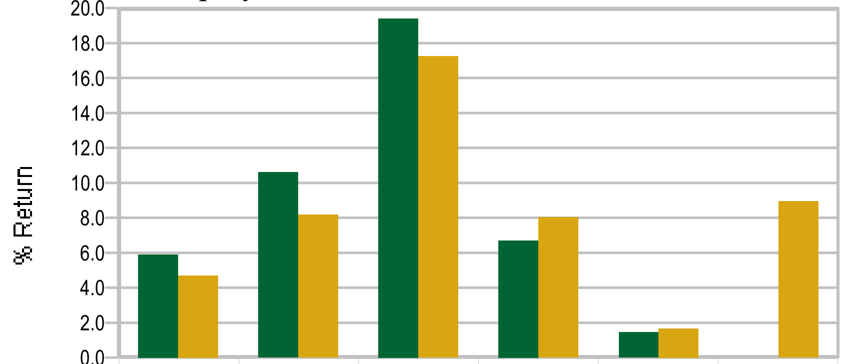
	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	5.75	-3.25	7.84	7.80	-14.25	2.46	-0.05	7.55	14.69	-14.05	5.91	3.41
Benchmark	4.70	-2.63	6.10	8.39	-13.50	1.91	1.03	7.38	13.63	-11.80	6.42	5.47



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-1.96	-0.48	-2.54	0.93	0.16	-1.07	0.54	-0.87	-0.54	1.63	-0.64	1.01
3Y Relative	-2.24	-2.05	-2.82	-1.91	-1.37	-1.29	-0.11	-1.43	-1.46	-0.26	-1.11	-1.29

UBS

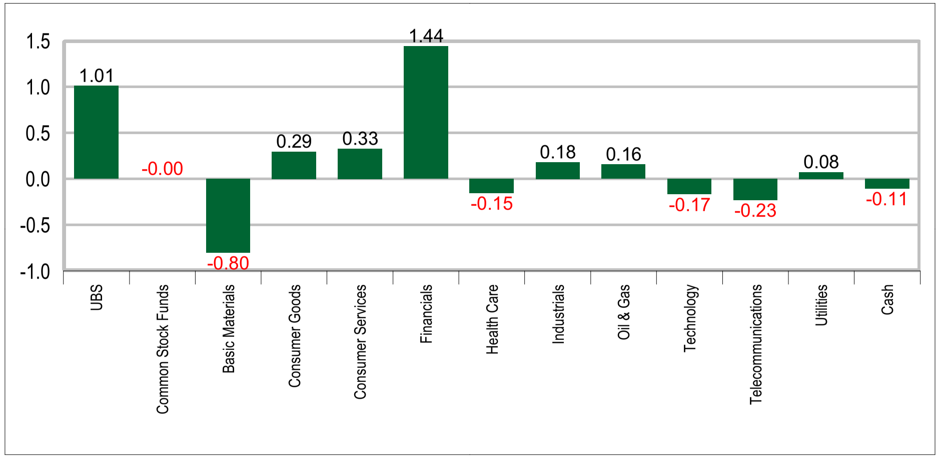
UK Equity



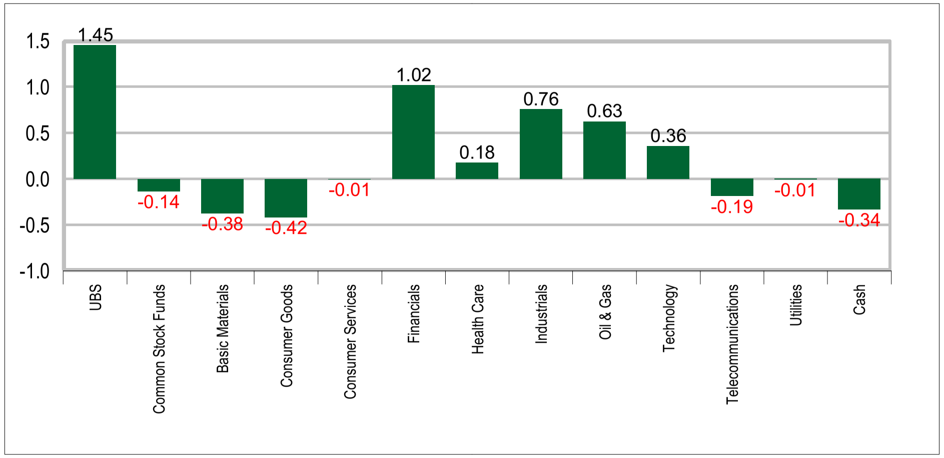
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.91	10.62	19.40	6.72	1.45	-
B'Mark	4.70	8.17	17.25	8.05	1.67	8.96

UBS

Relative Contribution - Three Months



Relative Contribution - One Year



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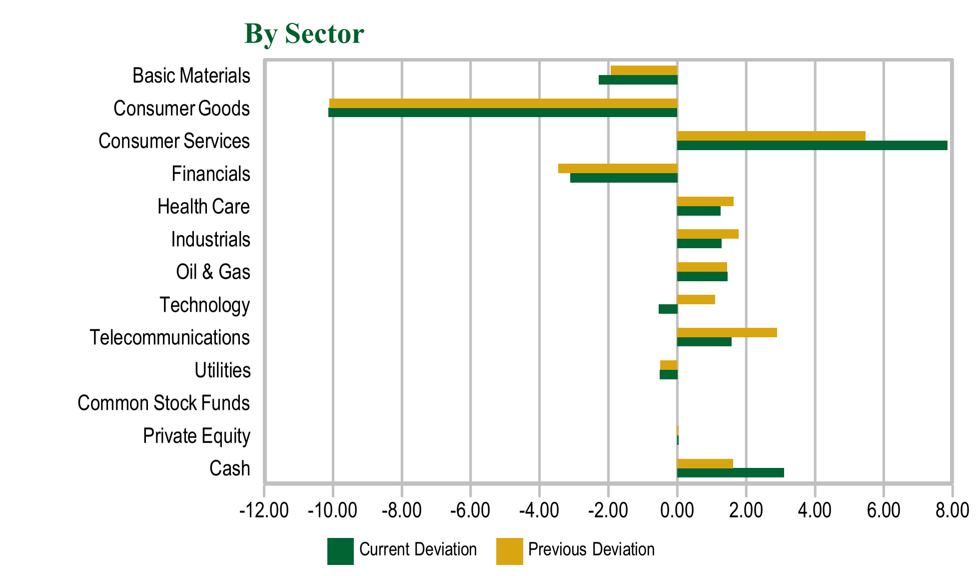
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	5.75	4.70	1.01	0.03	0.98	1.01
Common Stock Funds	0.00	-	0.00	-0.00	0.00	-0.00
Basic Materials	-5.13	5.05	-9.68	-0.02	-0.78	-0.80
Consumer Goods	7.20	3.16	3.92	0.15	0.14	0.29
Consumer Services	7.96	7.32	0.59	0.16	0.17	0.33
Financials	18.58	8.39	9.41	-0.13	1.58	1.44
Health Care	0.45	1.76	-1.29	-0.03	-0.12	-0.15
Industrials	8.62	7.20	1.33	0.04	0.14	0.18
Oil & Gas	2.64	1.54	1.07	-0.05	0.21	0.16
Technology	-0.75	11.37	-10.88	0.08	-0.25	-0.17
Telecommunications	-1.02	0.74	-1.75	-0.07	-0.16	-0.23
Utilities	4.44	2.54	1.86	0.01	0.06	0.08
Cash	0.05	-	0.05	-0.11	0.00	-0.11

	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	18.95	17.25	1.45	-0.34	1.77	1.45
Common Stock Funds	-22.72	-	-22.72	-0.14	0.00	-0.14
Basic Materials	-3.62	4.90	-8.12	0.25	-0.63	-0.38
Consumer Goods	24.74	22.67	1.69	-0.47	0.05	-0.42
Consumer Services	16.02	18.62	-2.19	0.19	-0.19	-0.01
Financials	29.43	21.24	6.75	-0.19	1.21	1.02
Health Care	13.69	10.53	2.86	-0.07	0.25	0.18
Industrials	37.31	30.29	5.38	0.21	0.55	0.76
Oil & Gas	16.36	12.36	3.56	-0.07	0.70	0.63
Technology	32.81	23.41	7.62	0.06	0.29	0.36
Telecommunications	14.37	18.22	-3.25	0.16	-0.35	-0.19
Utilities	14.05	16.67	-2.25	0.06	-0.07	-0.01
Cash	0.62	-	0.62	-0.34	0.00	-0.34

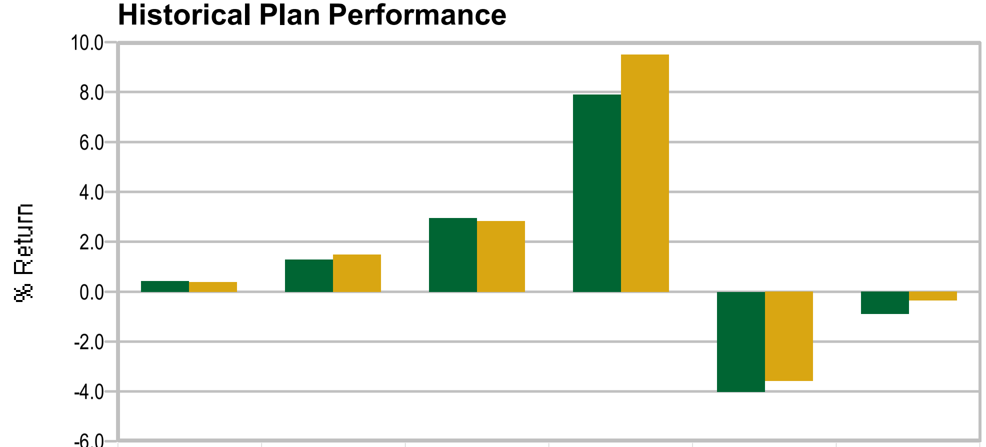
UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	7.65	8.19	9.92	-2.27	10.12	-1.92
Consumer Goods	3.54	3.79	13.66	-10.12	13.91	-10.11
Consumer Services	17.33	14.62	9.48	7.85	9.16	5.46
Financials	18.00	16.87	21.11	-3.11	20.33	-3.46
Health Care	8.79	9.41	7.54	1.25	7.78	1.63
Industrials	10.38	10.57	9.10	1.28	8.78	1.78
Oil & Gas	18.80	19.22	17.33	1.47	17.77	1.45
Technology	0.89	2.55	1.44	-0.55	1.44	1.11
Telecommunications	8.01	9.58	6.44	1.58	6.68	2.90
Utilities	3.47	3.54	3.97	-0.51	4.03	-0.49
Common Stock Funds	0.00	0.00		0.00		0.00
Private Equity	0.04	0.04		0.04		0.04
Cash	3.10	1.62		3.10		1.62

UBS Property

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.43	1.29	2.96	7.91	-4.01	-0.90
Benchmark	0.40	1.51	2.83	9.51	-3.57	-0.34

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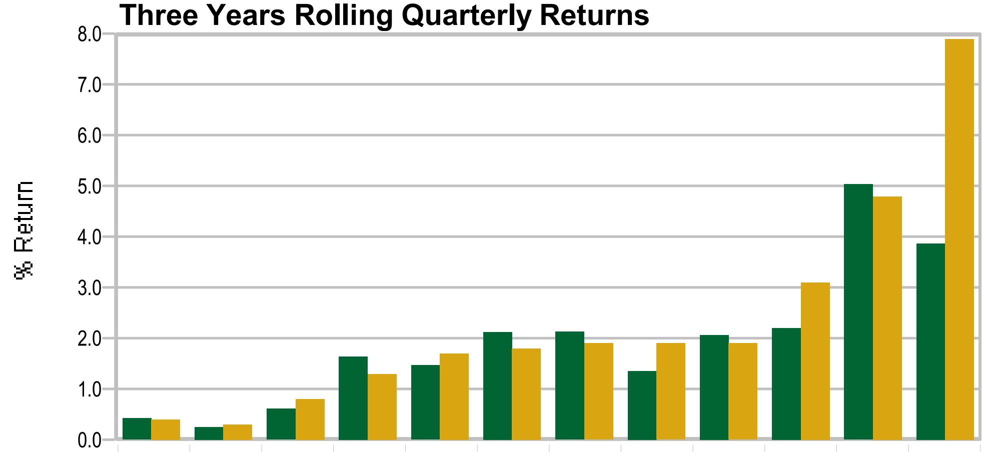
Risk Statistics - 3 years

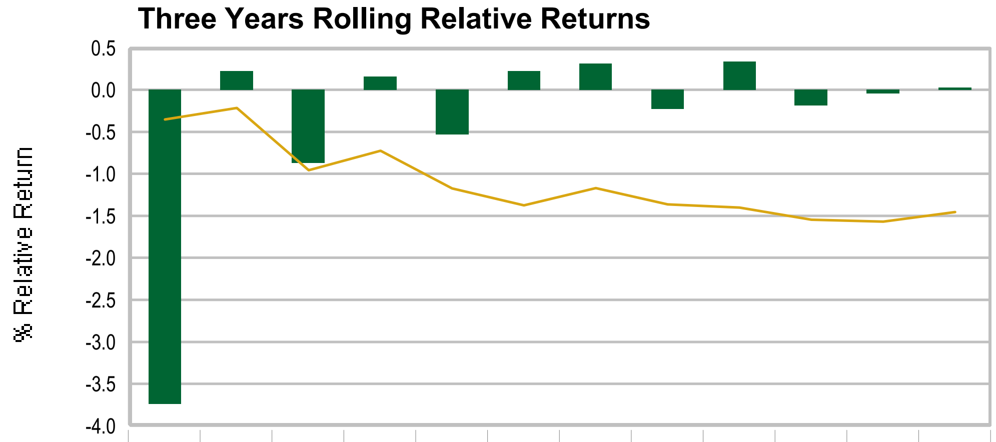
	Fund	B'mark
Performance Return	7.91	9.51
Standard Deviation	2.34	2.39
Relative Return	-1.46	
Tracking Error	2.16	
Information Ratio	-0.74	
Beta	0.59	
Alpha	1.83	
R Squared	0.37	
Sharpe Ratio	2.87	3.48
Percentage of Total Fund	8.0	
Inception Date	Mar-2006	
Opening Market Value (£000)	49,421	
Net Investment £(000)	-3	
Income Received £(000)	690	
Appreciation £(000)	-479	
Closing Market Value (£000)	49,629	

Three Years Rolling Quarterly Returns



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	0.43	0.25	0.61	1.64	1.47	2.12	2.13	1.36	2.06	2.20	5.03	3.86
Benchmark	0.40	0.30	0.80	1.30	1.70	1.80	1.90	1.90	1.90	3.10	4.80	7.90

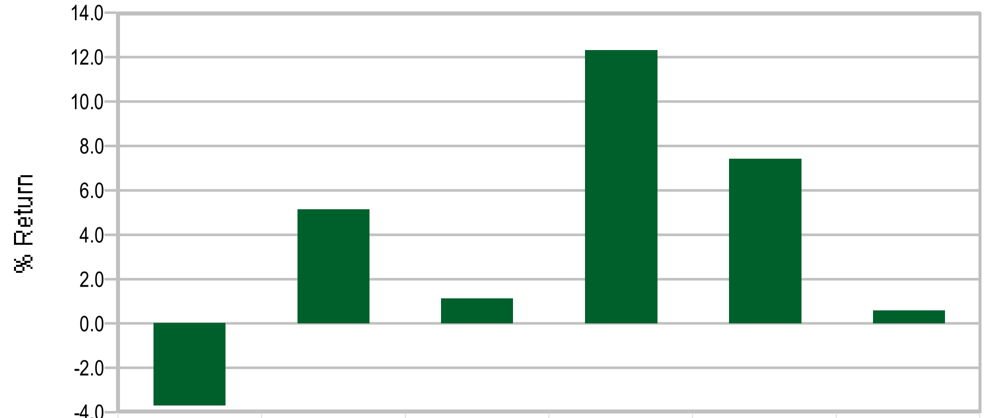
Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
3M Relative	-3.74	0.23	-0.87	0.16	-0.53	0.23	0.31	-0.23	0.34	-0.19	-0.05	0.03
3Y Relative	-0.35	-0.22	-0.96	-0.72	-1.17	-1.38	-1.17	-1.36	-1.40	-1.55	-1.57	-1.46

Adam Street

Historical Plan Performance

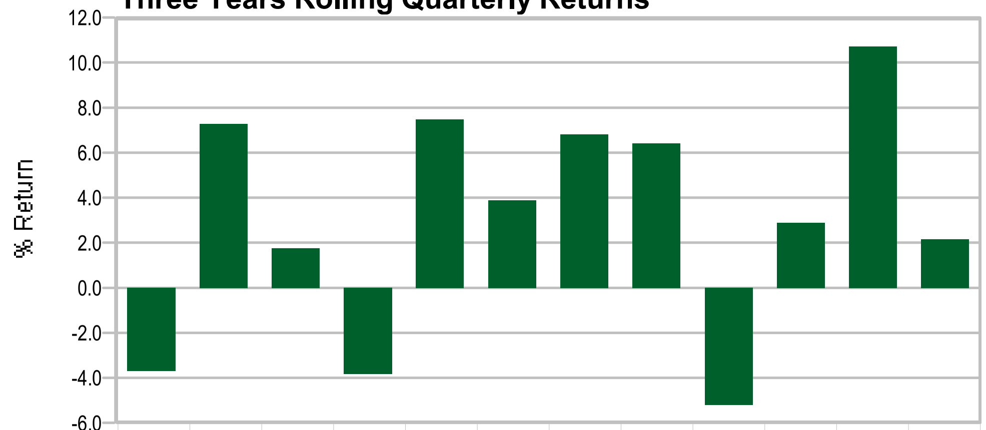


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.70	5.14	1.12	12.31	7.41	0.58

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	3.4	
Inception Date	Jan-2005	
Opening Market Value (£000)	21,824	
Net Investment £(000)	-137	
Income Received £(000)	0	
Appreciation £(000)	-804	
Closing Market Value (£000)	20,882	

Three Years Rolling Quarterly Returns



	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	-3.70	7.29	1.76	-3.83	7.48	3.89	6.83	6.42	-5.19	2.90	10.72	2.15

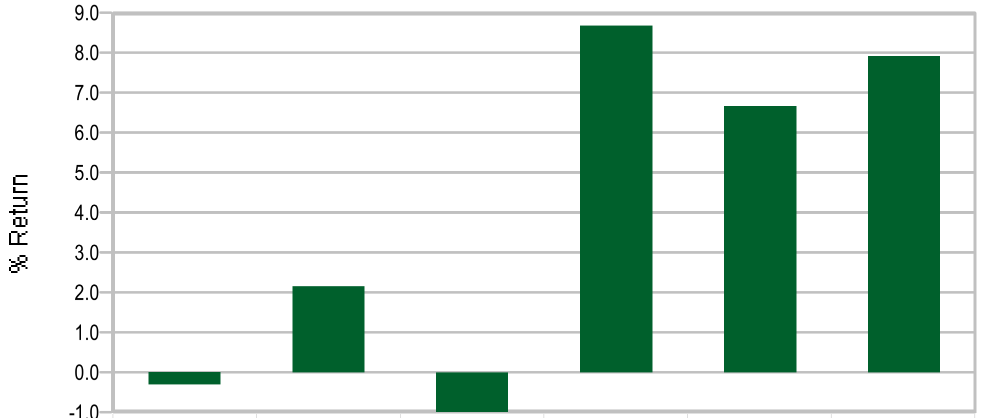
Three Years Rolling Relative Returns

3M Relative

3Y Relative

LGT

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.30	2.15	-0.99	8.66	6.66	7.91

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	2.7	
Inception Date	May-2004	
Opening Market Value (£000)	17,159	
Net Investment £(000)	-522	
Income Received £(000)	0	
Appreciation £(000)	-56	
Closing Market Value (£000)	16,580	

Three Years Rolling Quarterly Returns

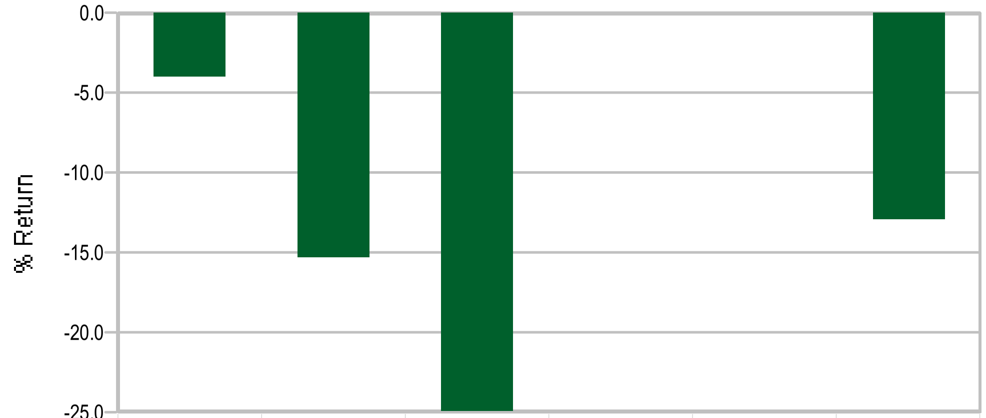
	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	-0.30	0.99	1.45	-3.07	-1.10	6.61	7.88	1.99	8.95	-1.42	4.13	-0.11

Three Years Rolling Relative Returns

3M Relative
3Y Relative

Macquarie

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-4.01	-15.29	-24.90	-	-	-12.92

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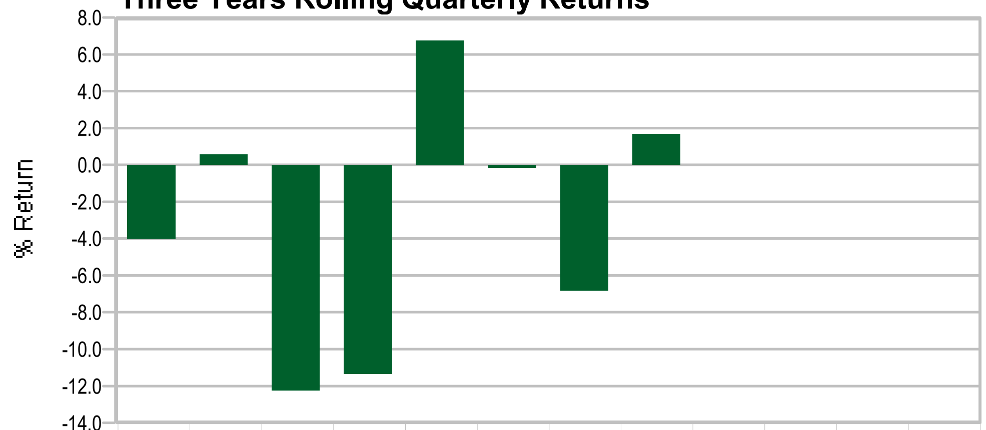
Three Years Rolling Quarterly Returns

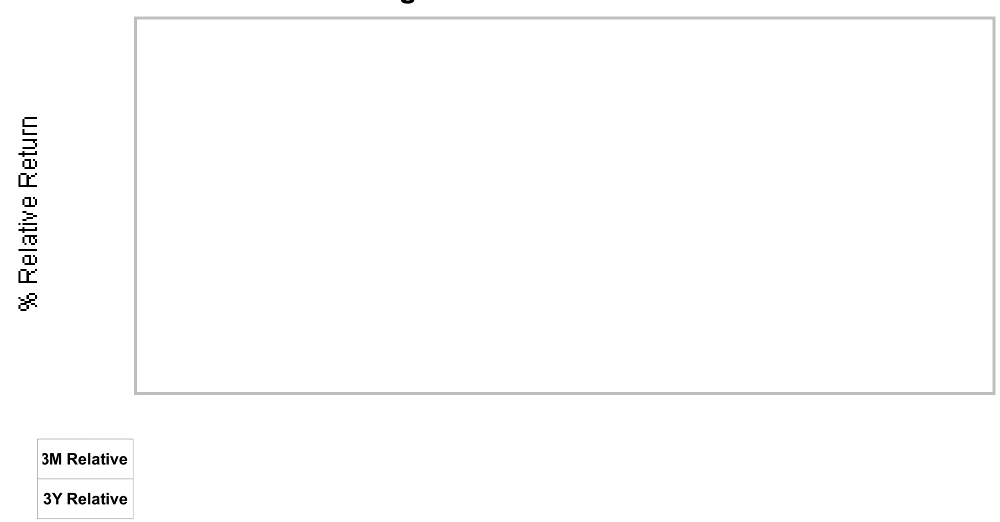


	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09
Fund	-4.01	0.56	-12.25	-11.35	6.74	-0.16	-6.81	1.68	-	-	-	-

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	0.9	
Inception Date	Sep-2010	
Opening Market Value (£000)	1,724	
Net Investment £(000)	4,314	
Income Received £(000)	0	
Appreciation £(000)	-198	
Closing Market Value (£000)	5,840	

Three Years Rolling Relative Returns



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 PPFI 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 PPFI All Balanced Funds Index

Tracking Error

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

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

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

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

Information Ratio

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

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

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

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

Alpha

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

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

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

Beta

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

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

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

R-Squared

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

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

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

Sharpe Ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All MSCI equity characteristic results except for Dividend Yield, Price to Book Value, Price to Cash Earnings and Price Earnings Ratio were calculated by The Northern Trust Company.

Please note that this report has been prepared using best available data. This report may also contain information provided by third parties, derived by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction - Northern Trust assumes no responsibility for the accuracy, timeliness or completeness of any such information. If you have questions regarding third party data or direction as it relates to this report, please contact your Northern Trust relationship team.

WM LOCAL AUTHORITY

QUARTER 3 2012

The following summary is based on 54 funds with a total Market Value of £96,918m.

Update 1 - 06/11/2012

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	61.1	61.7	4.6	4.0	0.8	0.2	17.0	17.3
GLOBAL POOLED INC UK	4.4	4.4	4.1	4.0	-0.1	0.2	17.0	17.3
UK EQUITIES	25.6	25.8	5.0	4.7	2.1	1.9	18.1	17.2
OVERSEAS EQUITIES	31.0	31.4	4.4	3.9	-0.1	0.1	16.0	17.4
North America	9.9	9.9	3.8	3.5	1.8	2.1	23.6	24.2
Europe	8.0	8.2	6.5	6.6	0.2	-0.8	14.7	12.6
Japan	3.3	3.1	-2.7	-3.6	-7.4	-8.9	-3.1	-5.2
Pacific (ex Japan)	3.9	3.9	6.9	7.5	2.5	2.5	19.5	18.7
Emerging Markets	5.2	5.4	5.0	4.6	-2.0	-3.0	13.6	11.8
Global ex UK	0.8	0.9	4.4	3.9	-0.2	0.1	17.7	17.4
TOTAL BONDS	19.4	19.1	1.5	-	3.6	-	9.1	-
U.K. BONDS	10.5	10.5	3.9	1.1	6.6	4.9	12.0	8.3
OVERSEAS BONDS	2.7	2.7	1.3	1.4	3.5	2.9	5.8	-0.9
INDEX LINKED	5.5	5.1	-2.9	-2.6	-2.1	-2.0	4.8	4.6
POOLED BONDS	0.6	0.7	3.0	-4.7	4.2	-4.1	9.2	4.6
TOTAL CASH	3.6	3.8	0.2	0.1	0.8	0.2	0.8	0.5
ALTERNATIVES	8.2	7.9	0.8	-	1.6	-	2.4	-
Total Private Equity	3.9	3.7	-0.2	-	1.9	-	0.8	-
Total Hedge Funds	2.9	2.7	1.3	-	0.8	-	3.4	-
Other Alternatives	1.5	1.5	2.7	-	1.1	-	4.5	-
TOTAL POOLED MULTI ASSET	0.6	0.7	2.2	-	1.0	-	6.2	-
TOTAL EX-PROPERTY	93.0	93.2	3.5	3.2	1.4	1.3	13.4	12.4
TOTAL PROPERTY	7.0	6.8	0.5	0.6	0.9	0.9	3.2	3.5
TOTAL ASSETS	100.0	100.0	3.3	3.0	1.4	1.2	12.6	11.7

WM PERFORMANCE SERVICES
A State Street Business

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS

LBH PRIVATE EQUITY FUNDS LGT CAPITAL PARTNERS	COMMITMENTS BASE CURRENCY	% of Fund
	£ 000	%
Crown Private Equity European Buyout Opport.	10,865	1.76
Crown Global Secondaries Plc (US$)	1,855	0.30
Crown Private Equity European Fund	3,977	0.64
Crown Private Equity European Buyout Opport. II	7,954	1.29
Crown Asia-Pacific Private Equity Plc (US$)	1,855	0.30
Crown European Middle Market II plc	3,182	0.51
Crown Global Secondaries II Plc (US$)	1,361	0.22
TOTAL(S) LGT CAPITAL PARTNERS	**31,049**	**5.02**

ADAMS STREET PARTNERS	£	%
Adam Street Partnership Fund - 2005 US Fund	8,658	1.40
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,711	0.60
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,783	0.45
Adam Street Partnership 2006 Direct Fund	928	0.15
Adam Street Partnership Fund - 2006 US Fund, L.P	5,566	0.90
Adams Street Direct Co-Investment Fund, L.P.	1,855	0.30
Adams Street Partnership 2007 Direct Fund LP	309	0.05
Adams Street Partnership - 2007 Non -US Fund	1,082	0.18
Adams Street Partnership - 2007 US Fund	1,701	0.28
Adams Street Partnership - 2009 US Fund	928	0.15
Adams Street Partnership - 2009 Direct Fund	186	0.03
Adams Street Direct Co-Investment Fund II.	1,546	0.25

Adams Street 2009 Non-US Emerging Mkt Fund	186	0.03
Adams Street Partnership 2009 Non-US Developed Market	557	0.09
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**29,996**	**4.85**

FUND VALUE	**618,050**
COMMITMENT STRATEGY	54,079
TO ACHIVE INVESTMENT	30,903
CURRENT INVESTMENT BOOK COST	28,922
CURRENT INVESTMENT MARKET VALUE	37,442

S AT 30 Sep 2012

CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund
£ 000	%	£ 000	%	£ 000	%
8,898	1.44	6,409	1.04	2,489	0.40
1,620	0.26	1,160	0.19	460	0.07
3,156	0.51	1,171	0.19	1,985	0.32
4,490	0.73	855	0.14	3,635	0.59
1,514	0.24	354	0.06	1,160	0.19
1,277	0.21	215	0.03	1,062	0.17
982	0.16	256	0.04	726	0.12
21,937	**3.55**	**10,420**	**1.69**	**11,517**	**1.86**
£	%	£	%	£	%
7,442	1.20	2,394	0.39	5,048	0.82
3,304	0.53	1,014	0.16	2,290	0.37
2,311	0.37	456	0.07	1,855	0.30
888	0.14	119	0.02	769	0.12
4,361	0.71	1,207	0.20	3,154	0.51
1,772	0.29	133	0.02	1,639	0.27
285	0.05	64	0.01	221	0.04
705	0.11	62	0.01	643	0.10
1,120	0.18	300	0.05	820	0.13
308	0.05	18	0.00	290	0.05
109	0.02	13	0.00	96	0.02
599	0.10	226	0.04	373	0.06

57	0.01	0	0.00	57	0.01
150	0.02	0	0.00	150	0.02
23,411	**3.79**	**6,006**	**0.97**	**17,405**	**2.82**

8.75%
5.00%
4.68%
6.06%

IRR
%
Sep 12
7.89
4.98
7.14
2.38
6.93
10.45
26.01
June 12
6.61
6.39
5.12
2.34
6.75
N/A
8.08
5.41
12.45
23.25
25.12
N/A

-5.52

16.89

Portfolio overview – Q3 2012

- Since the last report, net invested capital has decreased as the underlying managers have distributed more capital than they have invested
- Distributions as a proportion of paid-in capital have increased slightly to 0.47x
- Total portfolio gains now amount to Euro 6.5 million, being Euro 21.0 million of NAV less Euro 14.5 million of net invested capital
- The USD weakened marginally by 1% against the Euro in the period which had a small negative effect on portfolio performance

Q3 2012		Net Performance (in millions of Euros)						Cash Multiple		Drawn	
		LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure		32.7	22.4	-10.9	11.5	16.8	5.2	0.49	1.23	69%	35%
Euro equivalent Dollar Exposure @	1.2863 USD / Euro	6.4	5.2	-2.2	2.9	4.2	1.3	0.43	1.24	81%	46%
Total Exposure (in Euro millions)		**39.0**	**27.6**	**-13.1**	**14.5**	**21.0**	**6.5**	**0.47**	**1.24**	**71%**	**37%**
Q2 2012	1.2686	39.1	27.4	-12.2	15.2	21.2	6.0	0.45	1.22	70%	39%
Q1 2012	1.3329	38.8	26.4	-11.9	14.5	19.9	5.3	0.45	1.20	68%	37%
Q4 2011	1.2949	39.0	25.7	-11.2	14.5	19.6	5.1	0.44	1.20	66%	37%
Q3 2011	1.3387	38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	0%	38%
Q2 2011	1.4510	38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	1.3384	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q3 figures as of 30 September 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 Pension Fund
Adams Street Partners Update: Second Quarter 2012

Industry Update

Buyouts

Although debt markets in the US are extremely liquid, and sponsored loan volume through mid-year 2012 is ahead of last year's pace, much of the activity continues to go toward refinancing and dividend recaps. Funding used for buyouts and/or acquisitions represented only 30% of loan volume during the first half of the year. Buyout loan volume has been most concentrated in the IT and energy sectors, combining for just over 40% of the total, as investors have gravitated toward these areas of the market in an environment that continues to be dominated by uncertainty over macro-issues ranging from European debt, to the US Presidential election to less rapid growth in China. Debt multiples as well as overall purchase price multiples for LBOs in general during the first half of 2012 are down modestly from 2011 and 2010 levels, with multiples for larger deals continuing their pattern of being higher than those of smaller to medium-sized deals. In the US, the high yield market remains a viable source of funding for LBOs, acquisitions and refinancing. High yield issuance is stronger than at the midpoint of 2011, but below levels seen in 2010 when the high yield market was crucial to providing liquidity in an economy just coming out of the financial crisis.

Fundraising is well below levels seen in the 2005-2008 vintage years, as GPs continue to work their way through funds that are nearing the tail end of respective investment periods and LPs have been selective in making new commitments. Small to mid-sized funds have been appealing to investors attracted to empirical evidence of lower entry multiples and higher realized exit multiples over several investment cycles. Large and even mega funds have begun to return to the market in the past year, although in many cases with less aggressive fundraising targets than in prior, overheated, vintages, which in the long run should have a positive impact on performance. Due to these factors, there is a bifurcation in fundraising across fund sizes. High quality, stable managers with solid track records find themselves in many cases to be oversubscribed, while other managers have been forced to delay their next fund indefinitely.

Venture Capital

Venture capital headlines were dominated by the lead up to and subsequent issues surrounding the Facebook IPO in mid-May. The size of the IPO skewed US proceed volume metrics upward for the first half of the year to levels not seen in the past decade, despite the fact that the actual number of IPOs in the US is only on pace to reach the fairly pedestrian totals experienced in 2011. Globally, IPO proceed levels in the second quarter were down 37% year-on-year, despite the strong contribution of Facebook. The Asia Pacific region continues its reign as the most active IPO market, despite the lower absolute level of proceeds.

The disappointing post-IPO public stock performance of Facebook, Zynga and others is well-documented leading to an even more discriminating IPO exit window for those that followed in the second quarter. In the US, there were only 11 venture-backed IPOs in the second quarter, 6 of which were in Adams Street backed GP portfolio companies. There were an additional 102 M&A deals involving US venture-backed companies. It appears that the headlines masked some solid post-IPO returns coming globally from venture-backed companies with post-IPO public stock returns up 12% on an equal-weighted basis during the quarter.

Venture investment activity has accelerated as we have moved through 2012, with the second quarter volume up 17% relative to the first quarter, and the number of venture investments made rose 11%. Early stage and first time financing metrics were strong, an important indicator considering their importance to the US/global innovation pipeline.

Portfolio Statistics as of June 30, 2012

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	2Q12 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**99%**	**77%**	**78%**	**1.15x**	**6.45%**	**1.38%**	**-0.47%**
2005 Subscription	02/2005	100%	86%	86%	1.17x	6.54%	1.50%	-0.92%
2006 Subscription	01/2006	100%	80%	80%	1.11x	5.62%	1.32%	-0.62%
2007 Subscription	01/2007	100%	67%	67%	1.18x	9.66%	2.71%	-0.54%
2009 Subscription	01/2009	73%	32%	44%	1.14x	21.25%	6.72%	-1.13%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.04x	2.15%	-1.14%	2.71%
Co-Investment Fund II	01/2009	100%	39%	39%	1.40x	33.43%	7.36%	0.24%

*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

During the second quarter, public equity benchmarks were down in the range of 3-5%. Our private equity returns outpaced the market with our US portfolio relatively flat and the non-US portfolio down less than 2%.

Portfolio Outlook

While it appeared that the US economy may have been recovering and the predicament in Europe may have finally stabilized, that reality failed to materialize during the quarter. The US economy continued to show considerable weakness. High levels of uncertainty relating to taxes, regulation, and the upcoming presidential election remained. This is the third straight year where improvements in the economic activity recorded in the first quarter have been followed by a slowdown in economic activity in the ensuing summer months.

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Retirement Performance Statistics and Cost of Early Retirements Monitor

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	nil

SUMMARY

This report summarises the number of Early Retirements in the year 2012/13. 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 25th 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 second quarter of 2012/13

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**
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
2010/2011	20	0	11	34
2011/2012	65	0	12	24
Current Year 2012/13				
1st Quarter	6	0	3	4
2nd Quarter	5	0	2	3

From 1st 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 theses 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 31st 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

	Capital Cost of early retirement to the fund	**Payroll Total**	**Cost as a % of payroll**
2011/12	£1,108k	£102,450k	1.08
2012/13 – to 30/09/12	£306k	£102,450k	0.29
Average over previous valuation period			0.59

The payroll total figure above is based on the Employers Contributions reported in the Pension Fund Annual Report and Accounts as at 31 March 2012. The figures for 2011/12 have been restated based on this amount following receipt of year end figures.

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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Pensions Administration Performance

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	

SUMMARY

This report summarises pension administration performance across key areas of work for the period 1 July 2012 to 30 September 2012. Performance targets were agreed as part of the service level agreement with Capita and conform to national targets set for England and Wales. Previous full year performance data is included in the Annual Report for the fund.

RECOMMENDATION

That the contents of the report be noted

INFORMATION

On 1 April 2012, Pensions Administration was outsourced to Capita Hartshead, as part of a pan London Framework Agreement, delivering annual savings in administration costs of 27% to the pension Fund. Their performance is reported monthly to the Corporate Pensions Manager who monitors performance against the service level agreement contained within the Framework Agreement.

This is the second report since Capita Hartshead became responsible for pensions administration. Within the framework agreement there is a table of performance targets which Capita report against on a monthly basis. The targets are measured in working days for each function performed as part of the administration function. The contract sets the performance standard at 100% and performance levels are analysed to ensure performance achieves the required level.

The 2nd quarter performance reports indicated an overall average performance of 96.26% per month over the quarter. Actual performance for each month was July – 94.00%, August – 97.50%, and September – 97.28%. Details of performance by area are shown in the table below. This quarter there are 3 particular areas of underperformance:

- Actual Retirements – in July performance was only 91.3% with 2 cases not being completed on time and in September there was 1 case not completed in time;
- Estimate of Benefits – in July performance was only 93.33% with 4 cases not being completed on time, however performance did improve to 100% in each of the next two months; and

- New Entrants – performance in this area was particularly poor in July with only 85.71% indicating 2 cases were not completed on time. Although performance has since improved, it has not yet reached the target 100%.

Within the framework contract there is an underperformance "claw back" arrangement, such that should performance across a contractual year fall below 100%, a monthly reduction would be applied to the monthly contract fee. This will be reviewed on the first anniversary of the contract.

As part of the overall management of the Capita contract, their services levels have been closely monitored. There has been a reduction in the number of queries regarding Capita's service both from scheme members and HR Staff at Hillingdon. Monthly meetings are taking place between Capita and the Corporate Pensions Manager to ensure service levels reach the required 100% level, in accordance with the Framework Agreement. Specific mention was made regarding the continued underperformance and this will be monitored closely going forward. In respect of Transfers in Actuals a new team member has taken over responsibility for this area, hence the low performance.

The performance report below shows a summary of monthly performance for the second quarter of 2012.

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	ACTION REQUIREMENTS	JULY 2012		AUGUST 2012		SEPTEMBER 2012	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	5	100.00	16	93.75	13	100.00
Actual Retirement Benefits	3 Days	23	91.30	23	100	14	92.86
Letter notifying Dependants Benefits	5 Days	0	0	0	0	2	100.00
Process Refund	10 Days	0	0	0	0	0	0
Transfers in Actual	10 Days	0	0	1	100.00	3	33.33
Transfers in quote	10 Days	2	100.00	6	100.00	4	100.00
Answer General Letter	5 Days	138	97.83	126	98.41	108	99.07
Calc/Notify Deferred	15 Days	50	86.00	94	96.81	31	93.55
Estimate of Retirement Benefits	5 Days	60	93.33	39	100.00	40	100.00
Transfers Out Quote	5 Days	5	100.00	7	100.00	12	91.67
Transfers Out Actual	9 Days	5	100.00	10	80.00	5	80.00
New Entrants	20 Days	14	85.71	38	97.37	99	97.37
Added Years	10 Days	0	0	0	0	0	0

PENSION FUND FRAUD

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

SUMMARY

At the June 2012 Audit Committee, the Chairman discussed an article published in the Financial Times regarding Pension Fund Fraud, and it was recommended that a report be brought to Pensions Committee. Whilst the major risk identified in the article was the fraudulent receipt of benefits when a scheme member dies, this report looks at all aspects of fraud in relation to the Pension Fund. The report covers the steps taken to mitigate the threat of fraud, and the contractual arrangements in place to recover any funds obtained as a result of fraud.

RECOMMENDATIONS

The Committee is asked to note the report.

Background

Hillingdon Fund of the Local Government Pension Scheme (LGPS) is administered by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon, and this is done from their offices in Banstead, Surrey. CEB are contracted to provide a full administration functions including the calculation benefits due and receipt and payment of transferred funds from other pension arrangements, all completed in accordance with current legislation. CEB also receive the pension contributions deducted from other employers in the Hillingdon Fund, and it is their responsibility to check that the correct contributions have been deducted and passed to them. In addition, CEB also operates the pensioner's payroll, paying 5,300 pensioners and dependants, formally paid by Hillingdon. The payroll is run from their Sheffield Offices. All of these functions require substantial amounts of money being transferred between their specific Hillingdon Bank Account and Hillingdon's own pension fund bank account, controlled by officers at the Civic Centre.

The pension Fund of the London Borough of Hillingdon is managed external Fund Managers and the Fund's custodian, Northern Trust. These managers deal with substantial funds and are constantly investing and moving fund values between their investment vehicles.

The London Borough of Hillingdon has a duty to ensure that the most stringent controls are in place to mitigate any attempt of Fraud, at any point where funds are being transacted.

1. Pension Fund Controls – Administration

CEB have the following controls in place to mitigate the threat of fraud:

- CEB is individually authorised and regulated by the Financial Services Authority (FSA). Some directors, managers and consultants are authorised as 'approved persons' by the FSA. In accordance with FSA rules, senior management for Capita Employee Benefits are responsible for compliance with FSA regulated activity and must ensure that Capita Employee Benefits "establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the firm might be used to further financial crime".

- Compliance guidance and support for Capita Employee Benefits is provided by the Capita Life & Pensions Regulated Services (CLPRS) Compliance Department. This activity is undertaken by a dedicated Compliance Support team with specific responsibilities for regulatory guidance and activity for Capita Employee Benefits.

- Compliance support activity is aligned to FSA responsibilities and regulations to which Capita Employee Benefits must adhere and include: maintain good working relationships with FSA; ensure adequate anti-money laundering and data protection procedures are in place and adhered to; monitor the company's regulated activities to ensure adherence to rules; produce biannual FSA reports and forward to the regulator on time; approve promotions and marketing material which impact on FSA regulation; providing regulatory training to staff undertaking FSA regulated activities; and supporting the business with regulatory queries and guidance.

Additionally, the Framework Agreement in place covers the risk of fraud by an employee or sub-contractor of Capita. There is a Professional Indemnity Insurance to the value of £2m in place to cover the eventuality of fraud, proven to be perpetrated by an employee or sub-contractor of Capita

Pensions Officers have access to Capita's administration system and check random calculations to ensure the correct payments are being made, and that payments are made to the eligible recipient. All payments made by Capita are reconciled on a monthly basis. Capita also perform "mortality screening" checks against pension payments, to ensure that pension payments are being made to the eligible individual. The first of these exercises took place in September 2012. A form of "Life Certificate" is sent annually to all overseas pensioners. This form must be signed by the pensioner, and the signature witnessed by an authorised person. When the form is returned, an administrator will initial the form to indicate that the signature is that of the pensioner and it has been checked against records held for the pensioner. Additionally, the Council participates in the National Fraud Initiative (NFI).The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. To date 2,124 cases of public sector pension benefits being paid in respect of deceased members have been identified by the NFI, one such case occurred in the Hillingdon fund.

All controls and routines are checked annually as part of the audit of the pensions function. To date no concerns have been raised regarding administration processes, although the first audit with Capita has yet to be undertaken.

Within Hillingdon all transactions through the pension funds bank account requires the authorisation of two Pension Fund signatories. Prior to any transactions being completed, the originating officer has to seek verification of the relevant documents associated with the payment of funds. All processes are subject to examination as part of the annual audit review.

Benefits regulations do not permit any discretion in the application of those regulations in the determination of any payment or membership periods.

2. Pension Fund Controls - Managers

Fund Managers and the Custodian provide quarterly reports Pensions Committee and in addition each year comment on how they have performed against their Statement of Internal Control and whether there have been any amendments to their Statement of Internal Control. All trades completed by fund managers are confirmed with the schemes custodian, who will verify the trades and retain documentary evidence. A monthly reconciliation is undertaken by Officers to ensure all reported fund manager transactions are reflected in the custodians' monthly report. This routine is undertaken with the use of independently provided investment reconciliation software. Any discrepancy is brought to the attention of the relevant party immediately.

Within the Custodian contract there is an agreement that they will indemnify the fund in respect of losses suffered as a result of "the negligence, wilful default or fraud of the Custodian".

3. Corporate Responsibilities

Corporately, the Council has to ensure that robust processes and procedures are in place to mitigate any potential fraud or loss, and to monitor and test these processes and procedures. As part of the annual Audit of the pension fund, these tasks are investigated by the auditor, and to date no concerns have been raised. Contractual Statements of remedial action to be taken in the event of fraud are in place with our third party pension administrators, investment managers and our Custodian.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

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REVIEW OF LIMITS ON INVESTMENT

Contact Officers	Tunde Adekoya, 01895 556350

Papers with this report	Revised Statement of Investment Principles LGPS (Management and Investment Funds) Regulations 2009
Authors of the Report	Tunde Adekoya

SUMMARY

As a result of continuing drawdowns into Private Equity Investments and the investment of monies transitioned from Marathon to SSgA the Fund in is breach of investment limits within the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009. However, under regulation 15 of those regulations, an administering authority has the power to increase those limits. This report requests that Pension Committee exercise that authority to increase the limits.

RECOMMENDATIONS

That Committee agree under Regulation 15 of the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009, for the period from 13 December 2012 to 12 December 2013, to:

1. **increase in the limit of contributions to any single partnership from 2% of Fund value to 5%;**
2. **increase in the limit of contributions to partnerships from 5% of Fund value to 15%;**
3. **increase in the limit of any single insurance contract from 25% of Fund value to 35%; and**
4. **approve the amendment to Appendix B of the Statement of Investment Principles to reflect these decisions.**

Information

1. Recent investments into Private Equity have resulted in our investments in a single partnership breaching the 2% limit as detailed in regulation 14 “Restrictions on Investments” of the LGPS (Management and Investment Funds) Regulations 2009. This has occurred as a result of ongoing drawdowns which are not known to us in advance. However, under regulation 15 of the same regulations, the Council has discretion to temporarily increase the 2% limit to 5%. Increasing the limit to 5% will ensure that there is sufficient capacity to continue this investment.

2. Similarly, overall investments in Private Equity as at 30 November 2012 now total £38m (6% of the current fund value) which breaches the current 5% limit on investments in all partnerships as also detailed in regulations 14 of the above

regulations. Again, under regulation 15 of the same regulations, the Council has discretion to temporarily increase the 5% limit to 15%. Increasing the limit to 15% will ensure that there is sufficient capacity to continue these investments.

3. Following the disinvestment of funds from Marathon, the funds were placed temporarily with SSgA. As a result the investment in a single Insurance contract now stands at £192m, approximately 32% of fund value. This again breaches regulation 14 of the above regulation. As before, under regulation 15 of the same regulations, the Council has discretion to temporarily increase the 25% limit to 35%. Increasing the limit to 35% will ensure that there is sufficient capacity to continue this investment. This change will provide the fund the necessary flexibility to achieve investment objectives without breaching set regulations as the SSgA portfolio is also used for safekeeping of assets from disengaged managers pending appointment of preferred ones.

FINANCIAL IMPLICATIONS

The financial implications are explained within the report.

LEGAL IMPLICATIONS

To follow

STATUTORY INSTRUMENTS

2009 No. 3093

PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Made - - - -	*24th November 2009*
Laid before Parliament	*1st December 2009*
Coming into force - -	*1st January 2010*

CONTENTS

These Regulations are made in exercise of the powers conferred by section 7 of, and Schedule 3 to, the Superannuation Act 1972(**a**).

In accordance with section 7(5) of that Act the Secretary of State has consulted (a) such associations of local authorities as appeared to the Secretary of State to be concerned; (b) the local authorities with whom consultation appeared to the Secretary of State to be desirable; and (c) such representatives of other persons likely to be affected by the Regulations as appeared to the Secretary of State to be appropriate.

The Secretary of State makes the following Regulations:

Preliminary

Citation, commencement and application

1.—(1) — These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and shall come into force on 1st January 2010.

(2) These Regulations apply in relation to England and Wales(**b**).

General definitions

2.—(1) In these Regulations—

"the 2000 Act" means the Financial Services and Markets Act 2000(**c**);

"administering authority" means a body required to maintain a pension fund under the Administration Regulations;

"the Administration Regulations" means the Local Government Pension Scheme (Administration) Regulations 2008(**d**);

"fund money" means money in the pension fund maintained by an administering authority;

"proper advice", in relation to an administering authority, means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters (including any such person who is an officer of the administering authority);

"recognised stock exchange" has the same meaning as in section 1005(1) of the Income Tax Act 2007(**e**);

"securities" includes shares, stock and debentures;

"statement of investment principles" means the statement referred to in regulation 12(1) or any revision of it, as appropriate;

"stock lending arrangement" means an arrangement such as is mentioned in section 263B of the Taxation of Chargeable Gains Act 1992(**f**); and

"sub-underwriting contract" means a contract with a person who is underwriting a share issue to acquire the shares from that person if that person requires it.

(2) Paragraphs (5) to (7) of regulation 3, paragraphs (2)(a) and (2)(b) of regulation 6, regulation 7 and item 4 of the table and the definition of "relevant institution" in Schedule 1, must be read with—

(a) section 22 of the 2000 Act (classes of activity and categories of investment);

(b) any relevant order under that section; and

(**a**) 1972 c.11.
(**b**) The Secretary of State's functions under section 7 of the Superannuation Act 1972 in so far as they were exercisable in relation to Scotland were devolved to Scottish Ministers by section 63 of the Scotland Act 1998 (c.46) and article 2 of, and Schedule 1 to, the Scotland Act 1998 (Transfer of Functions to Scottish Ministers etc) Order 1999 (S.I. 1999/1750).
(**c**) 2000 c.8.
(**d**) S.I. 2008/239, amended by S.I. 2008/1083, 2008/2425, and S.I. 2008/3245.
(**e**) 2007 c.3; section 1005(1) was amended by paragraph 1 of Schedule 26 to the Finance Act 2007 (c.11).
(**f**) 1992 c.12; section 263B was inserted by paragraph 5(1) of Schedule 10 to the Finance Act 1997 (c.16).

(c) Schedule 2 to that Act(**a**) (regulated activities).

Definition of "investment"

3.—(1) In these Regulations "investment" and related expressions have their normal meaning.

(2) But the following provisions of this regulation specify things which count as investments for these Regulations, although they might not otherwise do so, and exclude things which might otherwise count.

(3) A contract entered into in the course of dealing in financial futures or traded options is an investment.

(4) Prior to 1st April 2010, if the administering authority uses fund money for any purpose for which it may borrow money, that use is an investment.

(5) A contract of insurance is an investment if it is a contract of a relevant class, and is entered into with a person within paragraph (6) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of the 2000 Act.

(6) The persons within this paragraph are—

(a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act(**b**) (EEA passport rights), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule(**c**)) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) and who, because that person's head office is in an EEA State within the meaning of the 2000 Act other than the United Kingdom, is permitted by the law of that State to effect or carry out contracts of insurance of a relevant class.

(7) A contract of insurance is of a relevant class for the purposes of paragraphs (5) and (6) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with contracts of insurance covering either conservation of capital or payment of a minimum interest.

(8) A stock lending arrangement is an investment if, and only if, in respect of it, the conditions in rules 5.4.4R and 5.4.6R, modified as specified in paragraph (9) of this regulation(**d**), in the Collective Investment Schemes Sourcebook made by the Financial Services Authority(**e**) are fulfilled in relation to that arrangement.

(9) The modifications mentioned in paragraph (8) are that—

(a) in rules 5.4.4R and 5.4.6R references to the depositary must be read as if they were references to the administering authority;

(**a**) Amended by section 1 of the Regulation of Financial Services (Land Transactions) Act 2005 (c.24), and paragraph 1 of Schedule 2 to the Dormant Bank and Building Society Accounts Act 2008 (c.31).

(**b**) Amended by S.I. 2004/3379.

(**c**) Amended by S.I. 2007/126, S.I. 2007/3253.

(**d**) The Department for Communities and Local Government has produced a document setting out rules 5.4.4R and 5.4.6R of the Collective Investment Schemes Sourcebook, modified as specified in regulation 3(9). A copy of this document may be obtained by contacting the Department's Workforce Pay and Pensions Division (tel. 0303 444 2184 or email robert.holloway@communities.gsi.gov.uk).

(**e**) The Collective Investment Schemes Sourcebook (known as COLL) is made by the Financial Services Authority by virtue of Part X and sections 247 and 248 of the 2000 Act and S.I. 2001/1228, see http://fsahandbook.info/FSA/html/handbook/COLL.

(b) in paragraph 1 of rule 5.4.4R for the words "An ICVC, or the depositary at the request of the ICVC, or the trustee at the request of the manager, may enter into a repo contract, or" there shall be substituted the words "The administering authority may enter into";

(c) in paragraph 1(a) of rule 5.4.4R, the words "for the account of the ICVC or by the trustee," and the words "or to the trustee" shall be omitted;

(d) sub-paragraphs 1(b) (iii) and 1(b) (iv) of rule 5.4.4R shall not apply;

(e) paragraph 1A of rule 5.4.6R shall not apply;

(f) in paragraph 5 of rule 5.4.6R the words "under COLL 6.3 (Valuation and pricing) or this chapter," shall be omitted, and the reference to the authorised fund must be read as if it were a reference to the pension fund; and

(g) in paragraph 6 of rule 5.4.6R references to scheme property must be read as if they were references to fund money, and the words in sub-paragraph (a) "for the purposes of COLL 6.3 or this chapter" and in sub-paragraph (b) "of this chapter" shall be omitted.

(10) It is an investment to contribute to a limited partnership in an unquoted securities investment partnership.

(11) A sub-underwriting contract is an investment.

(12) For the purposes of this regulation—

"limited partnership " means a partnership where the partners are not liable for the debts or obligations of the partnership beyond the amount which they contributed at the time of becoming a partner;

"traded option" means an option quoted on a recognised stock exchange or on the London International Financial Futures Exchange; and

"unquoted securities investment partnership" means a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

Management of pension fund

Management of pension fund

4.—(1) This regulation is about the sums which an administering authority must pay or credit to and may pay from the pension fund which it administers.

(2) An authority must pay or credit to its pension fund, in addition to any other sum the Benefits Regulations, the Transitional Regulations or the Administration Regulations specify must be paid or credited to the fund—

(a) the amounts payable by it or paid to it for the credit of the fund by any other authority under regulations 39 to 41 of the Administration Regulations (employers' contributions and payments);

(b) all members' contributions including those made by virtue of the Transitional Regulations, except contributions payable under regulation 25 of the Administration Regulations (additional voluntary contributions and shared cost additional voluntary contributions);

(c) all income arising during the year from investment of the fund;

(d) all capital money deriving from such investment; and

(e) all additional payments received by the authority under the Benefits Regulations, the Transitional Regulations or the Administration Regulations.

(3) In the case of an administering authority which maintains more than one pension fund, as respects sums which relate to specific members the references in paragraph (2) to an authority's fund are to the fund which is the appropriate fund for the members in question in accordance with Schedule 4 to the Administration Regulations (appropriate funds).

(4) Interest under regulation 44(1) of the Administration Regulations (interest) must be credited and paid to the fund to which the overdue payment is due.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except those costs and charges prescribed by regulations made under section 23 (supply of pension information in connection with divorce etc), 24 (charges by pension arrangements in relation to earmarking orders) or 41 (charges in respect of pension sharing costs) of the Welfare Reform and Pensions Act 1999(**a**) which the administering authority is enabled to recover by or under any such regulations.

(6) In this regulation—

"member" means any active or deferred member or any pensioner but does not include a person who has rights to future benefits under the scheme which are attributable (directly or indirectly) to a credit under section 29(1)(b) of the Welfare Reform and Pension Act 1999(**b**) or corresponding Northern Ireland legislation;

"the Benefits Regulations" means the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007(**c**); and

"the Transitional Regulations" means the Local Government Pension Scheme (Transitional Provisions) Regulations 2008(**d**).

Power to borrow

5.—(1) Except as provided in this regulation, an administering authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) An administering authority may borrow by way of temporary loan or overdraft from a bank or otherwise any sums which it may require for the purpose of—

(a) paying benefits due under the scheme, or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An administering authority may only borrow money under paragraph (2) if, at the time of borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

Separate bank account

6.—(1) On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation—

(a) all monies held by the authority on that date; and

(b) all monies received by it on or after that date

for the purpose of its pension fund.

(2) "Deposit-taker" for the purposes of paragraph (1) means—

(a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to accept deposits;

(b) an EEA firm of the kind mentioned in paragraph 5(b) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule(**e**)) to accept deposits;

(c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or

(**a**) 1999 c. 30; sections 23 and 24 were amended by the Civil Partnership Act 2004 (c.33), Schedule 27, paragraphs 157 and 158 and Schedule 30.
(**b**) 1999 c.30.
(**c**) S.I. 2007/1166, amended by S.I. 2008/1083, 2008/2425, 2009/1025.
(**d**) S.I. 2008/238, amended by S.I. 2008/1083, 2008/2425.
(**e**) Amended by S.I. 2007/126, S.I. 2007/3253.

(d) the National Savings Bank.

(3) The deposit-taker shall not, in relation to the account referred to in paragraph (1), exercise any right of set-off it may have in respect of any other account held by the administering authority or any party connected to the administering authority.

Investment managers

Definition of "investment manager"

7. For the purposes of regulations 8 to 10, an "investment manager" is—

(a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to manage investments and may lawfully manage the assets of occupational pension schemes;

(b) an EEA firm of the kind mentioned in sub-paragraph (a), (b) or (c) of paragraph 5 of Schedule 3 to that Act[a] (EEA passport rights), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule[b]) to manage investments and may lawfully manage the assets of occupational pension schemes; or

(c) a person—

(i) who does not carry on regulated activities (within the meaning of the 2000 Act) from a permanent place of business maintained by that person in the United Kingdom;

(ii) whose head office is situated in an EEA State (within the meaning of the 2000 Act) other than the United Kingdom;

(iii) who is recognised by the law of that EEA State as a national of that or another EEA State;

(iv) who is authorised under that law to carry on one or more regulated activities (within the meaning of the 2000 Act); and

(v) who is not prevented by that law from managing the assets of occupational pension schemes or assets belonging to another person.

Choice of investment managers

8.—(1) Instead of managing and investing fund money itself, an administering authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) to (6).

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters makes that investment manager suitably qualified to make investment decisions for it.

(4) The investment manager must not be its employee.

(5) The authority must be satisfied—

(a) that the fund, or the relevant part of it, is managed by an adequate number of investment managers; and

(b) that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate in comparison with the value of fund money managed by other investment managers.

(6) The authority must have taken proper advice in relation to the appointment.

(a) Amended by S.I. 2003/1473, S.I. 2007/126, S.I. 2006/3221.
(b) Amended by S.I. 2007/126, S.I. 2007/3253.

Terms of appointment of investment managers

9.—(1) An investment manager must be appointed on the terms set out in paragraphs (2) to (7).

(2) The administering authority must be able to terminate the appointment by not more than one month's notice.

(3) The investment manager must report to the administering authority at least once every three months on the action the investment manager has taken on behalf of the authority.

(4) The investment manager must comply with all the administering authority's instructions.

(5) In managing the fund the investment manager must take into account—

(a) that fund money must be invested in a wide variety of investments;

(b) the suitability for the fund of particular types of investment, or of any particular investment; and

(c) the administering authority's statement of investment principles.

(6) But paragraph (5)(a) does not apply where the investment manager only manages part of the fund and the terms of the investment manager's appointment provide that it does not apply.

(7) The investment manager must not make investments which would contravene the administering authority's statement of investment principles or regulation 14 (restrictions on investments).

(8) In determining the investment manager's terms of appointment, the administering authority must take proper advice.

Review of investment manager's performance

10.—(1) Where an administering authority has appointed an investment manager it must keep the investment manager's performance under review.

(2) At least once every three months the authority must review the investments the investment manager has made for the fund and any other action that has been taken by the manager in relation to it.

(3) Periodically the authority must consider whether or not to retain the investment manager.

(4) In reviewing an investment manager's decisions and appointment, the authority must take proper advice—

(a) if regulation 9(5)(a) applies, about the variety of investments the investment manager has made; and

(b) about the suitability of those investments for the fund generally and as investments of their type.

Investment and use of fund money

Investment policy and investment of pension fund money

11.—(1) An administering authority must formulate a policy for the investment of its fund money.

(2) The authority's investment policy must be formulated with a view—

(a) to the advisability of investing fund money in a wide variety of investments; and

(b) to the suitability of particular investments and types of investments.

(3) The authority must invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.

(4) The authority may vary its investments

(5) The authority must obtain proper advice at reasonable intervals about its investments.

(6) The authority must consider such advice in taking any steps in relation to its investments.

Statement of investment principles

12.—(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.

(2) The statement must cover its policy on—

(a) the types of investment to be held;

(b) the balance between different types of investments;

(c) risk, including the ways in which risks are to be measured and managed;

(d) the expected return on investments;

(e) the realisation of investments;

(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;

(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and

(h) stock lending.

(3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.

(4) The first such statement must be published no later than 1st July 2010.

(5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.

(6) A statement revised under paragraph (5) must be published.

Investments under section 11(1) of the Trustee Investments Act 1961

13. An administering authority may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of the Trustee Investments Act 1961(**a**) (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Restrictions on investments

14.—(1) The table in Schedule 1 and the exceptions specified below that table ("the exceptions") shall have effect for the purpose of limiting the making of investments of the types described in the table(**b**).

(2) Subject to paragraph (3), and, where relevant, the exceptions, a percentage listed in Column 1 of the table in relation to a type of investment so described is the limit on the proportion of fund money which may be invested in that type of investment.

(3) An administering authority may, in accordance with regulation 15, decide to increase the limit in relation to a particular type of investment so described, but only where a percentage is shown in relation to that type of investment in Column 2 of the table, and may not exceed that percentage.

(4) The percentages mentioned in paragraphs (2) and (3) are percentages of the total value of all existing investments of fund money immediately before the making of the investment concerned.

(5) Paragraph (2) and, if applicable, paragraph (3) apply only at the time the investment is made.

(**a**) 1961 c. 62.

(**b**) The Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378, amended by S.I. 2007/814 and S.I. 2009/615) which, in particular, prescribe certain investments as employer-related investments in addition to those specified in section 40(2) of the Pensions Act 1995, set out restrictions on employer-related investments and make provision as regards the application of the restrictions to schemes in relation to which there is more than one employer, may further restrict or limit investment of fund money.

(6) The definitions set out below the exceptions shall have effect for interpreting the table.

Requirements for increased limits

15.—(1) An administering authority which decides to increase limits under regulation 14(3) must comply with the requirements of this regulation.

(2) The authority must have taken proper advice.

(3) The authority must take account of the matters set out in regulation 11(2).

(4) Where there is a decision to use the increased limits under regulation 14(3) in relation to item 13 of the table in Schedule 1, the additional risks of the increased limit must have been taken into account in addition to those matters set out in regulation 11(2).

(5) The decision must specify—

(a) the description of investment to which it applies;

(b) the limit on the amount of the investment;

(c) the reason for that decision;

(d) the period for which the decision will apply;

(e) if the authority intend to review the decision before the end of the period in (d), the date when the decision will be reviewed; and

(f) that the decision complies with these Regulations.

(6) Where the period for which the decision will apply comes to an end, the limits will be those set out in Column 1 of the table unless before the end of that period the administering authority reviews the decision in accordance with this regulation.

(7) A decision following a review to continue to use limits increased under regulation 14(3), whether or not the increased limits have been altered, must—

(a) take account of the matters set out in paragraphs (2)-(4); and

(b) specify the matters set out in paragraph (5).

(8) Before a decision under regulation 14(3) or under paragraph (7) of this regulation can take effect, the administering authority must revise and publish the written statement of investment principles which it is required to maintain under regulation 12 so as to include the matters specified in paragraph (5).

Use of fund money by an administering authority

16.—(1) An administering authority must pay interest on the total from day to day of any fund money used under regulation 3(4) and not repaid.

(2) That interest may not be paid at a rate lower than the lowest rate at which the authority could have obtained a commercial loan of that amount at 7 days' notice (otherwise than by bank overdraft).

Supplementary

Revocations

17. The instruments listed in Column (1) of the table in Schedule 2 are revoked to the extent stated, in relation to each, in Column (3) of that table.

Signed by authority of the Secretary of State for Communities and Local Government

Rosie Winterton
Minister of State
Department for Communities and Local Government

24th November 2009

SCHEDULE 1

Regulation 14(1)

TABLE OF LIMITS ON INVESTMENTS

Investment	*Column 1* *Limits under regulation 14(2)*	*Column 2* *Increased limits under regulation 14(3)*
1. Any single sub-underwriting contract	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. The sum of— (a) all loans (but see paragraph 1 below); and (b) any deposits with— (i) any local authority; or (ii) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	—
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but see paragraphs 2 and 3 below).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting	15%	—

contracts.		
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

EXCEPTIONS TO LIMITS IN THE TABLE

1. The restriction in item 4 of the table does not apply to a Government loan.

2.The restriction in item 6 of the table does not apply if—

(a) the investment is made by an investment manager appointed under regulation 8; and

(b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.

3. The restrictions in items 6, 9 and 11 do not apply to—

(a) National Savings Certificates;

(b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;

(c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

(d) a deposit with a relevant institution.

INTERPRETATION

"Collective investment scheme" has the meaning given in section 235 of the 2000 Act.

"Companies" includes companies established under the law of any territory outside the United Kingdom.

"Government loan" means a loan—

(a) to Her Majesty's Government in the United Kingdom; or

(b) to the Government of the Isle of Man.

"Listed securities" means securities quoted on a recognised stock exchange.

"Loan" does not include—

(a) investing money in registered securities to which section 1 of the Stock Transfer Act 1963(**a**) applies (transfer by stock transfer forms) or in listed securities; or

(b) depositing money with a relevant institution,

and "lent" must be understood in that way.

"Open-ended investment company" means an open-ended investment company as defined in section 236 of the 2000 Act which is an undertaking for collective investment schemes to which Council Directive No. 85/611/EEC co-ordinating the laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as last amended by European Parliament and Council Directive No. 2001/108/EC(**b**) applies.

"Relevant institution" means—

(a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to accept deposits;

(b) an EEA firm of the kind mentioned in paragraph 5(b) of Schedule 3 (EEA passport rights) to that Act(**c**) which has permission under paragraph 15(1) of that Schedule(**d**) (as a result of qualifying for authorisation under paragraph 12 of that Schedule) to accept deposits; or

(c) a person who is an exempt person in respect of accepting deposits as a result of an order made under section 38(1) of that Act (exemption orders);

"Single holding" means investments—

(a) in securities of, or in loans to or deposits with, any one body;

(b) in units or other shares of the investments subject to the trust of any one unit trust scheme; or

(c) in transactions involving any one piece of land or other property.

"Unlisted securities" means securities which are not quoted on a recognised stock exchange.

SCHEDULE 2

Regulation 17

REVOCATIONS

(1) Regulations revoked	*(2) References*	*(3) Extent of revocation*
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998	S.I. 1998/1831	The whole Regulations
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 1999	S.I. 1999/3259	The whole Regulations

(**a**) 1963 c.18.

(**b**) S.I. 2003/2066.

(**c**) Amended by S.I. 2003/1473 and S.I. 2006/3221.

(**d**) Amended by S.I. 2007/3253.

The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2000	S.I. 2000/2552	The whole Regulations
The Local Government Pension Scheme (Pension Sharing on Divorce) Regulations 2000	S.I. 2000/3025	Regulation 4
The Financial Services and Markets Act 2000 (Consequential Amendments and Repeals) Order 2001	S.I. 2001/3649	Regulations 574 to 578
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2002	S.I. 2002/1852	The whole Regulations
The Collective Investment Schemes (Miscellaneous Amendments) Regulations 2003	S.I. 2003/2066	Regulation 13(3)
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2003	S.I. 2003/2719	The whole Regulations
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2005	S.I. 2005/2004	The whole Regulations
The Local Government Pension Scheme (Miscellaneous) Regulations 2008	S.I. 2008/2425	Regulations 11-14

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (S.I. 1998/1831) with subsequent amending instruments. In addition to minor and drafting amendments, the following changes of substance have been made.

Paragraph (4) of regulation 3 (definition of "investment") provides that the use of pension fund money for any purpose for which the local authority may borrow money shall count as an investment for the purposes of these Regulations prior to 1st April 2010 whereupon it will cease to count as an investment.

Regulation 5 (power to borrow) sets out the circumstances in which the administering authority may borrow money for the purposes of its pension fund and the rules applying to the repayment of any such borrowing.

Regulation 6 (separate bank account) provides that pension fund money must be kept in a separate bank account held by the administering authority for that purpose by 1st April 2011.

Other provisions provide for: general definitions (regulation 2), what counts as an investment (regulation 3), the sums which an administering authority must pay to and may pay from its pension fund (regulation 4), the power to appoint an investment manager including the terms of such appointment and the requirement to keep the performance of any such manager under review (regulations 7-10), general provisions concerning investments (regulation 11) including the requirement to prepare and maintain an investment policy (regulation 12), the limits which apply to certain types of investments and the requirements which apply if such limits are to be increased (regulations 14 and 15) and the requirement to pay interest on fund money used by the administering authority (regulation 16). Regulation 17 and Schedule 2 revoke the instruments and provisions which these Regulations replace.

An impact assessment has not been produced for this instrument as it has no impact on the costs of businesses, charities or voluntary bodies and it does not have a significant financial impact on any public bodies.

Statement of Investment Principles
(Revised December 2011)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the national Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.

- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.

- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 sets out the powers and duties of the administrating authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.

- The CIPFA Pension Panel's guidance "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" which was issued in 2002 brought together ten principles with practical comment on their application to funds in England, Wales, Scotland and Northern Ireland. In 2008, following extensive consultation, the ten original principles which were issued by the government for application to pension funds, corporate and public sector were updated and consolidated into six new principles.

- The Investment Governance Group, with members drawn from the Pensions Regulator, the Department for Communities and Local Government, the CIPFA Pension Panel and LGPS interests, examined these six principles and with the agreement of the Pensions Regulator made changes to the wording to reflect the particular circumstances of the LPPS. The revised principles and guidance reflecting the changes in wording was released at the end of 2009 and this Statement complies with the disclosure of the revised principles.

- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the new six headline principles of investment decision making and disclosure and the extent to which the London Borough of Hillingdon complies with the principles.

- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.

- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.

- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.

- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision making is listed below and follows best practice adopted by other Local Authorities in relation to their Pension Schemes.

The **Pensions Committee** has responsibility for:

- Appointing the investment manager(s) and any external consultants felt to be necessary,
- Appointing the custodian,
- Reviewing on a regular basis (quarterly) the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls,
- Ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund invests in suitable types of investments,
- Approving the Statement of Investment Principles, and
- Monitoring compliance with the Statement and reviewing its contents from time to time.

The Investment Sub Committee has responsibility for:

- Monitoring financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework,
- Keeping asset allocation under review within range guidelines set by the Pension Committee,
- Considering the framework for the allocation of new money among managers and similarly, in the event that assets need to be realised,
- Formally reviewing the mandates of the managers, and their adherence to their expected investment process and style,
- Considering the need for any changes to the investment managers' mandates or manager arrangements,
- Evaluating the credentials of potential managers and make recommendations to the Pension Committee in respect of any change of managers.
- Monitoring the investment advice from their investment consultant and investment adviser at least annually,
- Maintaining the Funds Statement of Investment Principles.

The **Chief Finance Officer** has responsibility for:

- Preparation of the Statement of Investment Principles to be approved by the Pensions Committee,
- Assessing the needs for proper advice and recommending to the Committee when such advice is necessary from an external adviser,
- Deciding on whether internal or external investment management should be used for day to day decisions on investment transactions,
- Ensuring compliance with the Statement of Investment Principles and bringing breaches thereof to the attention of the Pensions Committee, and
- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.

The **Investment Consultants** are responsible for:

- Assisting the Pensions Committee and the Chief Finance Officer in their regular monitoring of the investment managers' performance,
- Assisting the Pensions Committee and the Chief Finance Officer in the setting of investment strategy
- Assisting the Pensions Committee and the Chief Finance Officer in the selection and appointment of investment managers and custodians, and
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this document

The **Actuary** is responsible for:

- Assisting the Pensions Committee in the preparation and review of this document, and
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Pensions Committee in balancing the short-term and long-term objectives of the pension Fund.

The **Investment Managers** are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:

- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.

- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

All active members are required to make pension contributions based on the percentage of their pensionable pay as defined in the LGPS regulations.

The London Borough of Hillingdon is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary.

Actuarial valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary. Formal inter-valuation monitoring has also been commissioned.

INVESTMENTS

Approach

- The investment approach is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against those benchmarks with the investment manager.
- Overall, the strategic benchmark is intended to achieve a return such that the Fund can, without excessive risk, meet its obligations without excessive levels of employers' contributions.
- Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.
- The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation.

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, Fauchier Partners, JP Morgan Asset Management, LGT

Capital Partners, M&G Investments, Macquarie Infrastructure & Real Assets Europe, Marathon Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

Custodian services for the Fund's assets are provided by Northern Trust.

The investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Hymans Robertson LLP act as the Fund's Actuary and Investment Consultant and give written advice on appropriate investment strategies. Scott Jamieson acts as an independent advisor to the pension fund and provides advice and challenge on appropriate investment strategies.

Client agreements have been made with each of the above investment managers and advisers. The Chief Finance Officer has been delegated the authority to agree amendments to these agreements.

The Pension Committee regularly monitors the performance of the investment managers and its advisers, on behalf of the Council.

Types of investments to be held and the balance between these investments

Based on expert advice and taking into account the Fund's liabilities, the Pension Committee has determined a benchmark mix of assets considered suitable for the Fund. The asset mix currently includes equities (public and private), bonds (government, corporate and index-linked), property, cash and absolute return and fund of hedge fund strategies. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

A review study is carried out after each actuarial revaluation and used to consider the suitability of the existing investment strategy.

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 2009 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix B.

Other types of investment may be approved by the Committee after taking professional advice.

The expected return on investments

Investment managers are given target performance standards and their actual performance is measured against these. These targets (gross of fees) are:

Adams Street Partners	- Outperform benchmark
Fauchier Partners	- 5.00% p.a. in excess of benchmark
JP Morgan Asset Management	- Outperform benchmark
LGT Capital Partners	- Outperform benchmark
M&G Investments	- 5.00% p.a. in excess of benchmark
Marathon Asset Management	- Outperform benchmark
Macquarie Infrastructure	- Outperform internal rate of return hurdle
Ruffer LLP	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Asset Management - Property	- 1.00% p.a. in excess of benchmark

Overall, the targets are intended to achieve above average performance, relative to earnings and inflation, without excessive risk, so that the Fund can meet its obligations without excessive levels of employer's contribution.

Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.

Fee Structures

Adams Street Partners	- Fee based on subscribed capital + performance fee
Fauchier Partners	- Fixed fee + performance fee
JP Morgan Asset Management	- Fixed fee based on portfolio value
LGT Capital Partners	- Fee based on subscribed capital + performance fee
M&G Investments	- Fixed fee based on drawn capital
Marathon Asset Management	- Fee based on performance
Macquarie Infrastructure	- Fee based on committed capital + performance fee
Ruffer LLP	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS Asset Management - Property	- Fixed fee based on portfolio value.
Hymans Robertson LLP	- Price per piece
Scott Jamieson	- Fixed fee

In each case best value is the basis for selection of fee structures.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments so as to reduce risk to an acceptable level.

Each manager is expected to maintain a diversified portfolio within each asset class and is permitted to use collective investment vehicles as a means of providing diversification in particular markets.

Where managers wish to use futures, specific arrangements are agreed to limit the Fund's exposure to risk.

The management of Fund assets is spread over more than one manager, with different performance targets, as a further measure to reduce overall risk.

The key risks facing the Pension Fund are reported to the Pension Committee on a quarterly basis where they are monitored and reviewed.

The realisation of investments

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property and private equity investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets. In general, the investment managers have discretion as to the timing of realisations. If it becomes necessary for investments to be sold to fund the payment of benefits, the Pension Committee and the manager(s) will discuss the timing of realisations.

Pension Fund Treasury Management Policy

The Local Government Pension Scheme (Management and Investment of Funds) 2009 requires the pension fund to hold its own separate bank account. The use of a separate pension fund bank account requires the introduction of a dedicated treasury management activity solely for the pension fund.

The prime objective of the pension fund treasury management activity is the security of the principal sums invested. As such it will take a prudent approach towards the organisations employed as the banker and deposit taker.

For the Banker, the minimum criteria will be the lowest equivalent short term and long term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).
Long term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)
The deposit taker will be limited to AAA-rated money market fund.
The Pension Fund will also take into account information on corporate developments of and market sentiment towards these organisations.

The pension fund will ensure it has adequate, though not excessive, cash resources to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives.

The pension fund may borrow by way of temporary loan or otherwise any sums which it may require for the purpose of paying benefits due under the scheme, or to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment. The pension fund may only borrow money for these circumstances if, at the time of borrowing, the pension fund reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

The pension fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

In terms of treasury management the Pension Fund will operate separately from the Council and as such any transactions carried out by or on behalf of either party will be settled by cash transfer in a timely manner. The financial accounting is also separated, monitored and reconciled, to ensure any balances are identified and accounted for in the proper manner.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

The Council supports the principle of socially responsible investment, within the requirements of the law and the need to give the highest priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Council will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Council, except on the basis of written information from other advisers.

The Pensions Committee has discussed socially responsible investment in the context of investment strategy. It has decided that the principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

The Council is a member of Local Authority Pension Fund Forum (LAPFF) and uses it as a platform for engagement on environmental, socially responsible issues and corporate governance rather than disinvesting.

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of LAPFF. (See appendix E)

In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

It is the Council's policy to be an active shareholder. Where the pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Council's policy is that that all proxies are to be voted where practically possible.

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

Fund Managers' right to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and with the prevailing regulations.

From time to time, the Pension Committee may feel strongly concerning certain policies and at this time would advise the managers how to execute their votes. Attached at Appendix C are the Pension Committee's broad guidelines on exercising the Council's voting rights.

STOCK LENDING

The Stock Lending programme is managed by the Fund's custodian Northern Trust. They comply with the limitation that no more than 25% of the fund is to be on loan.

All loans are fully collateralised with Government obligations, Local Authority Bonds or Bills, letters of credit, certificates of deposit or equities issues.

Information regarding Stock Lending activity is reported to Pensions Committee on a quarterly basis.

COMPLIANCE

The London Borough of Hillingdon as the administering authority of the London Borough of Hillingdon Pension Fund complies with the guidance given by the Secretary of State.

The investment managers and all other investment advisers are requested to exercise their investment powers in support of the principles set out in this Statement and in accordance with the Regulations.

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Officers meet with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out. This

Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA Principles of Investment Decision Making and Disclosure.

Principle 1 Effective Decision Making	Administering Authorities should ensure that: • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implication and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Compliant All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required and have committed to regular training. The officer support team has sufficient experience to support Committee in making decision making responsibilities. It undertakes regular training as part of a continued personal development plan. There is an Investment Sub Group made up of senior officers, committee members, the scheme adviser and an independent Chair which acts as a specialist investment and asset allocation advisory body. An independent adviser sits on the Pension Committee to add additional challenge to the advice received.
Principle 2 Clear objectives	An overall investment objective(s) should be set out for the fund that takes accounts of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and	Compliant The investment objectives and attitudes to risk are set out in the Statement of Investment Principles and Funding Strategy Statement. Overall fund objects are reviewed

	scheme employers and these should be clearly communicated to advisors and investment managers.	properly as part on the ongoing monitoring of the fund.
Principle 3 Risk and liabilities	In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities. These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Compliant The review of the Funding Strategy takes into account relevant issues and implications.
Principle 4 Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	Partly Compliant Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision making and deferral of decisions are recorded in the committee papers. Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.
Principle 5 Responsible ownership	Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme	Partially Compliant The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles. Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.

	members on the discharge of such responsibilities.	
Principle 6 Transparency and reporting	Administering authorities should: • act in a transparent manner, communicating with shareholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • provide regular communication to scheme members in the form they consider most appropriate.	Partially Compliant The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated as required. The Pension Annual Report provides details of manager and fund monitoring and is available on the Council website. Members are directed to the website but hard copy reports are available on request. The minutes and decisions taken at Pension Committee meetings are available on the Council website.

APPENDIX B

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended, Schedule 1, set out the legal requirements which apply to the investments of the Fund. The statutory regulations specify the following restrictions on investments:

Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships.	5%
The sum of: All loans (except Government Loan) Any deposits with any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%
All investments in unlisted securities of companies	10%
Any single holding (but see paragraphs 1 and 2 below).	10%
All deposits with any single bank, institution or person (other than the National Savings Bank).	10%
All sub-underwriting contracts.	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 2 below	25%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%
All investments in unit or other shares of the investments subject to the trusts of unit	25%

trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 2 below).	
Any single insurance contract.	25%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Restrictions identified in the above table does not apply if:

the investment is made by an investment manager appointed under regulation 8; and

the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.

- Restrictions identified in the above table do not apply to:

National Savings Certificates;

fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;

any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

a deposit with a relevant institution.

An Investment Management Agreement is in place with each Fund Manager which clearly defines the investment guidelines for the portfolio they manage.

If individual managers invest outside the laid down investment guidelines then they will consult with the Chief Finance Officer for direction and report to the Pension Committee at the next available opportunity.

APPENDIX C

Voting Guidelines

The main focus is to promote maximum long-term shareholder value and protect the interest of shareholders.

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only

		open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25%of total fees. Appointment of auditors be for at least 5 years.

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

ADAMS STREET PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	**100**		

FAUCHIER PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Fund of Hedge Funds	100	n/a	LIBOR 3 month
Total	**100**		

JP MORGAN ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Fixed Interest	100	100	LIBOR 3 month **+ 3%**
Total	**100**		

LGT CAPITAL PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	**100**		

M&G INVESTMENTS			
Asset Class	Benchmark %	Ranges %	Index
Private Placement	100	n/a	LIBOR 3 month **+4%**
Total	**100**		

MACQUARIE INFRASTRUCTURE & REAL ASSETS EUROPE			
Asset Class	Benchmark	Ranges %	Index

	%		
Infrastructure	100	n/a	Internal rate of return hurdle
Total	**100**		

MARATHON ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Global Equities	100	n/a	MSCI World
Total	**100**		

RUFFER LLP			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	n/a	LIBOR 3 month
Total	**100**		

STATE STREET GLOBAL ADVISORS			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	**Rebalanced Quarterly +/- 10% of Benchmark**	FTSE All Share (or similar)
North America Equity Index sub-fund	11		FTSE World North America (or similar)
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK (or similar)
Asia Pacific Equity Index sub-fund	11		FTSE **Pacific Basin (excl Japan)** (or similar)
Emerging Markets Equity Index fund	3		FTSE All-World All Emerging (or similar)
UK Conventional Gilts All Stocks fund	1.5		FTA British Govt Conventional Gilts All Stocks (or similar)
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks (or similar)
Sterling Corporate Bond All Stocks fund	8.5		Barclays Capital Sterling Aggregate (or similar)
Total	**100**		

STATE STREET GLOBAL ADVISORS - Account 2			
Asset Class	Benchmark	Ranges %	Index

	%		
Sterling Corporate Bond All Stocks Index Fund	50	+/- 10% of Benchmark	Barclays Capital Sterling Aggregate (or similar)
Sterling Liquidity sub-Fund	50		
Total	**100**		

UBS GLOBAL ASSET MANAGEMENT – EQUITIES			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	100	40 - 100	FTSE All Share
Cash	0	0 – 10	
Total	**100**		

UBS GLOBAL ASSET MANAGEMENT - PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD Index
Cash	0	0 - 10	LIBOR 7 Day
Total	**100**		

APPENDIX E

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy. In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF and NAPF.
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings.
Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from our fund

	managers on voting are received and engagement activity is reported to committee quarterly. In addition the fund receives 'alerts' from Local Authority Pension Fund Forum. These highlight corporate governance issues of concern and are considered accordingly.
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. On occasions, the fund may participate in escalation of poignant issues, principally through engagement activity through the Local Authority Pension Fund Forum.
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate**.**	The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does not currently disclose any voting data.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

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