



HILLINGDON
LONDON



Pensions Committee

Date: WEDNESDAY, 22 JUNE
2011

Time: 5.30 PM

Venue: COMMITTEE ROOM 4 -
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)
Michael Markham (Vice-Chairman)
Paul Harmsworth (Labour Lead)
Janet Duncan
Richard Lewis
David Simmonds

Advisory Members

John Holroyd
Andrew Scott

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This Agenda is available online at:
<http://modgov.hillingdon.gov.uk/ieListMeetings.aspx?CId=125&Year=2010>

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Agenda

- 1 Apologies for Absence
- 2 Declarations of Interest in Matters coming before the Committee
- 3 To agree the minutes of the previous meeting 1 - 2
- 4 To confirm that all items marked Part 1 will be considered in public and all items marked Part 2 will be considered in private

Part 1 - Members, Public and Press

- 5 Review of Performance Measurement of the Fund 3 - 72
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Minutes

PENSIONS COMMITTEE

23 May 2011

Meeting held at Committee Room 4 - Civic Centre,
High Street, Uxbridge UB8 1UW



HILLINGDON
LONDON

	<p>Committee Members Present: Councillors Philip Corthorne, Michael Markham, Paul Harmsworth, David Simmonds, Janet Duncan and Richard Lewis</p> <p>Advisory Members /Co-optee Members Present: John Holroyd and Andrew Scott</p> <p>LBH Officers Present: Nancy LeRoux, Nav Johal and Natasha Dogra</p>	
2.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence to note.</p>	Action by
3.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>Councillors Corthorne, Duncan, Harmsworth, Lewis and Simmonds, and advisory members Andrew Scott and John Holroyd, declared a personal interest in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.</p>	Action by
4.	<p>MINUTES OF THE MEETING - 12 MAY 2011 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the Pensions Committee meeting on 12 May 201 be agreed as a correct record.</p>	Action by
5.	<p>TO CONFIRM THAT THE ITEMS OF BUSINESS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND THAT THE ITEMS MARKED PART 2 WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>RESOLVED: That Agenda Item 6 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 this item.</p>	Action by
6.	<p>RE-INVESTMENT OF ALLIANCE BERNSTEIN ALLOCATION (<i>Agenda Item 5</i>)</p> <p><i>This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information</i></p>	Action by

	<i>relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i>	
	The meeting, which commenced at 1.00 pm, closed at 1.20 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nav Johal on 01895 250692. 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

James Lake, 01895 277562

Papers with this report

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

SUMMARY

This report reviews the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 31 March 2011. The value of the fund investments as at the 31 March was £594.1m.

RECOMMENDATION

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

INFORMATION

1. The performance of the Fund for the quarter to 31 March 2011 showed an underperformance of 0.54%, with a positive return of 0.81% compared to the benchmark of 1.35%. One year figures show returns of 5.04% but behind the benchmark by 3.21%.

Performance Attribution Relative to Benchmark

	Q1 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	(0.15)	(0.19)	(0.67)	(0.48)	(0.58)
UBS	(1.08)	(2.75)	(1.38)	(2.13)	0.98
Alliance Bernstein	(1.18)	(4.68)	(5.71)	(3.93)	(3.93)
UBS Property	0.23	(1.11)	(1.32)	(0.74)	(0.74)
SSgA	(0.01)	0.05	-	-	0.06
SSgA Drawdown	(0.02)	0.29	-	-	0.33
Ruffer	(0.82)	-	-	-	5.21
Marathon	(0.26)	-	-	-	3.01
Fauchier	0.60	-	-	-	(1.41)
Total Fund	(0.54)	(3.21)	(2.88)	(2.53)	(0.54)

Market Commentary

2. Equity markets began the first quarter of 2011 in a volatile fashion. Worries over European debt were put to one side and US equities continued in a positive trend leading to overall rises until mid February. Then concerns over US job losses,

European credit and global trade started to reinforced a sense of caution. This was then followed by the tragic events in Japan all of which culminated in falling equity indices. Investors then started to look at valuations and when the Bank of Japan added trillions of Yen of fresh liquidity, equity prices began to recover. This was carried forward to the end of the quarter. The quarter overall was positive with developed markets outperforming emerging markets.

3. Bond yields tended to rise over the quarter against a backdrop of upward inflationary pressures. This was particularly evident in Europe with concerns over Greece, Portugal and Ireland and with the expectation of an ECB rate rise in April. Investment grade and high yield credit spreads continued to narrow in line with generally improving equity markets.
4. The UK commercial property market managed a positive return over the quarter, but forward looking indicators have now moderated their previous positive view.

MANAGER PERFORMANCE

5. **Manager: ALLIANCE BERNSTEIN**

Performance Objective: To achieve 2% above index returns over a full market cycle.

Approach: Alliance Bernstein is a bottom up stock picker relying on research based company fundamentals. They aim to perform well when the market discriminates between stocks and company fundamentals matter to investors.

Performance

	Q1 2011 %	1 Year %	3 Years %	Since Inception %
Performance	0.77	1.37	0.46	0.42
Benchmark	1.95	6.05	6.17	4.35
Excess Return	(1.18)	(4.68)	(5.71)	(3.93)

Alliance Bernstein was unable to add value in the first quarter of 2011 with both security and sector selection detracting from returns. In aggregate emerging markets detracted the most and included technology firms such as Samsung and AU Optronics as well as financials such as HFDC and Halkbank. In line with previous underperformance, Alliance Bernstein claim there is potential in their holdings to add value which is yet to be rewarded. However the latest quarter's underperformance only adds to accumulating long term negative figures.

6. **Manager: FAUCHIER**

Performance Objective: The investment objective of the company is to achieve an absolute return.

Approach: The aim of the portfolio is to be diversified across 10-12 strategies and allocate to those strategies according to perception of the potential which exists to generate returns over a period of time.

Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case cash, by a further 5%. In relation to this benchmark Fauchier have underperformed since inception (June 2010) by 1.41% albeit with outperformance in the last quarter

of 0.60%. However since their appointment Fauchier have delivered a positive return of 2.90%, and as such have met their investment objective by delivering an overall absolute return. Further analysis shows that there was broadly positive performance in the underlying funds with Equity Hedged Managers benefiting from the general increase in risk appetite and with the Fixed Income manager generating positive returns from tactical trading around short term rates. Specialist Credit Managers, Event Driven Managers and Multiple Strategy Funds were also positive with there respective approaches showing gains. The laggards within the fund were the Short Bias managers who struggled in the face of generally increasing equity markets.

Manager: GSAM

Performance Objective: To outperform their benchmark indices by 0.75% per annum.

Approach: The corporate credit research process is grounded upon an analysis of the macro environment, commonly referred to as top-down analysis, along with a detailed understanding of the characteristics pertaining to each corporate entity, commonly referred to as bottom-up analysis. Multiple ideas resulting from this analysis are brought together and a balanced portfolio is constructed.

Performance

	Q1 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	0.42	5.49	6.17	5.07	5.76
Benchmark	0.57	5.68	6.84	5.55	6.34
Excess Return	(0.15)	(0.19)	(0.67)	(0.48)	(0.58)

The top down analysis for Q1 failed to deliver results with negative performance in the country strategy and cross sector positioning. Within these areas the portfolio was not set up to deal with the softer than expected US data and hawkish ECB comments. The bottom up approach was more successful with corporate selection adding value with good positioning in utility issuers and being underweight in high quality UK names. The first quarter’s results impacted the one year figure, turning positive results into underperformance. The first quarter of 2011 along with poor 2008 results are still more than offsetting the gains made during 2009 and 2010.

In general there is a tendency for bond managers to perform in harmony and to either outperform or underperform their benchmarks at the same time. If GSAM’s broad performance is compared with a selection of its peers, it shows the current quarter, one year and three years results are slightly below the average, however the spread is not wide.

7. Manager: MARATHON

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

Approach: Marathon's investment philosophy is based on the capital cycle and the idea that high returns will attract excessive capital and hence competition, and vice versa. Given the contrarian and long-term nature of the capital cycle, Marathon’s approach results in strong views against the market and long holding periods by industry standards (5 years plus). Marathon believe “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 first quarter of 2011 the portfolio marginally underperformed the benchmark by returning 2.10% against a benchmark of 2.36%, with geographical allocation having the largest negative effect on performance. In contrast Marathon's stock selection remains successful adding the most value. Since inception in June 2010, the portfolio has outperformed delivering returns of 20.34% against the benchmark of 17.33%. Again stock selection was by far the strongest contributor to relative returns over the period.

Whilst the mandate benchmark is based on developed markets, Marathon has the ability to invest in emerging markets. As such any positive or negative returns from emerging market investments can unduly influence relative performance. A proxy to the mandate benchmark is the MSCI All Countries index which includes both developed and emerging markets. For the nine month period this index has returned 21.16%, which is more comparable, if albeit slightly better than Marathon's returns.

8. 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: Since their inception nine months ago Ruffer has returned 5.82% and met their brief by preserving capital and growing the portfolio. Equities make up almost half of the portfolio and so outperformance and the increase in asset value was aided by an overall appreciation within this asset class. However the latest quarter's fall in Japanese equities detracted from cumulative figures, as did gold which sold off in Q1.

An alternative approach to measuring against the absolute benchmark of cash is to construct a benchmark which better reflects the make up of the portfolio. In the case of Ruffer, if the benchmark is split to show returns weighted at 45% equities, 40% index linked bonds and 15% cash, the performance for the nine month period since inception is 11.62%. With equities being the largest contributor over the period, the mandate returns show that not all the gains were captured in this class. This is still

evident in the “put option” which is in place to protect against a downturn but continues to be a drag on performance, whilst in general equities keep rising.

9. **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:

	Q1 2011 %	1 Year %	Since Inception %
SSgA Main Account			
Performance	1.19	8.13	19.62
Benchmark	1.20	8.08	19.56
Excess Return	(0.01)	0.05	0.06
SSgA Draw Down Account			
Performance a/c 2	0.53	3.16	5.94
Benchmark a/c 2	0.55	2.87	5.61
Excess Return	(0.02)	0.29	0.33

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.06%. The draw down fund which commenced June 2009 has also outperformed its benchmark and has delivered an excess return of 0.33%. In both cases SSgA has delivered against its objective.

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

10. **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:

	Q1 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	(0.05)	5.97	5.99	2.98	10.10
Benchmark	1.03	8.72	7.37	5.11	9.12
Excess Return	(1.08)	(2.75)	(1.38)	(2.13)	0.98

Performance for the quarter was behind the benchmark and was primarily due to the sharp fall in the Dixons Retail Group share price in which the fund has a large holding. This along with the negative returns for 2008 and 2010, show one, three and five year figures still falling short of the benchmark. This indicates that cumulatively over these longer time frames the value style has been out of favour. However if the time horizon is extended further, the since inception performance is ahead of the benchmark by 0.98%.

To better determine performance and manager skill based on their investment approach, it is possible to measure against an alternative index. The above performance is benchmarked against the FTSE All Share, which includes all UK stocks regardless of the style of investing. UBS are a value based manager and will only hold stocks which represent their value style. If performance is measured against a purely value index, which only includes value stocks, UBS have outperformed over the longer term by 3.5% for three years and 0.9% for five years. Performance over the last year alone shows a marginal underperformance of 0.1%. This can be attributed in a large part to the funds holding in BP, where UBS were overweight at the time of the Gulf of Mexico spill.

11. **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:

	Q1 2011 %	1 Year %	3 Years %	Since Inception %
Performance	2.13	7.98	(5.22)	(2.43)
Benchmark	1.90	9.09	(3.90)	(1.69)
Excess Return	0.23	(1.11)	(1.32)	(0.74)

As the fund is based on the benchmark, normally performance should also reflect the benchmark, albeit with a margin of outperformance. However the initial fund set up and the subsequent part dissolution and reinvestment have resulted in transaction costs, which detract from performance. Since inception many of the underlying funds have outperformed, but not by a margin large enough to outweigh the funds ongoing set up costs. As the portfolio diversifies further out of Triton, transaction costs will continue to challenge the outperformance of the underlying funds. In Q1, despite a further acquisition in the Unite Student Accommodation Fund, returns were ahead of the benchmark. This was mainly attributable to strong

performance from the UBS South East Recovery Fund along with contributions from a number of other sub funds.

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
Alliance Bernstein	61,744	234	242	-	62,220	(723)
Fauchier	25,013	506	-	-	25,519	149
GSAM	65,695	202	77	-	65,974	(99)
Marathon	57,556	1,211	-	-	58,767	(126)
Ruffer	53,574	(601)	260	-	53,233	(438)
SSgA	131,855	1,433	-	(2,207)	131,081	(6)
UBS	110,785	(827)	771	-	110,729	(1,198)
UBS Property	45,573	243	728	(3)	46,541	104

12. 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 Fauchier, and UBS Property had a positive impact on the appreciation of holdings contributing £253k in total. Underperformance from Alliance Bernstein, GSAM, Marathon, Ruffer, SSgA and UBS reduced appreciation by £2,590k.

M&G Update

13. There are now five holdings within the fund with a further two in the pipeline, which are expected to close in July 2011. The closing of the fund has been extended a further 12 months to July 2012, to allow for more time to increase and diversify the underlying holdings.

Macquarie Update

14. The fund is now over 50% invested with interests in telecom tower infrastructure, airports and power generation. The assets owned by the fund continue to perform in line with forecasts. Significant progress has been made on a new power generation plant investment, which has been pursued by the fund over the last six months. In addition to this, work continues on several other attractive investment opportunities across roads, power and logistics, of which several are expected to reach completion within the next 3 to 6 months. Macquarie and State Bank of India also completed the establishment of an Indian domestic fund that will co invest alongside the fund, bringing together foreign and domestic capital in the same infrastructure projects

Other Items

15. At the end of March 2011, £30.2m (book cost) had been invested in private equity, which equates to 5.08% of the fund against the target investment of 5.00%. This level still remains within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £825k and distributed £74k, whilst LGT called £587k and distributed £879k.

16. The securities lending programme for the quarter resulted in income of £16.2k. Offset against this was £5.7k of expenses leaving a net figure earned of £10.5k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 March 2011 the average value of assets on loan during the quarter totalled £25.4m representing approximately 11.2% of this total. The annual gross income from the securities lending programme in 2010/11 totalled £115.7k with costs of £40.5k.

17. The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro and 50% Japanese Yen hedges. As at 31 March 2011 the hedges were in a £1.1m negative position and against a half hedge benchmark were down 0.75%. The interim figures were mainly attributable to expectations of a European Central Bank rate rise which strengthened the Euro, however fears over European Sovereign debt still loom and the Euro is still expected to weaken over the near term.

18. For the quarter ending 31 March 2011, Hillingdon returned 0.81%, underperforming against the WM average by 0.49%. The one year figure shows an underperformance of 3.16%, returning 5.04% against the average return of 8.20%.

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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1st Quarter, 2011

London Borough of Hillingdon

London Borough of Hillingdon

1st Quarter, 2011



Executive Report

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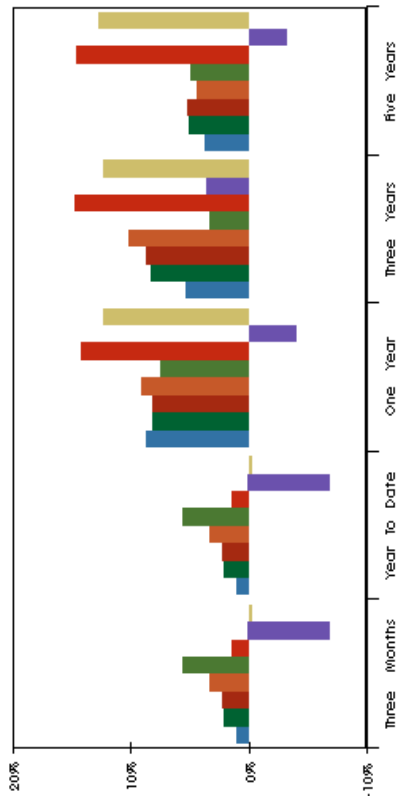
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Equity Index Performance (in GBP)

Performance History



Performance Returns%

Index	Three Months	Year To Date	One Year	Three Years	Five Years
FSE All Share	1.0	1.0	8.7	5.4	3.7
FT World	2.2	2.2	8.2	8.4	5.1
FT World ex UK	2.3	2.3	8.2	8.7	5.2
FT AW: United States	3.3	3.3	9.2	10.3	4.5
FT: Developed Europe ex UK	5.7	5.7	7.5	3.3	5.0
FT AW: Japan	-6.9	-6.9	-4.0	3.6	-3.3
FT: Developed Asia Pac x Jp	1.5	1.5	14.2	14.7	14.6
MSCI Emerging Markets GD	-0.3	-0.3	12.4	12.4	12.8

All index returns are in GBP terms unless stated otherwise.



Nobody could have predicted the series of world altering events occurring at the beginning of 2011. Japan's biggest ever earthquake, 10m tsunami and nuclear meltdown. Revolution throughout the Middle East and Africa. The continuing disintegration of European economic surety with Portugal the latest sovereign entity likely forced into a bailout from the EU. The financial crisis was considered to be our once in a generation event and now several more come hot on it's heels disrupting the momentum the global economy took into the start of the year. While most equity indices still proved positive over the first quarter Japan understandably was in the red and the other events conspired to harm Emerging Markets as the Middle East turmoil pushed up oil prices and demand dropped off for imported goods in Europe. In February prior to the earthquakes China officially passed Japan to become the second biggest economy with a GDP of \$5.9 trillion. Oil & Gas stocks produced the strongest gains while consumer good and services tended to underperform. Gold continued its ascent, seen as an effective hedge against geopolitical instability finishing the quarter up at \$1,430 per ounce. The price of crude oil futures finished Q1 up again at \$118 per barrel. The FTSE World was up by 2.2% (GBP) over quarter one 2011 and remains ahead over 1 year, now by 8.2% (GBP).

Despite a weakening pound the UK trade deficit in goods and services increased from £29.7bn in 2009 to £46.2bn in 2010. UK consumers are feeling the pain of higher import prices and above target inflation without the benefit of export led growth. George Osborne stuck to the plan; cut public sector debt and fuel private sector growth. The Office for Budgetary Responsibility downgraded growth forecasts for 2011-12 but then expects an upswing. Inflation did slow in March but remains at 4%. Unemployment fell to 7.8% at the end of February. UK GDP contracted by 0.5% in the fourth quarter of 2010 in an upward revision but that remains 1.5% higher than the fourth quarter of 2009. The FTSE 100 dropped to its lowest level this year in March plunging by 3% following the Japanese earthquake with insurance companies leading the losses. Oil & Gas and Technology were the leading sectors over Q1 with Telecoms just behind again. Consumer services and Basic Materials suffered weaker quarters. The FTSE All Share was up 1.0% (GBP) over the first quarter and by 8.7% (GBP) over the year.

The ECB raised the policy rate 25bps to 1.25% tightening monetary policy in a stand against inflation. The ECB is dealing with a two speed economy, a significantly different situation from that faced by the Fed and the BoE. The ECB hopes to foster Eurozone growth by returning rates to normal levels boosting economic confidence and also seeking to stabilise the Euro by forcing governments to ensure sound fiscal policy. That will be challenging for the countries on the periphery; Greek and Irish GDP has contracted by 6% and 11% respectively following the IMF enforced measures. The threat of default in Portugal necessitates a bail out for fear of contagion to Spain despite the existing political vacuum which will make guarantees difficult to seal. In response to this continuing debate Angela Merkel convinced her counterparts that they should restructure a new €500bn bail out fund to rescue any further countries from the risk of default. Eurozone unemployment decreased slightly to 9.5%. The FTSE Europe ex UK index returned 5.7% (GBP) over quarter one and 7.5% (GBP) over the year.

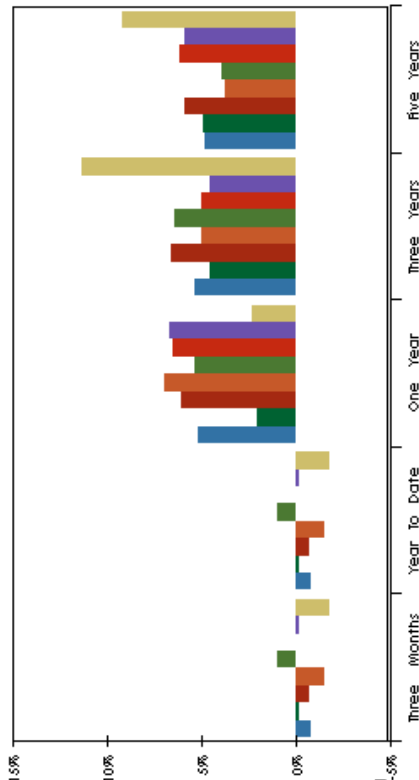
The Fed plans to push ahead with its \$600bn government bond purchase programme QEII. The IMF criticised the US for being the only advanced economy to allow its budget deficit to increase when its economy was growing fast enough to reduce it. It is unlikely they will meet the G20 pledge to halve the deficit by 2013. The unemployment rate fell again to 8.8% fuelled by private sector hiring. US home sales fell to their lowest levels since records began in 1963 and prices have now dropped more since the 2006 peak than they did during the Great Depression. AIG has offered \$15.7bn to buy back mortgage backed securities that would mean a substantial profit for the US government. The Fed made a record contribution to the Treasury last year of \$79.3bn from its investments made to support the economy. Concerns from health insurers that resisted President Obama's healthcare reforms proved unfounded with rising stock prices, profits and dividends. All equity sectors apart from consumer goods gained; the biggest increases found in Oil & Gas and Industrials. The FTSE North America index was up 3.5% (GBP) over the first quarter and by 9.6% (GBP) for the year.

While it does an economy no good to destroy its productive stock and rebuild it; it does lead to a surge in economic activity. Japanese status as the world's largest debtor often overshadows its place as a large creditor (with \$886bn reserves). Additional debt will be issued as well as an estimated \$200bn in reconstruction costs. The Bank of Japan has already made \$265bn available to stabilise markets as the Nikkei 225 fell by 14% at one stage. The FTSE Japan returned -6.9% (GBP) for Q1; the FTSE Developed Asia Pacific ex Japan returned 1.5% (GBP). Brazil took emergency measures to rein in inflation by doubling the tax on consumer credit. The Brazilian economy overtook both Britain and France to become the world's 5th largest. The slow and faltering recovery of Western developed economies is halting the growth of EIM exports enjoyed since 2007. The spike in crude oil prices has heightened already elevated inflationary pressure across the Emerging Markets. MSCI Emerging Markets index returned -0.3% (GBP) for the first quarter.



Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FBE All Stock Index	-0.8	-0.8	5.2	5.3	4.8
FBE All Stock 0-5 Yr. Gilts	-0.2	-0.2	2.1	4.6	5.0
FBE All Stock 5-15 Yr. Gilts	-0.7	-0.7	6.1	6.6	5.9
FBE All Stock > 15 Yr. Gilts	-1.5	-1.5	6.9	5.1	3.8
ML STG N-Gilts All Stocks	1.0	1.0	5.3	6.5	3.9
FBE Index Linked	0.0	0.0	6.5	5.0	6.2
FBE Index Linked 5+ yrs	-0.2	-0.2	6.7	4.6	5.9
JPM GBI Global	-1.8	-1.8	2.3	11.4	9.3

All index returns are in GBP terms unless stated otherwise.



The first quarter of 2011 saw a number of shocks to the global economy. Regime change and spreading political upheaval in the Middle East and North Africa (MENA) region saw crude oil prices soaring to US\$117 per barrel as concern rose over oil production. The earthquake in Japan, the subsequent tsunami then the Fukushima nuclear plant crisis has left the country's outlook uncertain. Even prior to the natural disasters Japan faced a sharp slowdown as the economy shrank by 0.3% in the last quarter of 2010 as consumer spending slumped and investment growth tailed off. The core government bond markets in the US, UK, Germany and Japan benefited from an initial flight to safety following these shocks, however yields have resumed their upwards trend over the quarter reflecting ongoing concerns over high commodity prices and the subsequent inflationary pressures. Meanwhile peripheral euro zone government bond yield spreads have eased back modestly, albeit at still high levels as Portugal followed Greece and Ireland to apply to the EU for financial assistance as its government collapsed in the last weeks of March. However recent positive economic data indicates that the global economic recovery has moved to a firmer footing. US employment increased for the second month consecutive month in March and unemployment fell to a two-year low of 8.8%. Surveys indicate increasing business and consumer confidence while an increase in risk appetite has pushed up equities, emerging market assets and higher yielding currencies at the expense of core government bonds and the yen. Inflation dominates concerns in the emerging markets driven by rising commodity prices and this has seen Brazil, Russia, India and China all raising their interest rates.

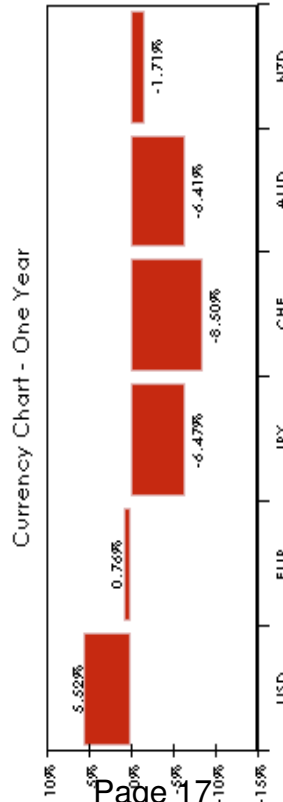
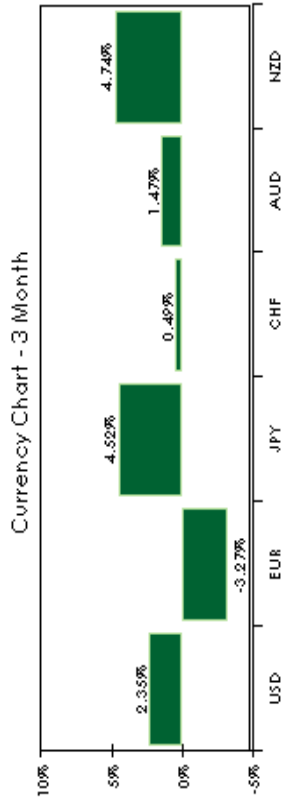
Since the start of 2011, UK inflation and the Monetary Policy Committee (MPC) division on how to react to it has been very much the focus. The Bank of England (BoE) continued to hold the base rate at 0.5%, with the MPC March minutes noting that "given further upward revisions to the near term outlook for inflation...the case for an increase in Bank Rate had strengthened". UK CPI increased to 4.4% in the year to February – almost 2.5% above the official target and its highest since Oct 2008. However growth data has deteriorated, with the weather related 0.5% contraction in GDP in the 4th quarter of 2010. The March manufacturing purchasing manager survey (PMI) dropped sharply from a reading of 61 in February to 57.1 suggesting the absence of any significant bounce back of growth for Q1. Given the VAT increase in January and the upcoming fiscal austerity measures, Chancellor Osborne's Budget on the 23rd March was described as a 'Budget for Growth'. However in spite of a modest giveaway to the corporate sector, the Budget was fiscally neutral overall with no change in spending over the forecast horizon. The benchmark 10 year gilt yield has increased from 3.46% at the end of December to close the quarter at 3.69%. The FTSE All Stock Gilts closed down at -0.8% (GBP) for the quarter, while the ML Sterling Non Gilts gained 1.0% (GBP).

As widely expected the European Central Bank (ECB) became the first G4 central bank to sanction a 25bp increase in its key financing rate to 1.25% at its 7 April Governing Council meeting. In spite of the continuing volatility in peripheral Euro zone government bond markets, the ECB is committed to preserving price stability over the medium term to avoid 'second round' effects into wages. The final Market Euro zone Composite PMI posted 57.6 in March, up from 55.5 in December signalling expansion for 20 consecutive months. National growth differences widened as domestic demand in the periphery is impacted by austerity measures and political uncertainty, while strong growth continues in Germany and France. As with other government bond yields, Germany's 10-year bund increased over the quarter with a closing yield of 3.37%, up from 2.95% after the ECB signalled its intention to raise interest rates. Ten year government bond yield spreads in the region versus the German bund were mixed. Yields on Ireland's 10-year bond climbed above 10%, lifting the spread over the bund to 710bps however Portugal suffered the biggest rise in borrowing costs, as the 10-year yield spread on Portuguese bonds increased by 136bps to 509bps over the quarter. The iTraxx Europe 5 yr index, representative of 125 investment grade entities across 6 sectors saw spreads contract from 104.95 at the end of December to 97.42. The JPM European Govt Bond index returned -1.4% (EUR) while the Barclay Capital Global Aggregate Credit index returned -3.4% (EUR) for the 1st quarter.

In the US, the economy responded well to the additional stimulus packages announced by the government and Federal Reserve at the end of 2010. The ISM manufacturing report for March indicates that economic activity expanded for the 20th consecutive month with the index at 61.2, up from 57 in December. Job growth has increased noticeably in recent months with unemployment falling to a 2 year low of 8.8%. The only sector yet to show signs of improvement is housing market activity, as unsold properties act as a drag on prices. The improving economic data and consequent reduced likelihood of further quantitative easing saw the yield on the 10-year benchmark Treasury hit a 10 month high of 3.7% in early February, before developments in Egypt and elsewhere in the MENA region sent investors back to safe haven assets. For the quarter the JPM US Govt Bond index returned -0.2% (USD) while the Barclay Capital Global Aggregate Corporate Bond index returned 2.4% (USD).



Currency Performance (in GBP)



Currency Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	2.35	2.35	5.52	-7.17	-1.58
European Union euro	-3.27	-3.27	0.76	-3.49	-4.76
Japanese yen	4.52	4.52	-6.47	-13.27	-6.64
Swiss franc	0.40	0.40	-8.50	-9.77	-8.71
Australian dollar	1.47	1.47	-6.41	-11.33	-9.01
New Zealand dollar	4.74	4.74	-1.71	-6.16	-6.00

The world's most powerful central banks joined forces to sell billions of dollars worth of Yen to battle against the speculators who had driven the currency to record highs in the wake of the Japanese earthquake in mid March. The yen soared to its highest level against the dollar since the second world war, investors grew more confident with dealers betting that Japanese insurers and other big countries would have to repatriate funds to meet claims and pay for reconstruction. The intervention by banks including the Federal Reserve, European Central Bank, Banks of England and the Bank of Japan, saw the first such co-ordinated G7 action in more than a decade. During the quarter the Australian dollar hit a 29 year high against the dollar surging to \$1.034 as recovering risk appetites fuelled demand for commodity linked currencies. This shows that it has more than recovered from all of its sharp losses after the Japan earthquake in March, which raised fears over global growth. China announced an unexpected surge in March exports, signalling strong global demand despite the Japanese earthquake and high global oil prices. In Q1 2011, China recorded its first quarterly trade deficit this quarter since 2004. This trade deficit of \$1.02bn reflected domestic economic strength and rising commodity prices.

In the UK, The effect of the tight fiscal squeeze on the UK economy and British tax payers has begun to unsettle currency investors. The pound dropped sharply since the budget was released in mid March. Early in the quarter, on the back of the UK CPI rate of 4.4%, the pound rose to a 14 month high at \$1.6401. Since then, the focus has turned against the Sterling as investors focused on the worsening UK economic outlook. The UK unemployment rate improved slightly, sitting at 7.8% compared to 7.9% the end of 2010. Much of this improvement pocketed by the finance and business services sectors. Official figures show that the fall of 17,000 to 2.48 million is the first drop since autumn 2010. UK house prices unexpectedly rose this quarter leaving overall prices only slightly below where they stood 12 months ago. The Nationwide House Price Index rose 0.3% in February leading to a picture of a housing market trading water rather than falling. Sterling closed the quarter gaining against the US Dollar by 2.4% and the Yen by 4.5%, however it was down against the Euro by 3.3%.

In the US, consumer sentiment declined in March at the fastest pace since the financial crisis began in 2008, after Lehman Brothers filed for bankruptcy. Higher gasoline prices at the pumps shot up over quarter generating a large jump in household inflation expectations. Unemployment has dropped down to 8.8 per cent, well down from the 9.6 per cent of last August. This is indicative that QE2 (the second round of quantitative easing) has worked. Sales of homes in the US fell more than expected in February, following 3 straight months of growth, and prices dropped sharply as the combination of tight credit and growing inventory weighed on the market. Even so, the housing market is seeing a gradual but uneven recovery, with home sales 26.4 per cent higher than the low last July. The US trade deficit grew wider than expected in January as record exports could not offset the effects of soaring oil prices and growing domestic demand. Imports surged by 5.2 per cent because of higher oil prices and domestic appetite for industrial supplies, cars and consumer goods. The Dollar closed the quarter down against the Pound by 2.4% and Euro by 5.6%, however it gained against the Yen by 2.2%.

In the Euro area, The Euro performed well this quarter, shrugging off worries over the fiscal health of the Eurozone's peripheral countries. The single currency remained resilient in spite of two Portuguese government debt downgrades and the resignation of the Portuguese prime minister, Jose Socrates, after he failed to get parliamentary approval of his plans to rein in the country's fiscal deficit. The expected interest rate rise from 1% to 1.25% to address inflation concerns arrived when the ECB policy makers met on April 7th. This was the first rise in rates since 2008. This rise was controversial considering the pain currently being felt by Portugal, Spain and Ireland. Japan's earthquake has had scant economic impact so far on the Eurozone which has seen robust growth this quarter. The jobless rate in the Eurozone dropped to 9.9 per cent, under 10 per cent for the first time since late 2009. Germany's domestic unemployment dropped to 6.3 per cent. By contrast, Spain's jobless rate rose to 20.5 per cent and 43.5 per cent for youth unemployment. The Euro ended the quarter gaining against the US Dollar, Sterling and Yen by 5.6%, 3.3% and 7.8% respectively.

All index returns are in GBP terms unless stated otherwise.





Scheme Performance

In the 1st quarter of 2011, the global economy suffered a number of shocks from the political upheaval in the Middle East and North Africa to the earthquake in Japan. The resulting volatility continues to cause unease in the financial markets. In this backdrop, the London Borough of Hillingdon returned 0.81% for the quarter which relative to the Total Plan composite benchmark return of 1.35% resulted in an under-performance of -0.54%. The primary driver of this underperformance is the negative stock selection from equities, most notably in the Europe ex UK region which accounted for 85 out of the negative 119 basis points attributed to stock selection. This was ameliorated somewhat by the positive allocation (+20bps) and currency effect (+45bps) contributions from overweighting this region. Conversely North American equities, underweight by 5.75% relative to the target allocation was a negative contributor both through allocation (-23bps) and through stock selection (-20bps). UK equities underperformance over the quarter has resulted in this sector having the largest negative net contribution at -29 basis points. Meanwhile Japan equities being underweight in the worse performing region was the largest positive net contributor (+23bps). The contributions from Bonds, Real Estate, Private Equity and Cash were fairly neutral overall.

Over the one year period, the Plan has also underperformed with a return of 5.04% compared to 8.25% for its benchmark. A similar picture to that of Q1, 2011 has determined the underperformance over this period, where the relative return of -2.96% can be largely attributed to negative stock selection within equities (-3.48%) with the UK (-1.81%), continental Europe (-1.12%) and North America (-0.32%) the larger detractors. These effects are slightly offset by the positive selection effects coming from Corporate Bonds (+72bps), however this asset class has resulted in a net negative contribution of -17bps due to an overweight allocation (-14bps) and currency effects (-75bps).

With the Plan bettering its composite benchmark in just one quarter in the last three years, the London Borough of Hillingdon shows underperformance over all the longer time frames. Since inception in October 1995, the Plan has returned 6.47% relative to 7.01% for Total Plan benchmark.

Manager Performance

Alliance Bernstein

For the 1st quarter of 2011, the Alliance Bernstein global equity portfolio returned 0.77% versus the benchmark return of 1.95%, an underperformance of -1.16% on a relative basis. This was primarily attributable to negative stock selection in Europe, North America (-56 and -33 bps respectively) and to a lesser extent Japan and the Emerging Markets. Allocation effects were overall neutral, as positive contributions from North America (+9bps, overweight) and Japan (+13bps, underweight) were countered by an overweight Emerging Markets (-14bps) and the off benchmark Cash position (-8bps). Currency effects additionally detracted 9bps. The portfolio has underperformed its benchmark in each of the last 12 quarters, and consequently reflects underperformance over all longer time periods. Since inception (March 2006), Alliance Bernstein has returned 0.42% however underperforming the benchmark by -3.77% on a relative and annualized basis.

Goldman Sachs

The Goldman Sachs bond portfolio trails its composite benchmark for Q1, 2011 returning 0.42% versus 0.57%, a relative underperformance of 15bps. With the index linked gilts component of the portfolio tracking the FTSE Index Linked Gilts 5+yr Index, the underperformance is attributable to fixed income selection. The portfolio has bettered its benchmark in 6 out of the last 8 quarters; however the underperformance seen prior to Q2, 2009 continues to drag down the longer time periods. Goldman Sachs returned 5.49% compared to the benchmark return of 5.68% for the 12 months to March 2011 and since inception (December 2001) has delivered 5.76% versus 6.34% for the benchmark on an annualized basis.

SSGA

As expected from a passively managed mandate, the SSGA portfolio has tracked its composite benchmark, returning 1.19% versus 1.20% for the quarter ending March 2011. For the one year period and since inception (November 2008), SSGA is marginally ahead of the benchmark returning 8.13% versus 8.08% and 19.62% versus 19.56%, respectively.

SSGA Drawdown

For the 1st quarter of 2011, the SSGA Drawdown fund marginally underperformed its benchmark returning 0.53% compared to the composite return of 0.55%. The fund has bettered its benchmark in 5 of the 7 quarters since inception. For the 12 months to date and since inception (June 2009) SSGA Drawdown has returned 3.16% and 5.94% respectively, outperforming by 0.28% and 0.31% on a relative and annualized basis.



Manager Performance

UBS

The UBS UK Equity portfolio returned -0.05% in the 1st quarter, underperforming the FTSE All Share return of 1.03% by -1.07% on a relative basis. This is largely attributable to negative stock selection (-142bps), particularly within the Consumer Services sector which contributed -140bps on its own. Of that contribution, -20bps was derived from an overweight allocation to the underperforming sector. Both the Oil & Gas (-27bps) and Health Care (-60bps) sectors were also notable contributors to the underperformance of the portfolio. Allocation decisions were positive overall (+34bps), the main contributors being the underweight Basic Materials (+23bps) and the overweight Oil & Gas (+15bps) and Telecommunications (+16bps). Over the one year period, UBS have delivered 5.97%, an underperformance of -2.53% on a relative basis. The most significant contributor is again Consumer Services with negative stock selection effects of -2.62%. Over the three and five year periods underperformance is still evident with relative returns of -1.29% and -2.02% respectively, however since inception (December 1988) the portfolio has outperformed returning 10.10% against the benchmark return of 9.12%.

Manager Performance

M&G Investments

The value of the M&G investments increased to £5.3 million, however this was due to the transfer into the fund of £2.2 million and the return for the last three months is 0%. Since inception at the end of May 2010, the portfolio achieves a 1.8% absolute return. At present no benchmark has been applied to this mandate.

Ruffer

In contrast to the previous quarter, the Ruffer portfolio returned -0.64% compared to the proxy benchmark return for LIBOR 3 Month GBP of 0.18%. Since inception May 2010, the portfolio has outperformed its benchmark by 5.18% on a relative basis, posting 5.82% versus 0.61% over the same period.

Marathon

For the 1st quarter of 2011, the Marathon portfolio trailed its benchmark the MSCI World index by -25bps returning 2.10% versus 2.36%. However, since inception in June 2010, Marathon has outperformed with a return of 20.34% compared to 17.33% for the index.

UBS Property

The UBS Property portfolio has bettered the IPD UK PPFI All Balanced Funds index for the 1st quarter of 2011, returning 2.13% versus 1.90% for the benchmark. This is the 7th consecutive quarter of positive absolute returns, following the downturn in 2008 through to Q2, 2009. Over the one year period, the fund has delivered 7.98% compared to 9.08% for the benchmark, an underperformance of -1.02% on a relative basis. For the longer time periods and since inception (March 2006) underperformance is largely attributable to the Q4 2009 results, with the 3 and 5 year relative returns at -1.38% and -0.76% respectively.

Fauchier

Fauchier returned 2.02% in the current quarter relative to their target benchmark, LIBOR 3 month + 5% which returned 1.42%. However due to significant underperformance in the initial quarter, Fauchier reflect a relative underperformance since inception in July 2010, with a return of 2.90% compared to 4.31% for the benchmark.



Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 01/11	Portfolio Benchmark	Excess Return	Relative Return	Active Contribution 02/11	Portfolio Benchmark	Excess Return	Relative Return	Active Contribution 03/11	Active Contribution 1Q 2011
Alliance Bernstein	-1.04	-0.35	-0.69	-0.69	-424,530.85	1.25	1.20	0.05	32,601.73	0.57	-0.53	-0.52	-330,983.02	-722,912.14
Goldman Sachs	-1.26	-1.24	-0.02	-0.02	-13,451.99	1.43	1.20	0.23	153,887.43	0.27	-0.36	-0.36	-239,318.31	-98,882.87
SSGA	-0.67	-0.65	-0.02	-0.02	-21,243.50	1.68	1.67	0.01	12,926.31	0.19	0.00	0.00	4,521.32	-3,795.88
SSGA Drawdown	-0.43	-0.25	-0.17	-0.17	-29,952.36	0.62	0.52	0.10	18,242.24	0.34	0.06	0.05	9,155.48	-2,554.65
UBS	0.40	-0.53	0.93	0.93	1,023,881.84	2.47	2.40	0.07	78,837.88	-2.85	-2.04	-2.05	-2,300,715.05	-1,197,995.33
UBS Property	0.78	0.66	0.12	0.12	57,245.71	1.44	0.71	0.73	336,069.67	-0.10	-0.62	-0.62	-289,519.79	103,795.59
M&G Investments	-0.00	-	-	-	0.00	0.00	-	-	0.00	0.00	0.00	-	13.10	13.10
Ruffer	-1.53	0.06	-1.59	-1.59	-851,964.39	1.92	0.05	1.86	983,761.88	-0.99	-1.06	-1.06	-569,632.32	-437,834.82
Warathon	-1.42	-0.05	-1.37	-1.37	-790,563.50	1.59	1.93	-0.34	-196,406.17	1.96	1.49	1.48	861,431.57	-125,538.10
Pauchier	1.32	0.47	0.84	0.84	212,264.87	0.10	0.47	-0.37	-93,275.77	0.60	0.12	0.12	30,331.12	149,320.22

Total Fund Market Value at Qtr End: £559.4 M



Scheme Performance

Market Value £m	% of Fund	Three Months			Year To Date			One Year					
		Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
559.4	100.00	0.81	1.35	-0.54	-0.54	0.81	1.35	-0.54	-0.54	5.04	8.25	-3.21	-2.96
By Manager													
62.2	11.12	0.77	1.95	-1.18	-1.16	0.77	1.95	-1.18	-1.16	1.37	6.05	-4.68	-4.41
66.0	11.79	0.42	0.57	-0.15	-0.15	0.42	0.57	-0.15	-0.15	5.49	5.68	-0.19	-0.18
114.4	20.46	1.19	1.20	-0.00	-0.00	1.19	1.20	-0.00	-0.00	8.13	8.08	0.05	0.05
16.6	2.97	0.53	0.55	-0.01	-0.01	0.53	0.55	-0.01	-0.01	3.16	2.87	0.29	0.28
110.7	19.80	-0.05	1.03	-1.08	-1.07	-0.05	1.03	-1.08	-1.07	5.97	8.72	-2.75	-2.53
46.5	8.32	2.13	1.90	0.23	0.23	2.13	1.90	0.23	0.23	7.98	9.09	-1.11	-1.02
5.3	0.95	0.00	-	-	-	0.00	-	-	-	-	-	-	-
53.2	9.52	-0.64	0.18	-0.82	-0.82	-0.64	0.18	-0.82	-0.82	-	-	-	-
58.8	10.51	2.10	2.36	-0.25	-0.25	2.10	2.36	-0.25	-0.25	-	-	-	-
25.5	4.56	2.02	1.42	0.60	0.59	2.02	1.42	0.60	0.59	-	-	-	-

Total Fund Market Value at Qtr End: £559.4 M



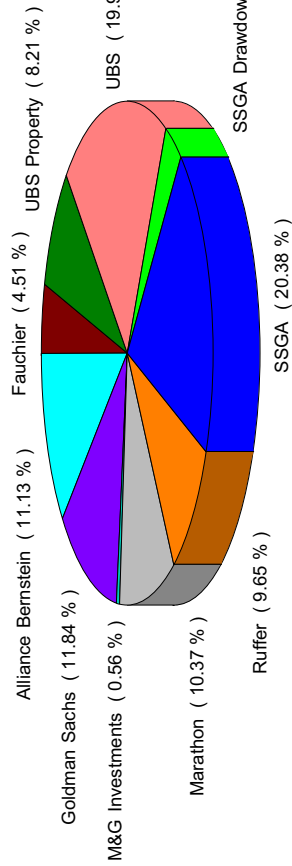
Scheme Performance

	<u>Three Years</u>			<u>Five Years</u>			<u>Inception To Date</u>					
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	3.12	6.00	-2.88	-2.72	1.90	4.43	-2.53	-2.42	6.47	7.01	-0.54	-0.50
<i>By Manager</i>												
Alliance Bernstein	0.46	6.17	-5.71	-5.38	0.42	4.35	-3.94	-3.77	0.42	4.35	-3.94	-3.77
Goldman Sachs	6.17	6.84	-0.67	-0.63	5.07	5.55	-0.48	-0.46	5.76	6.34	-0.58	-0.55
SSGA	-	-	-	-	-	-	-	-	19.62	19.56	0.05	0.05
SSGA Drawdown	-	-	-	-	-	-	-	-	5.94	5.61	0.33	0.31
UBS	5.99	7.37	-1.38	-1.29	2.98	5.11	-2.13	-2.02	10.10	9.12	0.98	0.90
UBS Property	-5.22	-3.90	-1.32	-1.38	-2.43	-1.69	-0.75	-0.76	-2.43	-1.69	-0.75	-0.76
M&G Investments	-	-	-	-	-	-	-	-	1.80	-	-	-
BNP	-	-	-	-	-	-	-	-	5.82	0.61	5.21	5.18
Marathon	-	-	-	-	-	-	-	-	20.34	17.33	3.00	2.56
Fauchier	-	-	-	-	-	-	-	-	2.90	4.31	-1.41	-1.36

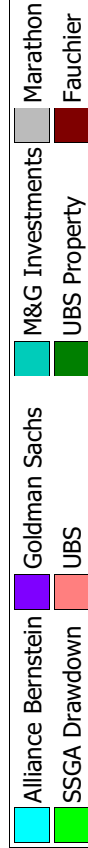
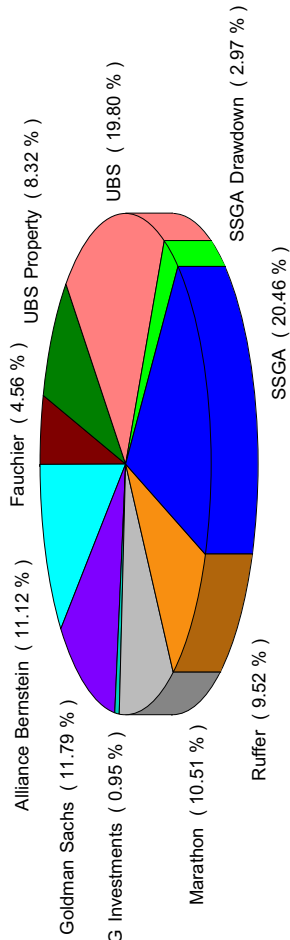
Total Fund Market Value at Qtr End: £559.4 M



Weighting at Beginning of Period



Weighting at End of Period

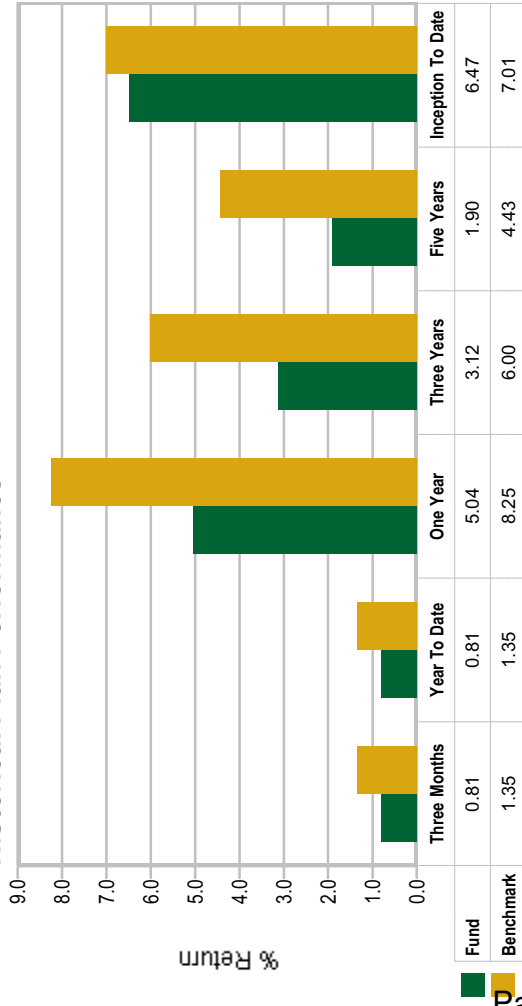


	Opening Market Value	% of Fund	Net Investment	Appreciation	Income Received	Closing Market Value	% of Fund
	£(000)		£(000)	£(000)	£(000)	£(000)	
London Borough of Hillingdon	554,992	100.00	-92	2,476	2,002	559,377	100.00
Alliance Bernstein	61,744	11.13	-0	233	242	62,220	11.12
Fauchier	25,013	4.51	0	506	0	25,519	4.56
Goldman Sachs	65,695	11.84	0	202	77	65,974	11.79
M&G Investments	3,107	0.56	2,207	-0	0	5,314	0.95
Marathon	57,556	10.37	0	1,211	0	58,767	10.51
Ruffer	53,574	9.65	0	-601	260	53,233	9.52
SSGA	113,099	20.38	0	1,348	0	114,447	20.46
SSGA Drawdown	18,756	3.38	-2,207	85	0	16,634	2.97
UBS	110,785	19.96	0	-827	771	110,729	19.80
UBS Property	45,573	8.21	-3	243	728	46,541	8.32



London Borough of Hillingdon

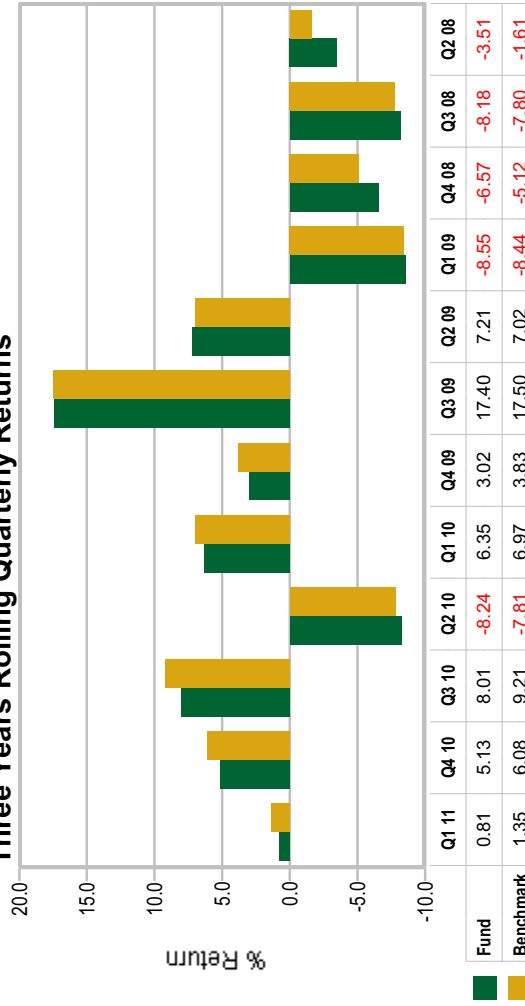
Historical Plan Performance



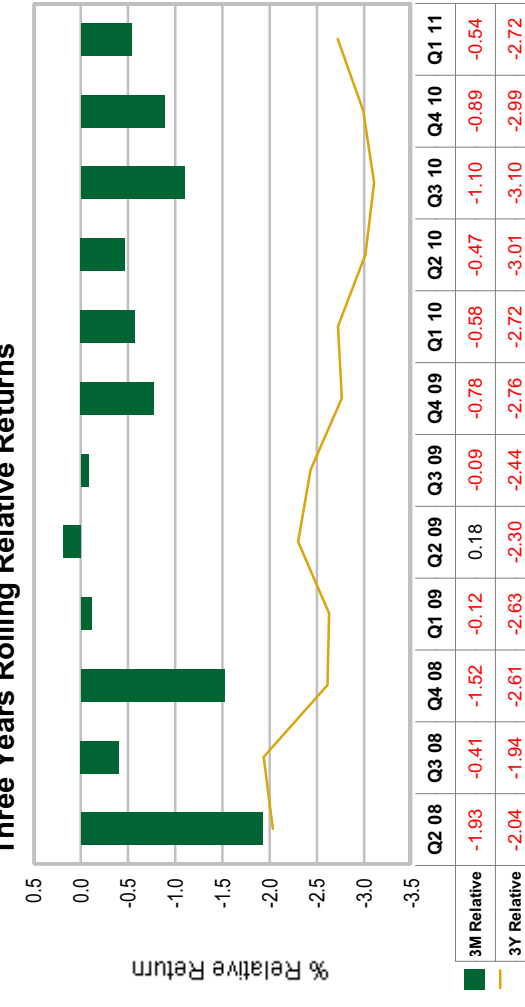
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	3.12	6.00
Standard Deviation	15.75	15.49
Relative Return	-2.72	
Tracking Error	1.43	
Information Ratio	-2.02	
Beta	1.01	
Alpha	-2.74	
R Squared	0.99	
Sharpe Ratio	0.01	0.20
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	554,992	
Net Investment £(000)	-92	
Income Received £(000)	2,002	
Appreciation £(000)	2,476	
Closing Market Value (£000)	559,377	

Three Years Rolling Quarterly Returns

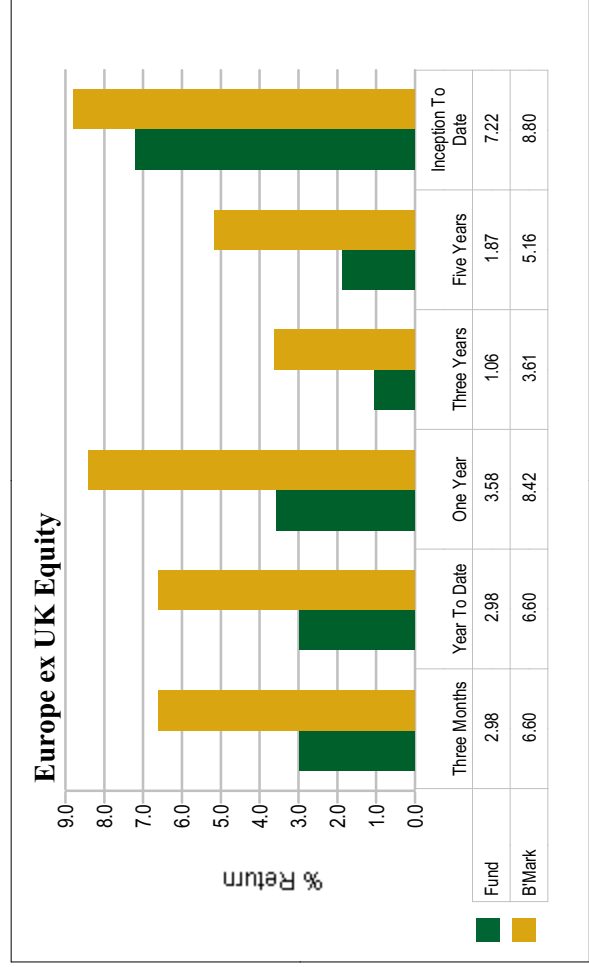
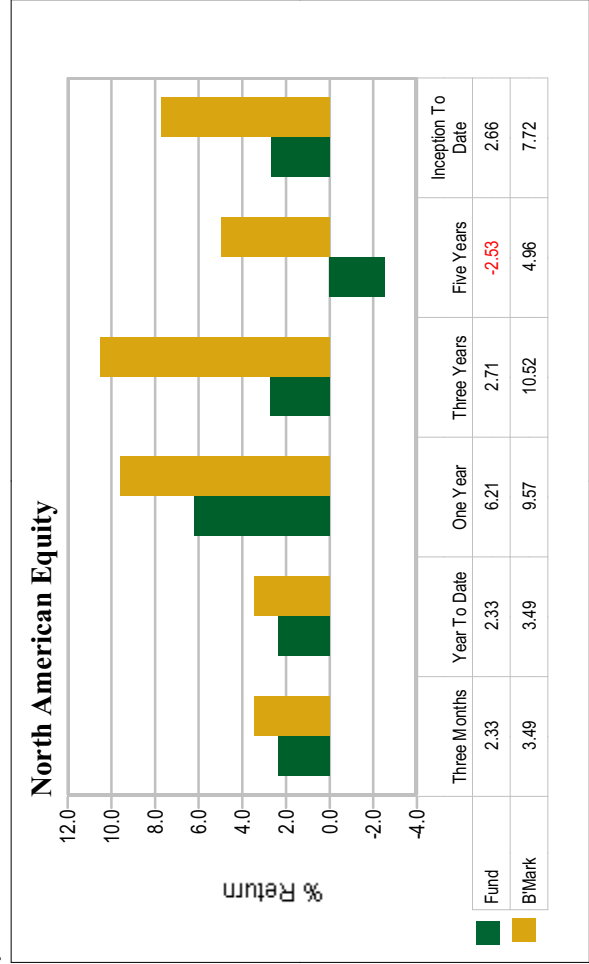
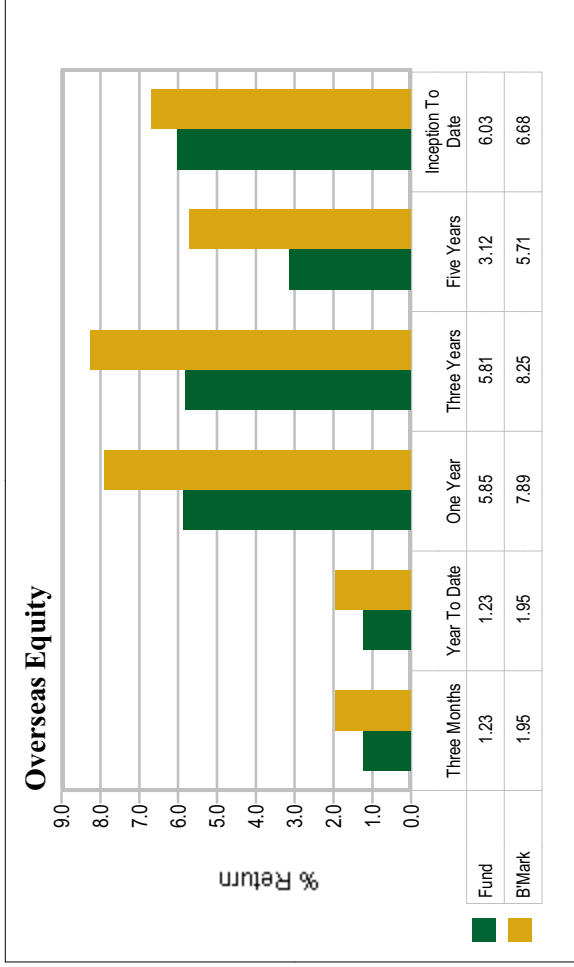
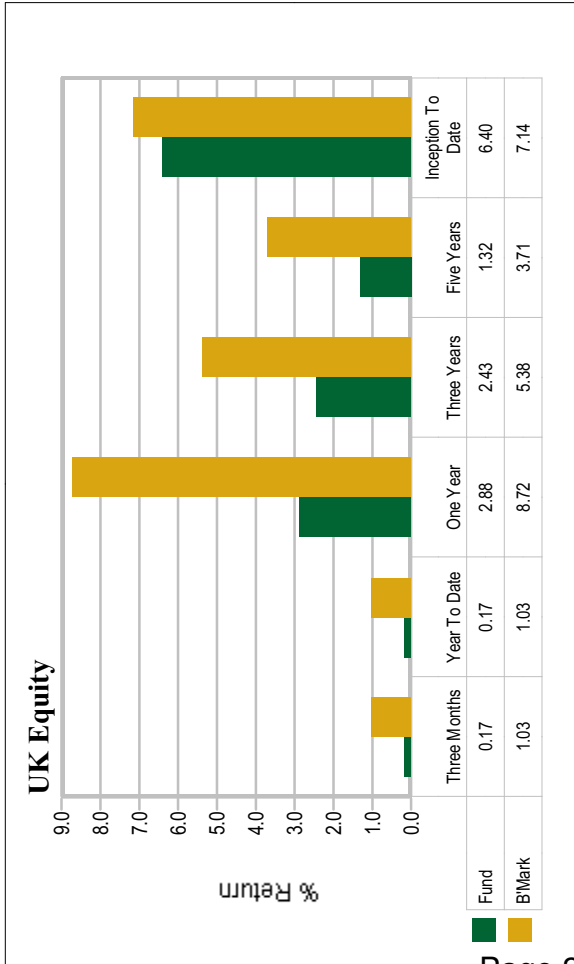


Three Years Rolling Relative Returns



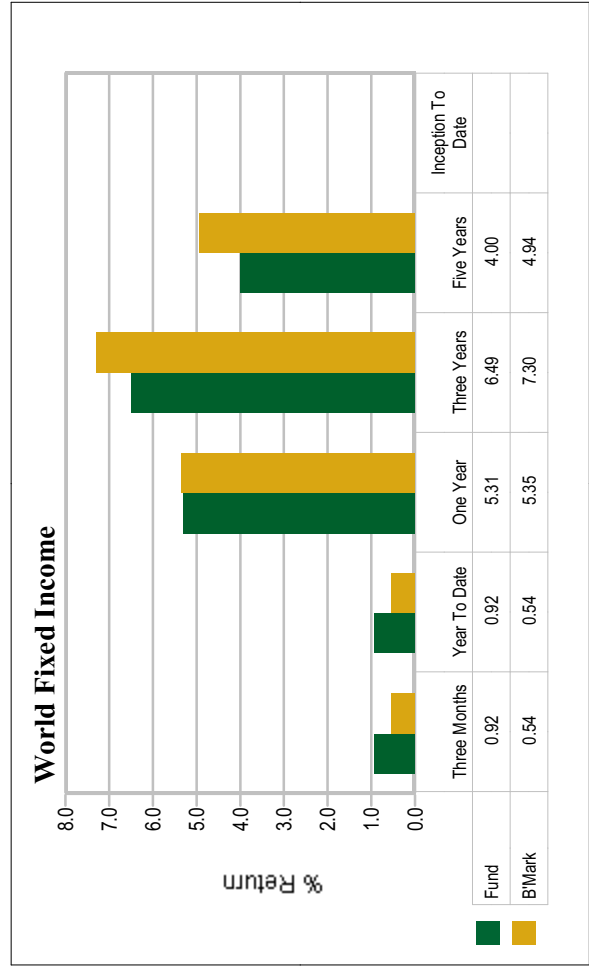
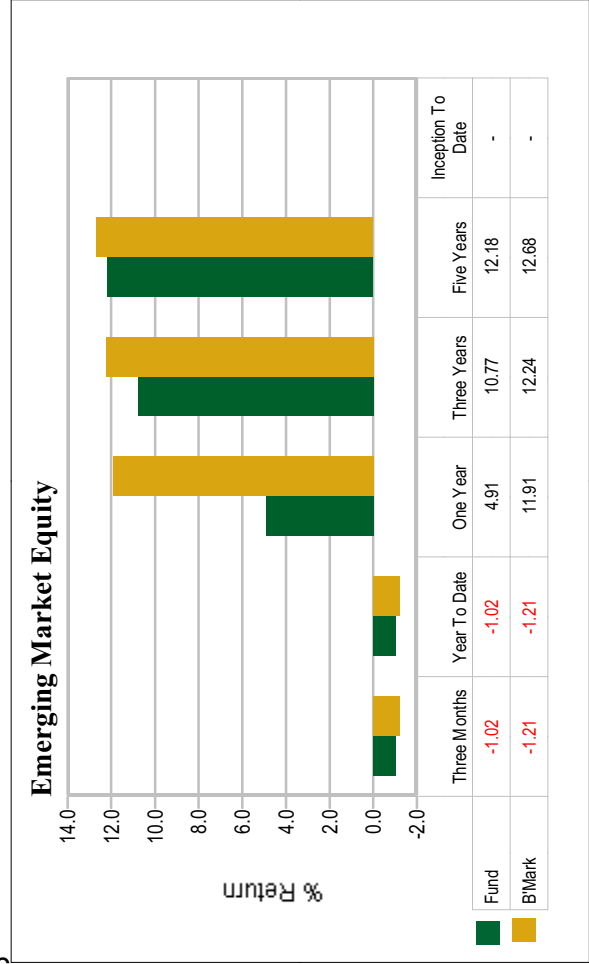
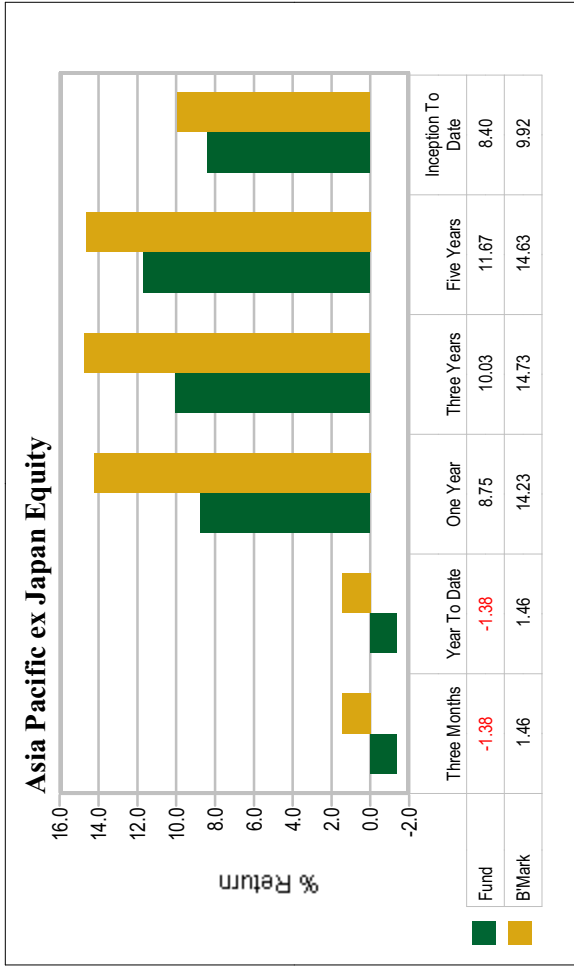
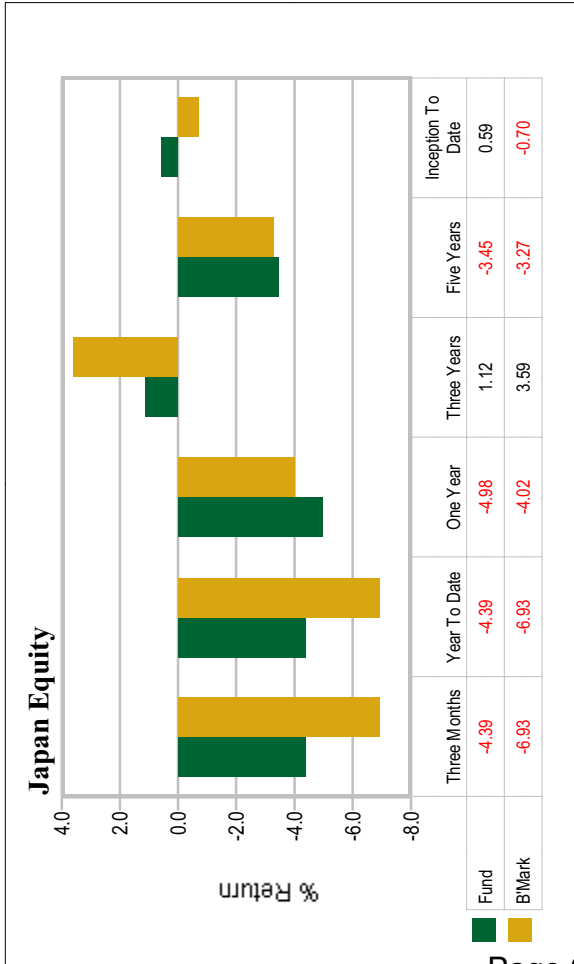


London Borough of Hillingdon



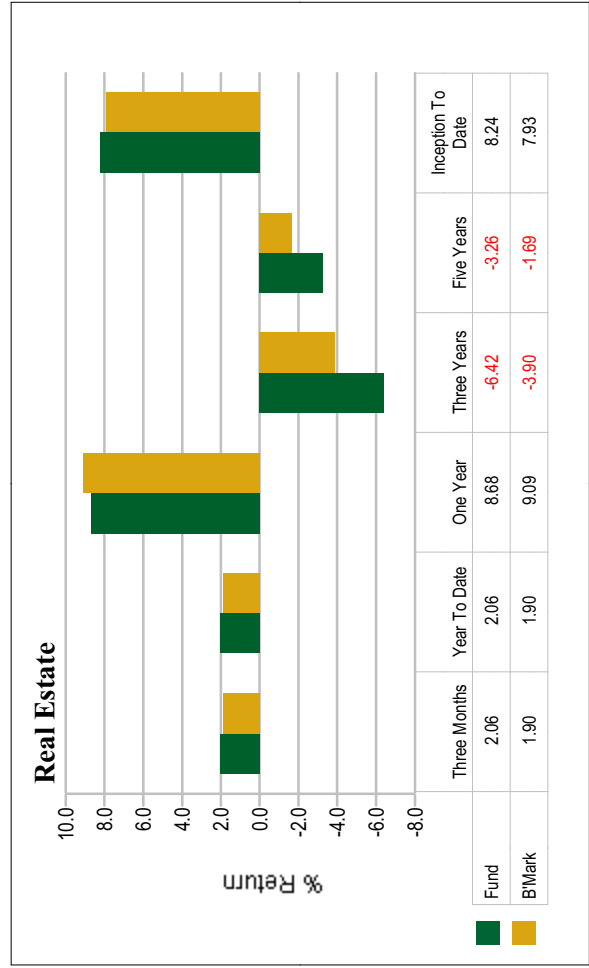
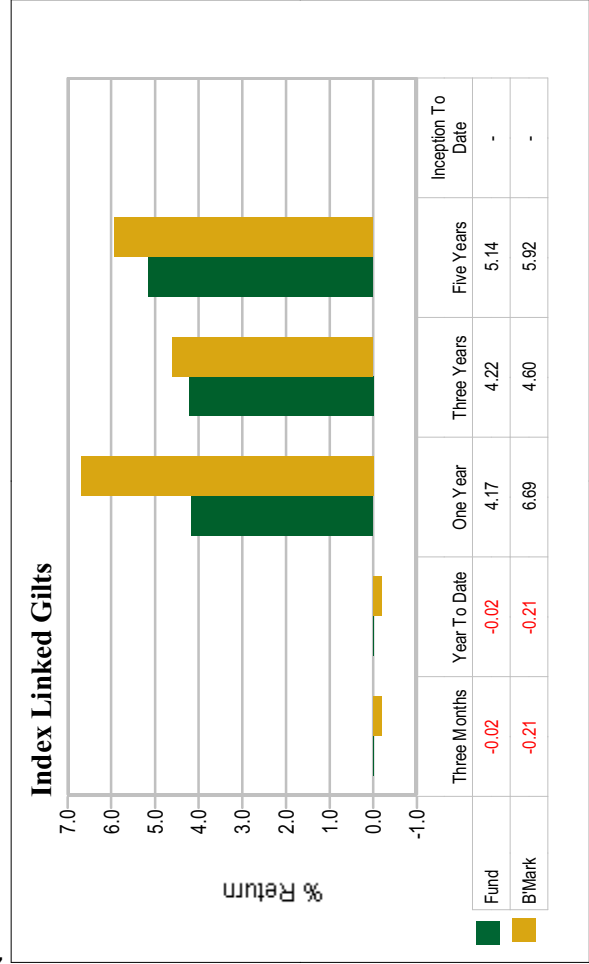
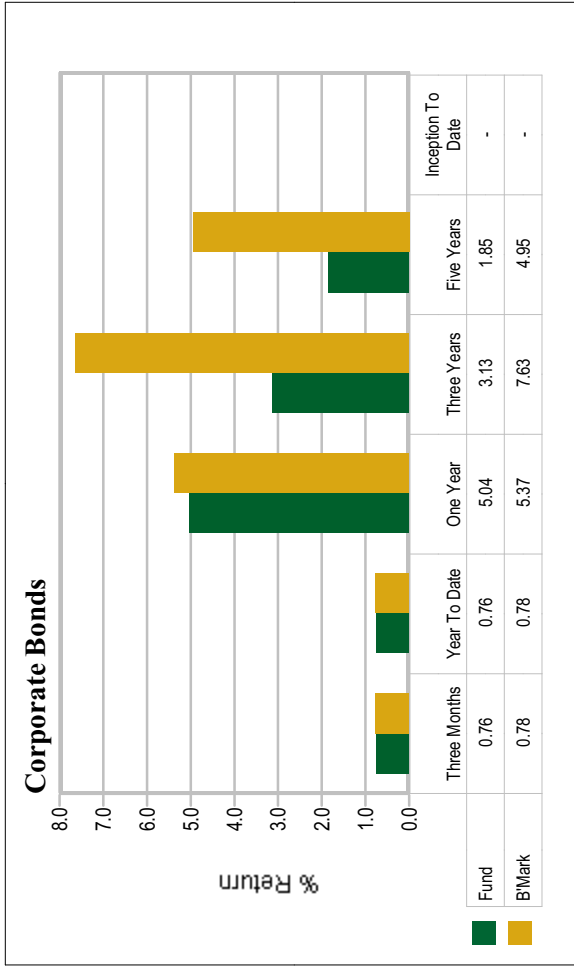
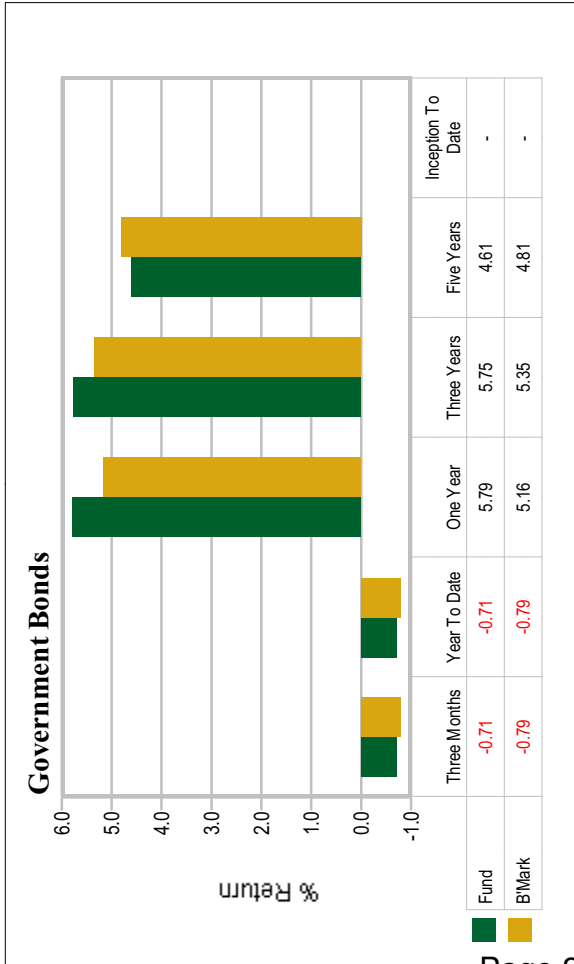


London Borough of Hillingdon





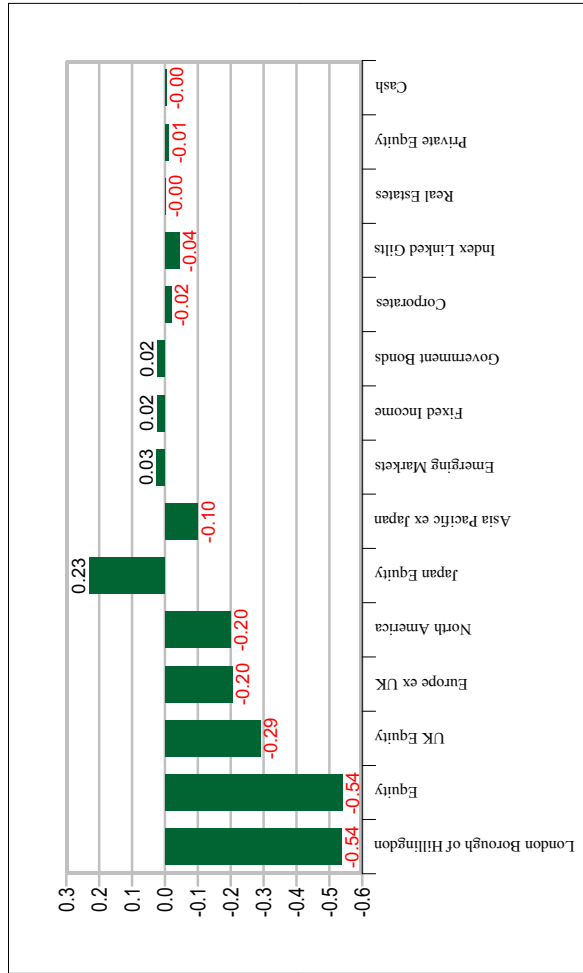
London Borough of Hillingdon



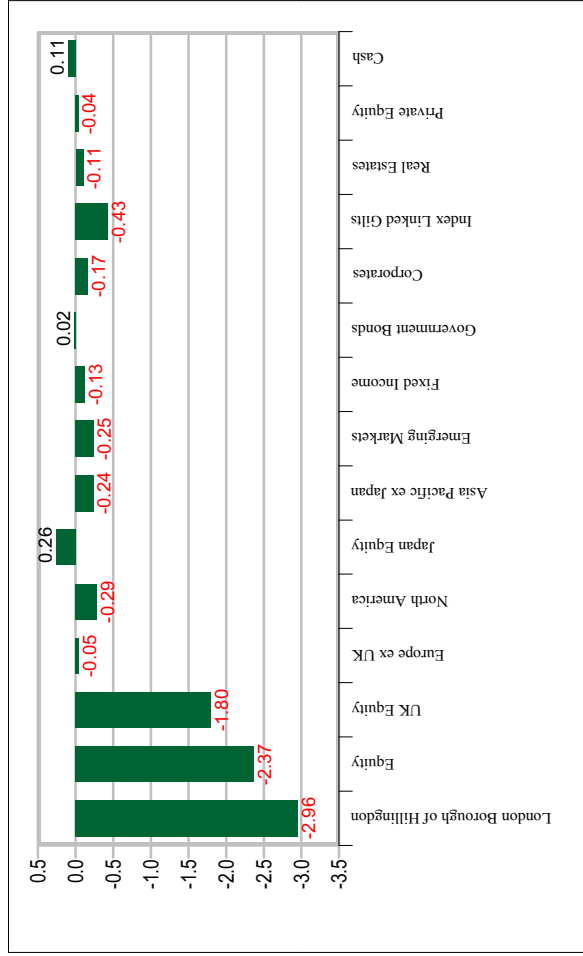


London Borough of Hillingdon

Relative Contribution - Three Months



Relative Contribution - One Year



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	0.81	1.35	-0.54	0.05	0.67	-0.05	-1.19	-0.54
Equity	0.69	-	0.69	0.00	0.69	0.03	-1.26	-0.54
UK Equity	0.17	1.03	-0.85	0.00	0.00	0.01	-0.30	-0.29
Europe ex UK	2.99	5.67	-2.54	0.00	0.45	0.20	-0.85	-0.20
North America	2.33	3.49	-1.11	0.00	0.15	-0.23	-0.13	-0.20
Japan Equity	-4.39	-6.93	2.72	0.00	0.11	0.04	0.08	0.23
Asia Pacific ex Japan	-1.38	1.46	-2.80	0.00	-0.01	-0.01	-0.09	-0.10
Emerging Markets	-1.02	-1.21	0.20	0.00	-0.02	0.02	0.02	0.03

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	5.04	8.25	-2.96	0.05	-0.15	-0.00	-2.82	-2.96
Equity	4.33	-	4.33	0.00	0.81	0.33	-3.48	-2.37
UK Equity	2.88	8.72	-5.37	0.00	-0.03	0.03	-1.81	-1.80
Europe ex UK	3.58	7.47	-3.62	0.00	0.61	0.47	-1.12	-0.05
North America	6.21	9.57	-3.07	0.00	0.53	-0.50	-0.32	-0.29
Japan Equity	-4.98	-4.02	-1.00	0.00	-0.23	0.46	0.04	0.26
Asia Pacific ex Japan	8.75	14.23	-4.80	0.00	-0.04	-0.10	-0.11	-0.24
Emerging Markets	4.91	11.91	-6.25	0.00	-0.01	-0.04	-0.19	-0.25

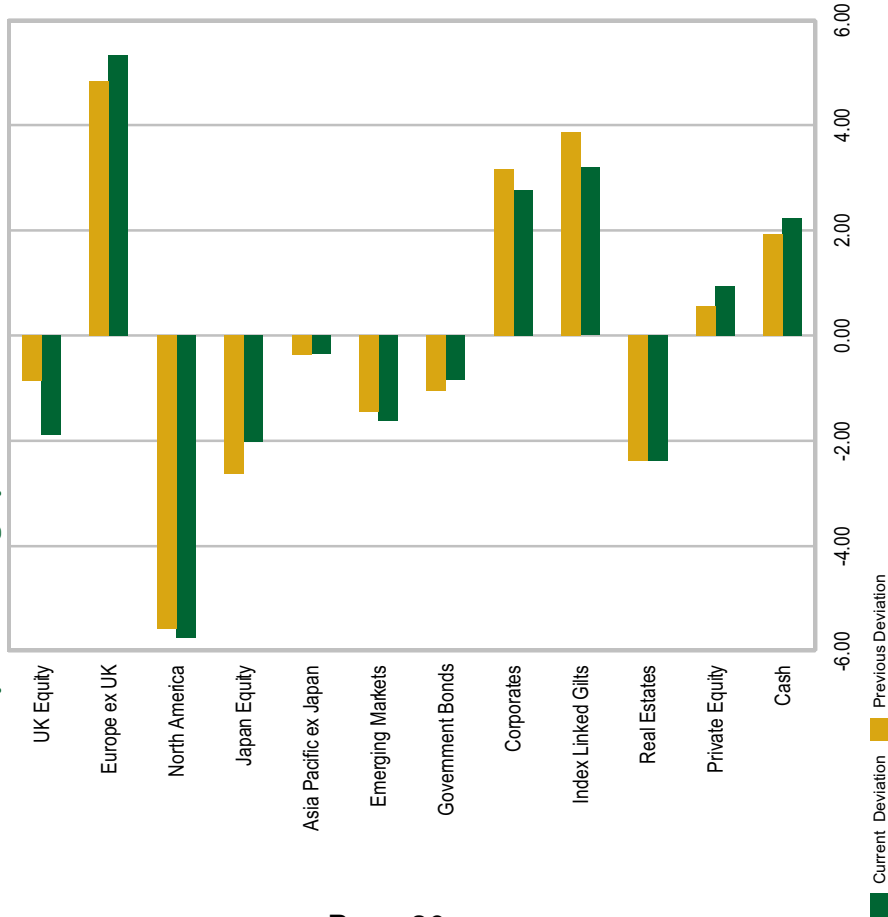


	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution		Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	0.92	0.54	0.38	0.00	0.01	0.02	0.00	0.02	Fixed Income	5.31	5.35	-0.04	0.00	-0.75	-0.10	0.72	-0.13
Government Bonds	-0.71	-0.79	0.08	0.00	-0.00	0.02	0.00	0.02	Government Bonds	5.79	5.16	0.60	0.00	-0.00	0.02	0.01	0.02
Corporates	0.76	0.78	-0.02	0.00	0.01	-0.03	-0.00	-0.02	Corporates	5.04	5.37	-0.32	0.00	-0.75	-0.14	0.72	-0.17
Index Linked Gilts	-0.02	-0.21	0.19	0.00	-0.03	-0.07	0.06	-0.04	Index Linked Gilts	4.17	6.69	-2.37	0.00	-0.19	-0.22	-0.02	-0.43
Real Estates	2.06	1.90	0.15	0.00	-0.01	-0.01	0.01	-0.00	Real Estates	8.68	9.09	-0.38	0.00	-0.00	-0.08	-0.03	-0.11
Private Equity	-0.00	-	-0.00	0.00	-0.00	-0.01	0.00	-0.01	Private Equity	2.29	-	2.29	0.00	-0.00	-0.04	0.00	-0.04
Cash	1.27	-	1.27	0.00	0.00	-0.01	0.00	-0.00	Cash	1.24	-	1.24	0.00	-0.01	0.11	0.00	0.11



London Borough of Hillingdon

By Asset Category

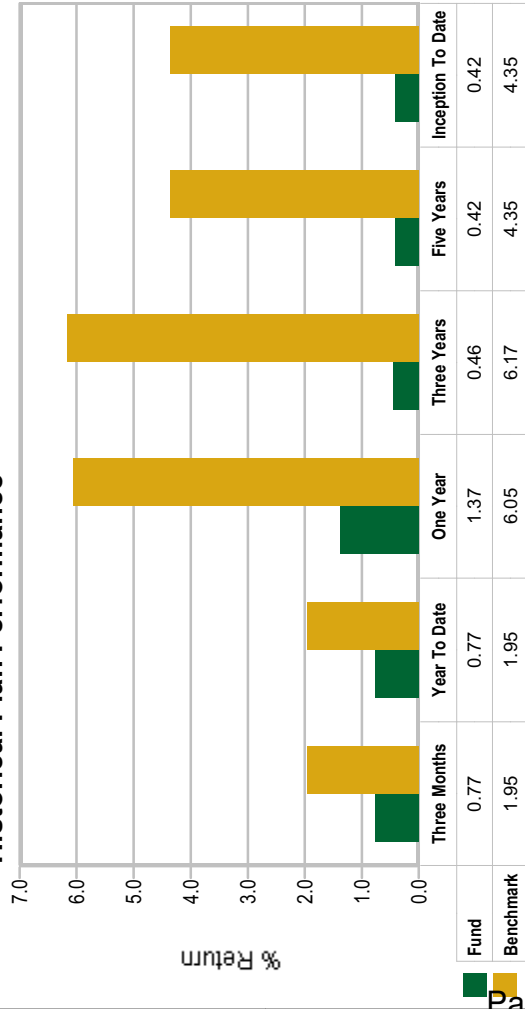


	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	34.95	35.97	36.84	-1.89	36.84	-0.87
Europe ex UK	16.39	15.90	11.06	5.33	11.06	4.84
North America	7.15	7.33	12.90	-5.75	12.90	-5.57
Japan Equity	3.51	2.90	5.53	-2.02	5.53	-2.63
Asia Pacific ex Japan	3.34	3.32	3.68	-0.34	3.68	-0.36
Emerging Markets	2.06	2.22	3.68	-1.62	3.68	-1.46
Government Bonds	0.74	0.53	1.58	-0.84	1.58	-1.05
Corporates	11.70	12.10	8.94	2.76	8.94	3.16
Index Linked Gilts	8.45	9.13	5.26	3.19	5.26	3.87
Real Estates	8.15	8.14	10.53	-2.38	10.53	-2.39
Private Equity	0.95	0.56		0.95		0.56
Cash	2.24	1.94		2.24		1.94



Alliance Bernstein

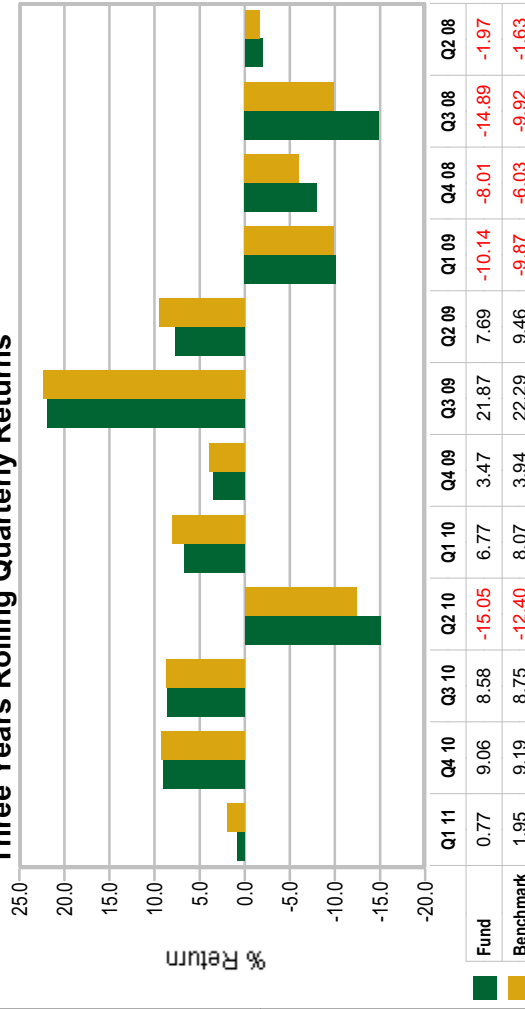
Historical Plan Performance



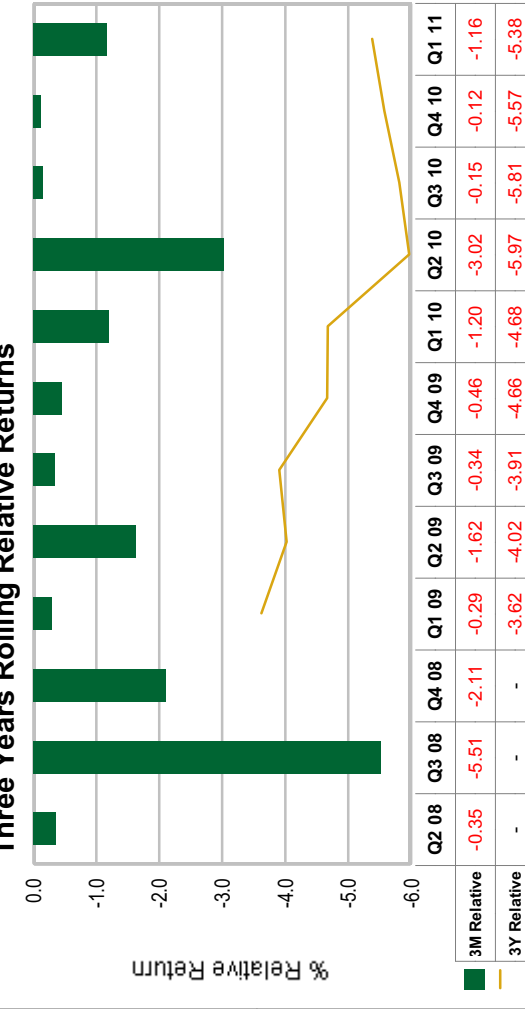
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	0.46	6.17
Standard Deviation	21.12	20.04
Relative Return	-5.38	
Tracking Error	2.25	
Information Ratio	-2.54	
Beta	1.05	
Alpha	-5.42	
R Squared	0.99	
Sharpe Ratio	-0.12	0.16
Percentage of Total Fund	11.1	
Inception Date	Mar-2006	
Opening Market Value (£000)	61,744	
Net Investment (£000)	-0	
Income Received (£000)	242	
Appreciation (£000)	233	
Closing Market Value (£000)	62,220	

Three Years Rolling Quarterly Returns

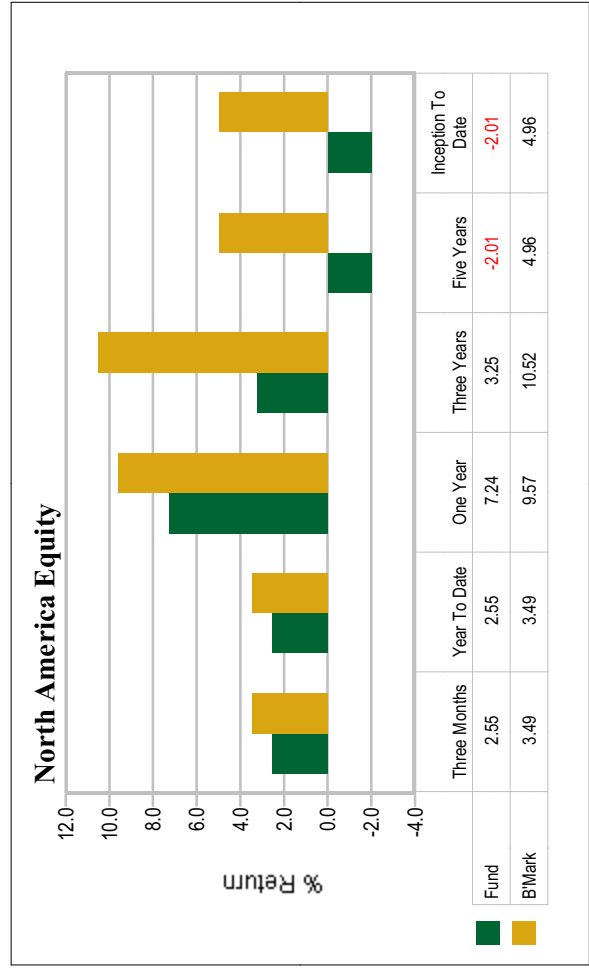
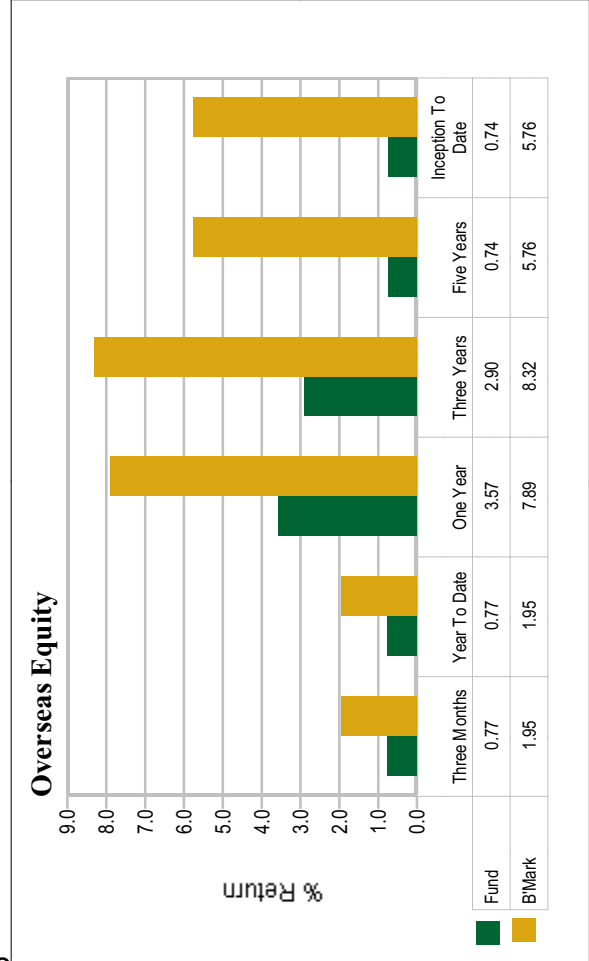
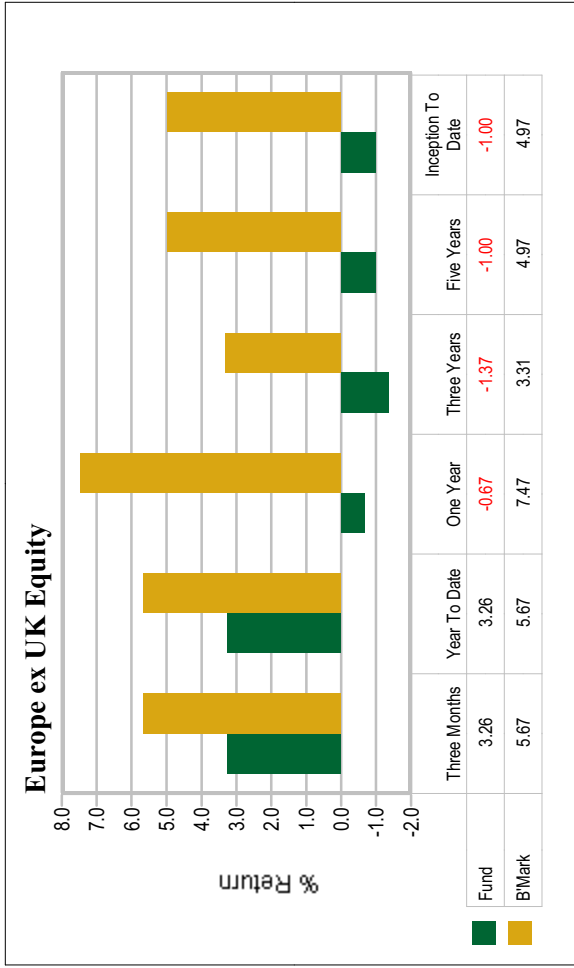
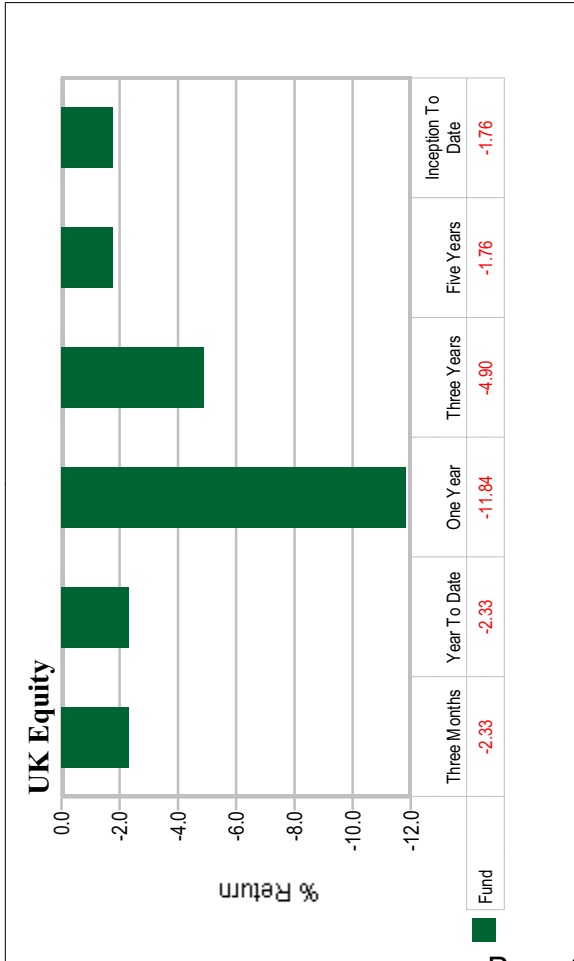


Three Years Rolling Relative Returns



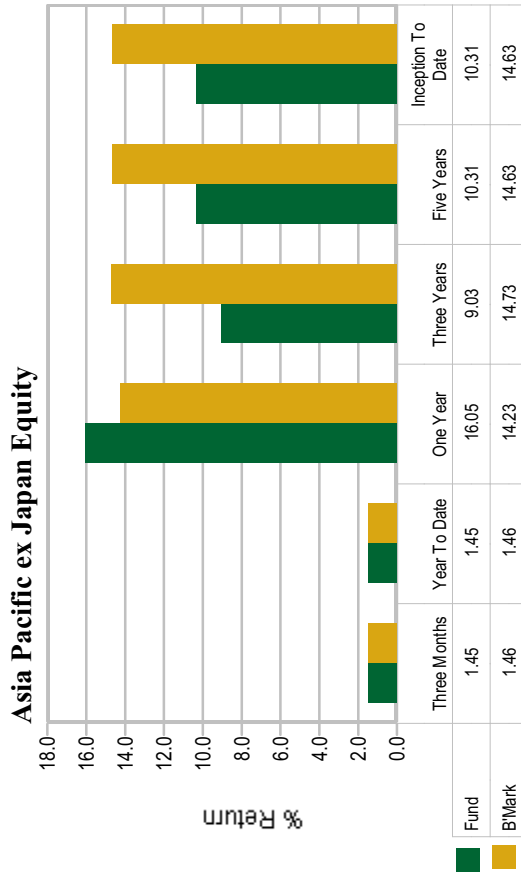
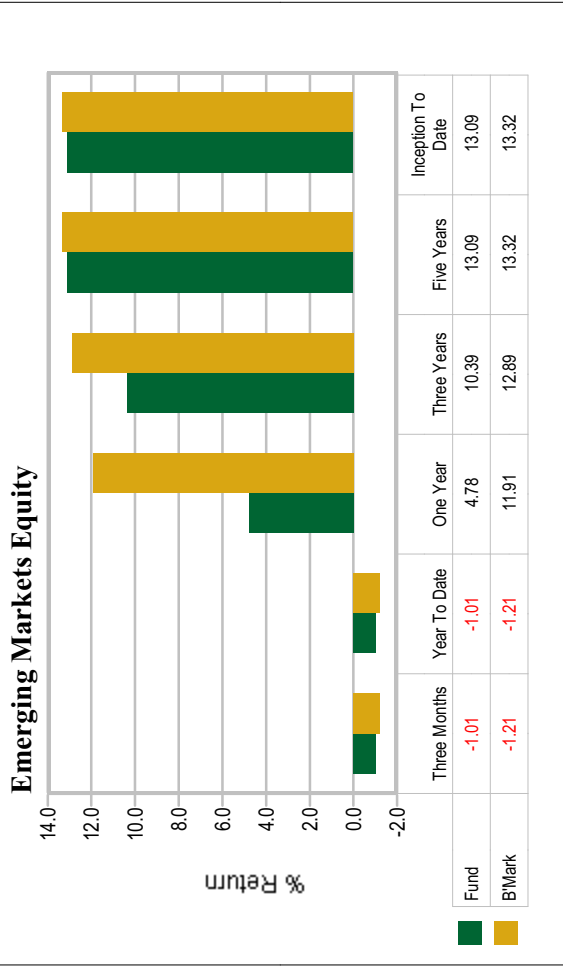
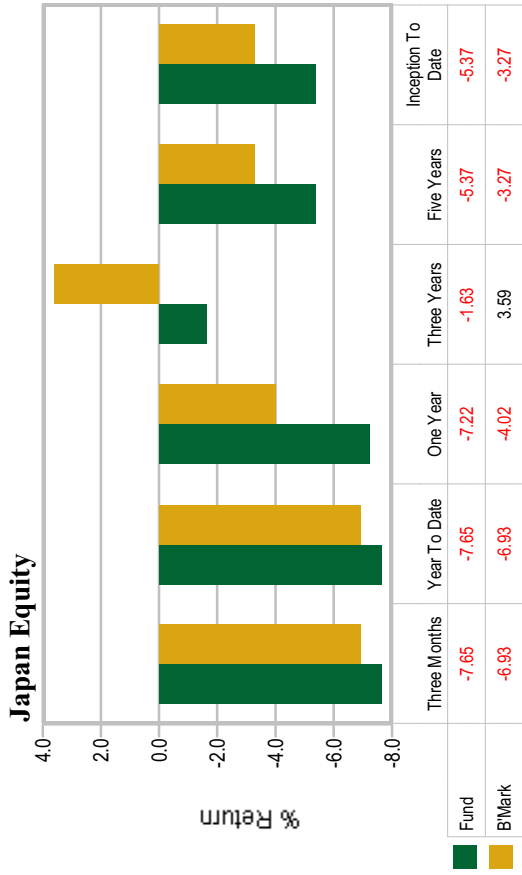


Alliance Bernstein





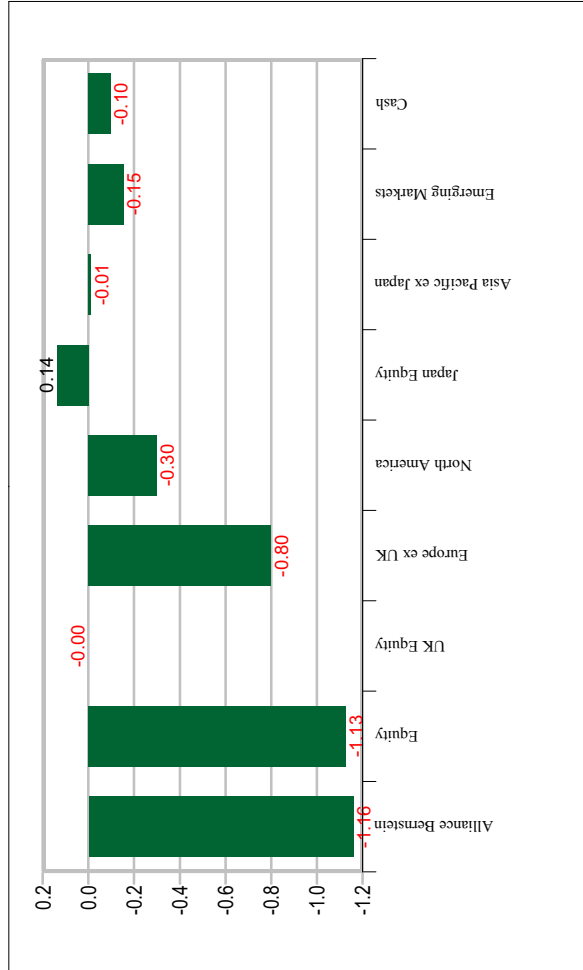
Alliance Bernstein





Alliance Bernstein

Relative Contribution - Three Months



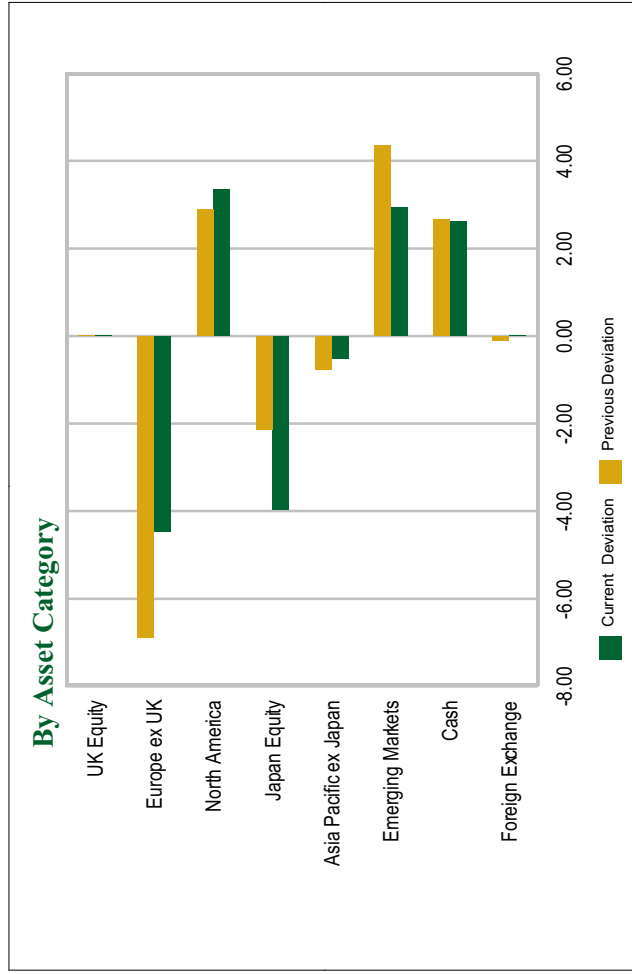
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	0.77	1.95	-1.16	0.06	-0.15	-0.03	-1.05	-1.16
Equity	0.77	-	0.77	0.00	-0.13	0.05	-1.05	-1.13
UK Equity	-2.33	-	-2.33	0.00	0.00	-0.00	0.00	-0.00
Europe ex UK	3.26	5.67	-2.28	0.00	-0.21	-0.03	-0.56	-0.80
North America	2.55	3.49	-0.90	0.00	-0.06	0.09	-0.33	-0.30
Japan Equity	-7.65	-6.93	-0.78	0.00	0.10	0.13	-0.09	0.14
Asia Pacific ex Japan	1.45	1.46	-0.01	0.00	-0.02	-0.01	0.02	-0.01
Emerging Markets	-1.01	-1.21	0.21	0.00	0.06	-0.14	-0.08	-0.15
Cash	-1.41	-	-1.41	0.00	-0.02	-0.08	0.00	-0.10



Alliance Bernstein

1st Quarter, 2011

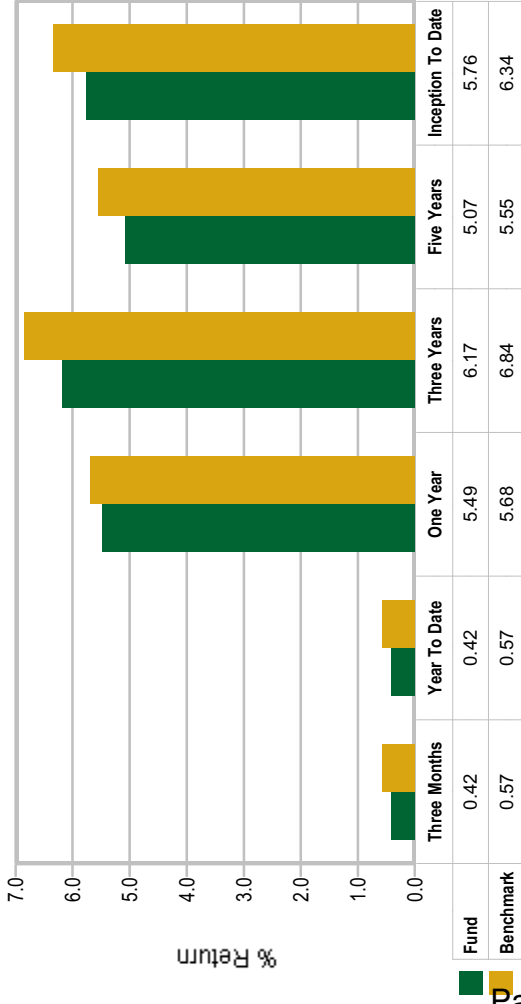
London Borough of Hillingdon



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	0.00	0.00		0.00		0.00
Europe ex UK	25.55	23.11	30.00	-4.45	30.00	-6.89
North America	38.35	37.89	35.00	3.35	35.00	2.89
Japan Equity	11.05	12.87	15.00	-3.95	15.00	-2.13
Asia Pacific ex Japan	9.49	9.22	10.00	-0.51	10.00	-0.78
Emerging Markets	12.94	14.36	10.00	2.94	10.00	4.36
Cash	2.61	2.66		2.61		2.66
Foreign Exchange	0.02	-0.11		0.02		-0.11



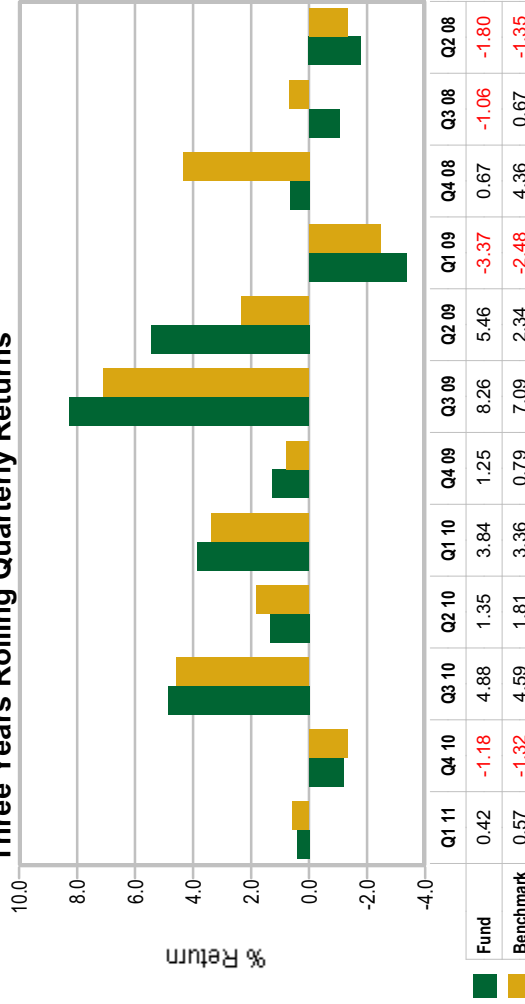
Historical Plan Performance



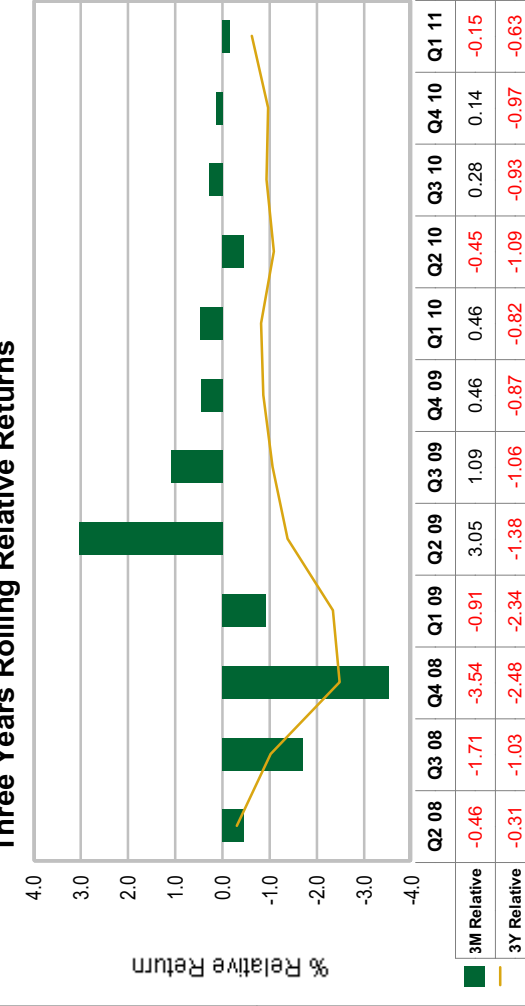
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	6.17	6.84
Standard Deviation	7.52	7.00
Relative Return	-0.63	
Tracking Error	2.06	
Information Ratio	-0.32	
Beta	1.05	
Alpha	-0.78	
R Squared	0.93	
Sharpe Ratio	0.43	0.56
Percentage of Total Fund	11.8	
Inception Date	Dec-2001	
Opening Market Value (£000)	65,695	
Net Investment £(000)	0	
Income Received £(000)	77	
Appreciation £(000)	202	
Closing Market Value (£000)	65,974	

Three Years Rolling Quarterly Returns

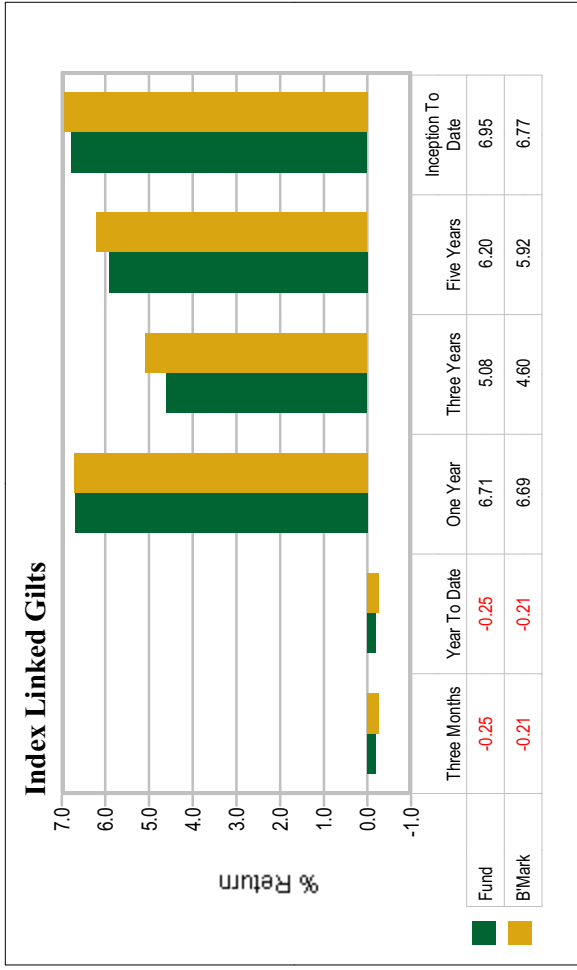
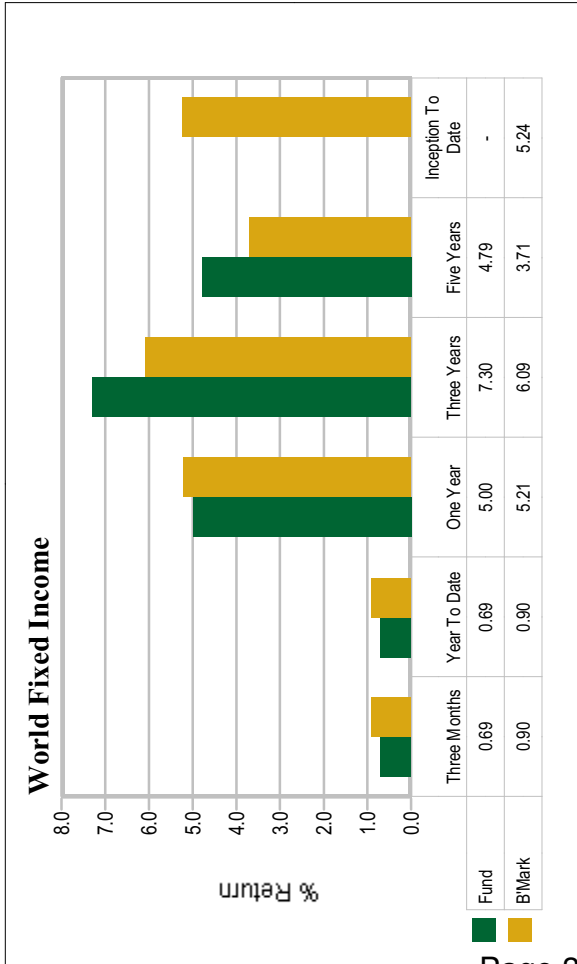


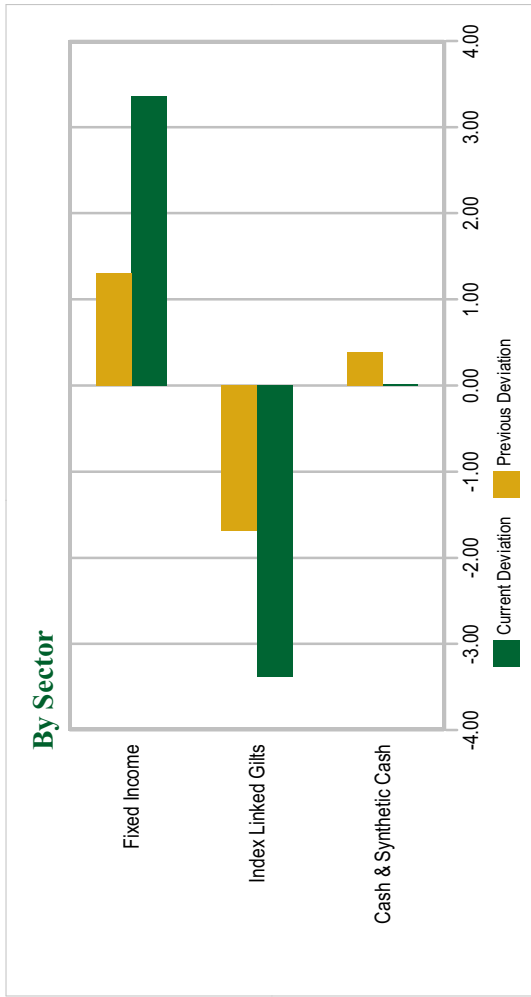
Three Years Rolling Relative Returns





Goldman Sachs



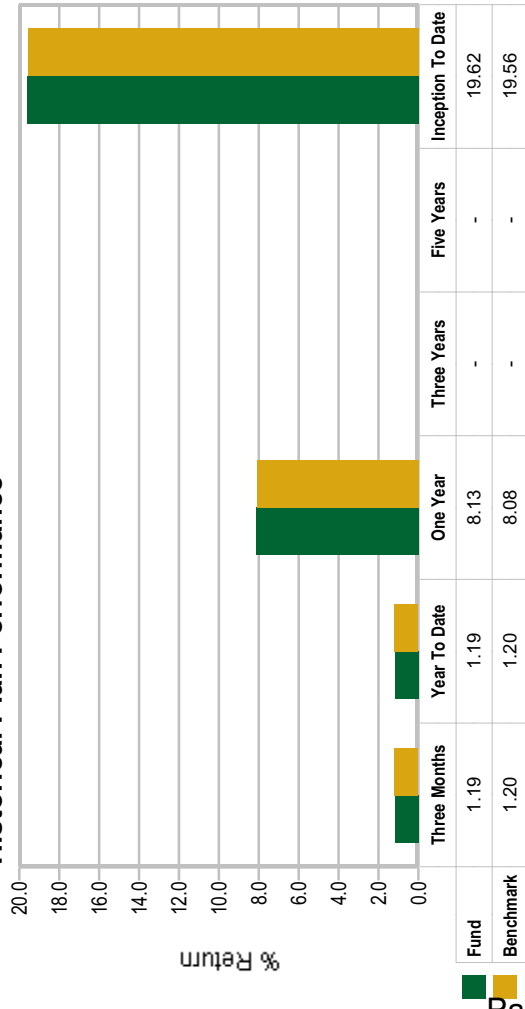


	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
Fixed Income	73.36	71.30	70.00	70.00	3.36	1.30
Index Linked Gilts	26.62	28.31	30.00	30.00	-3.38	-1.69
Cash & Synthetic Cash	0.02	0.39			0.02	0.39



SSGA

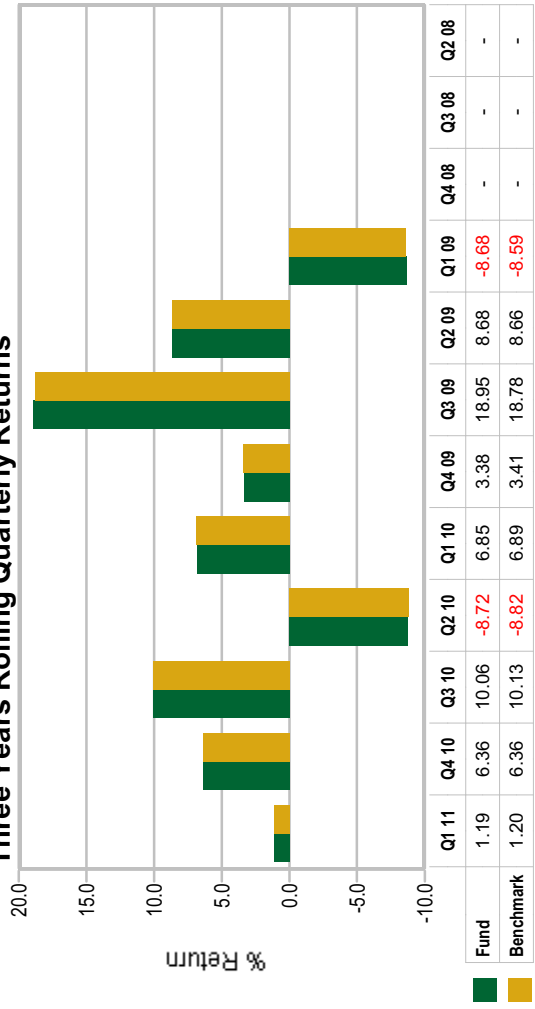
Historical Plan Performance



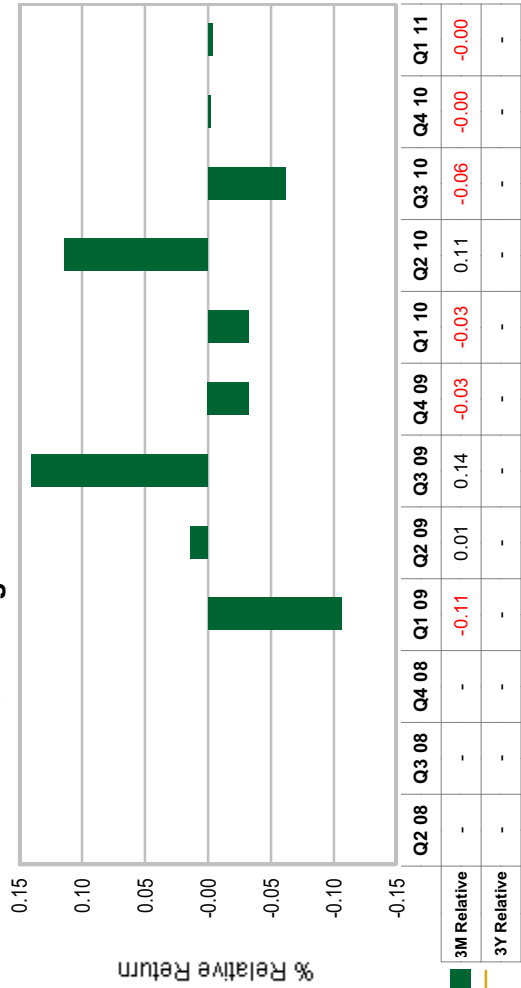
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	20.5	
Inception Date	Nov-2008	
Opening Market Value (£000)	113,099	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	1,348	
Closing Market Value (£000)	114,447	

Three Years Rolling Quarterly Returns

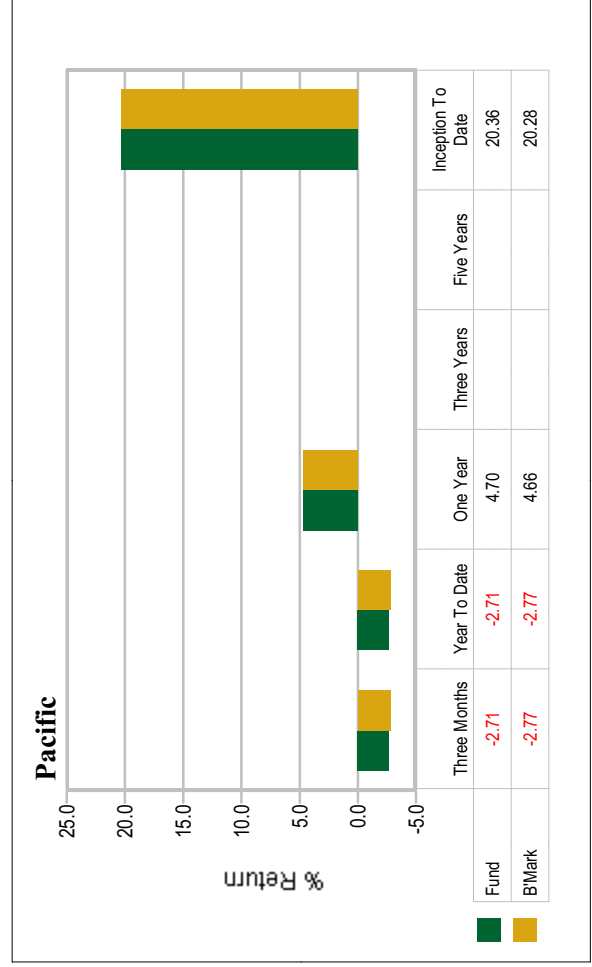
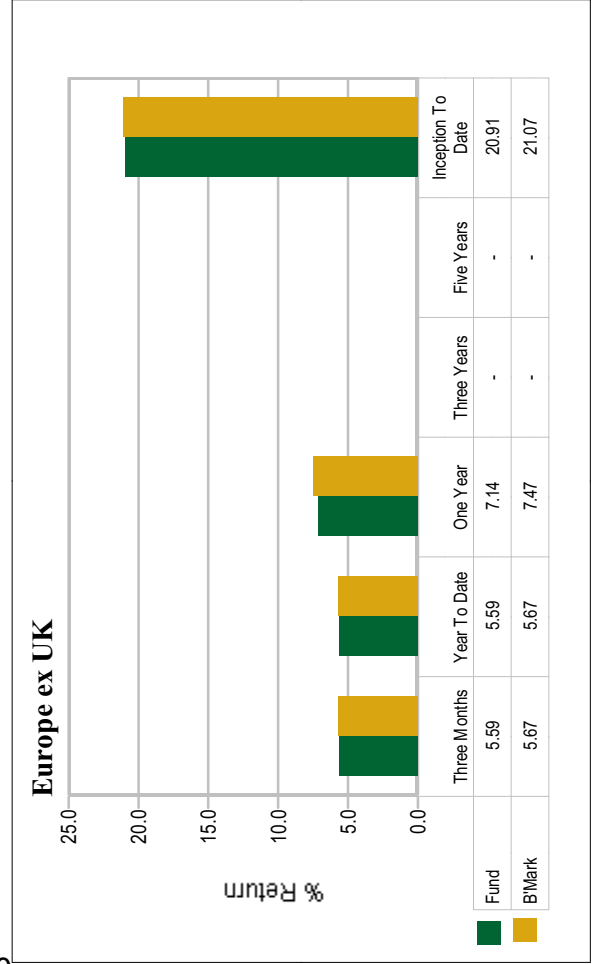
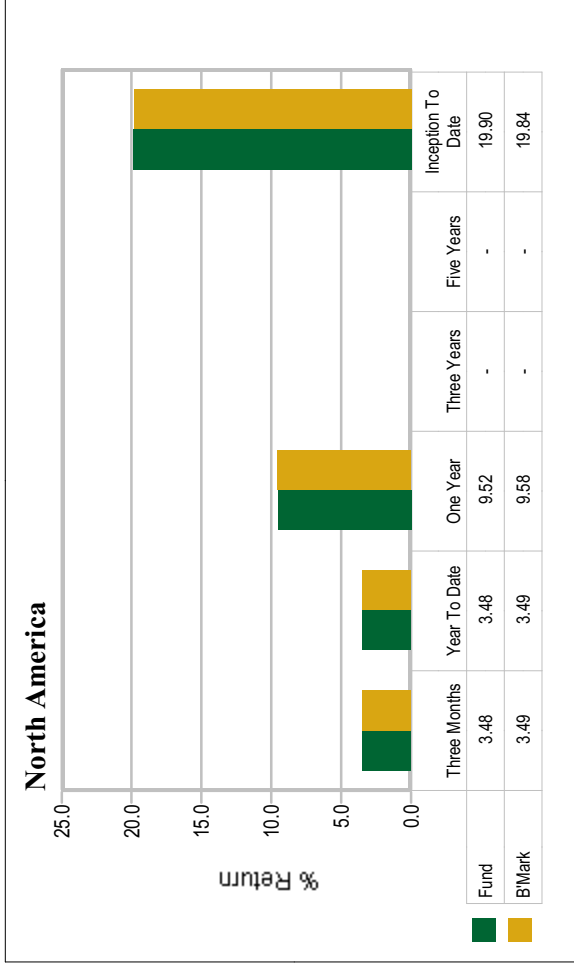
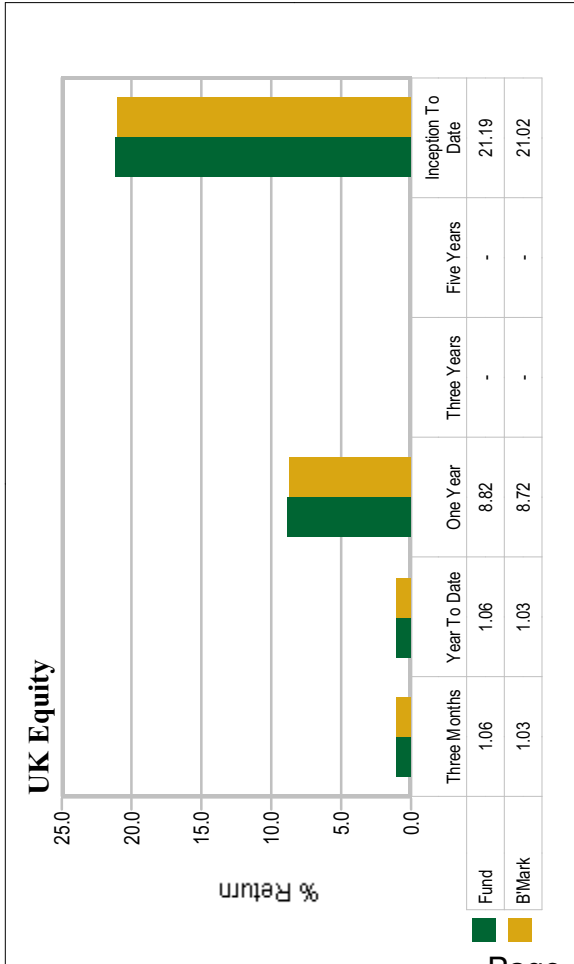


Three Years Rolling Relative Returns



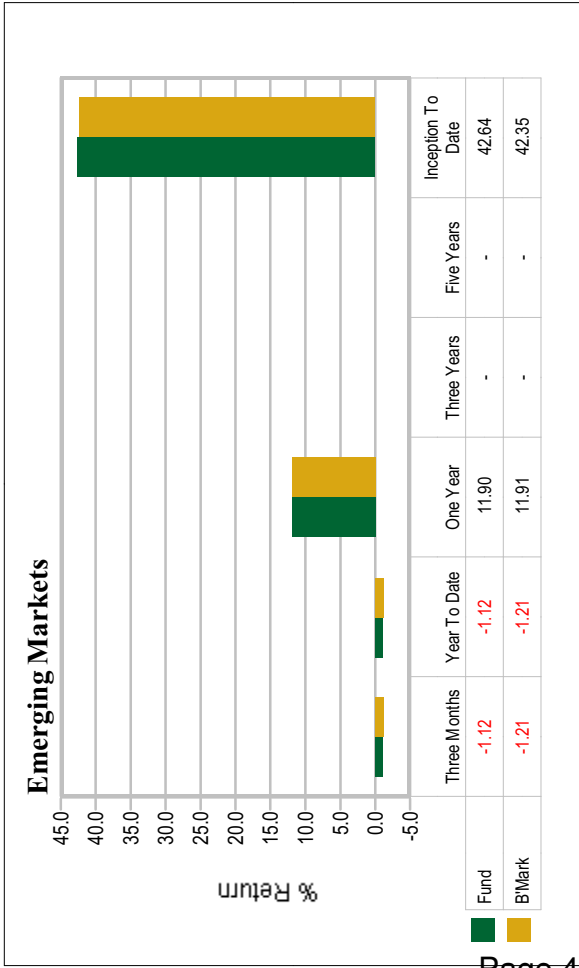


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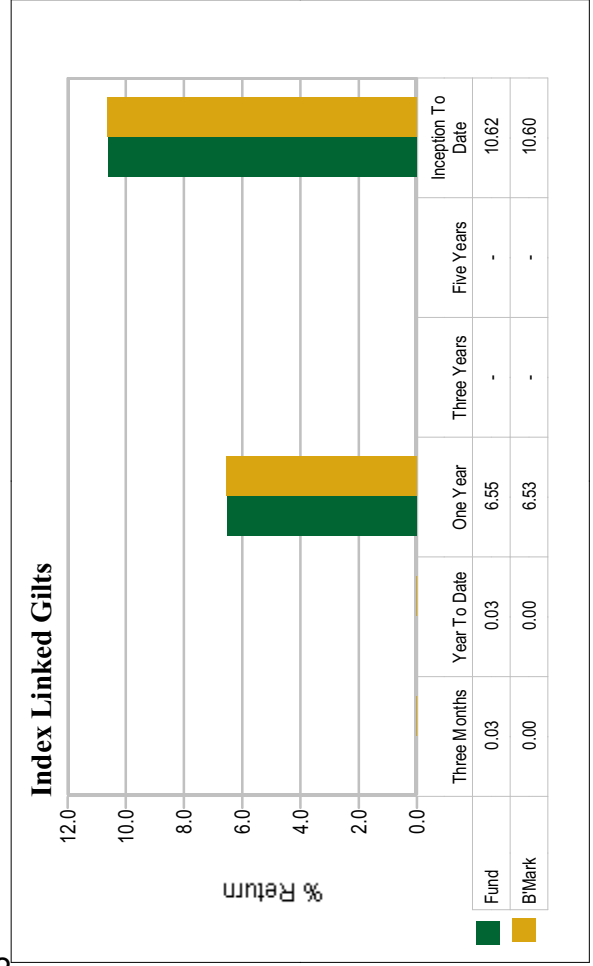
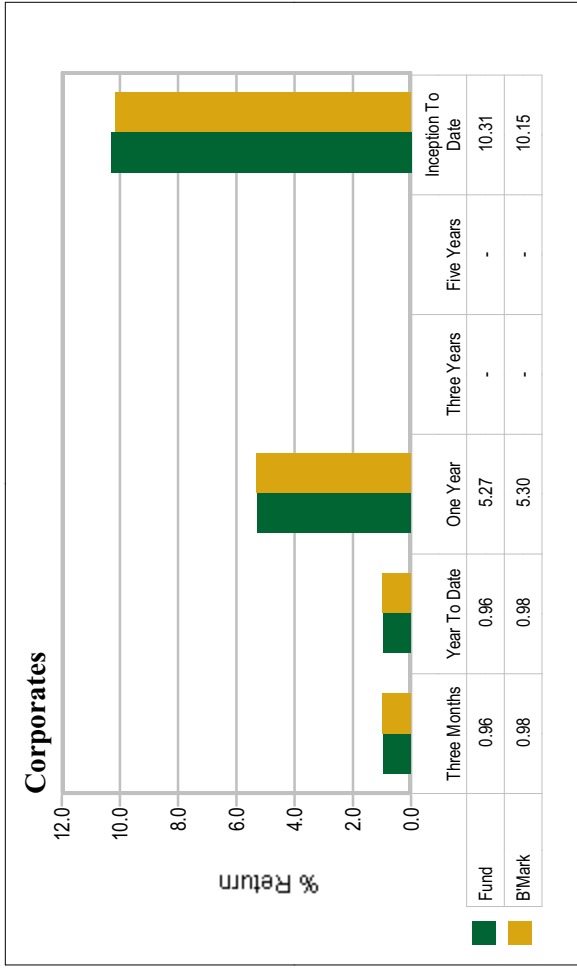
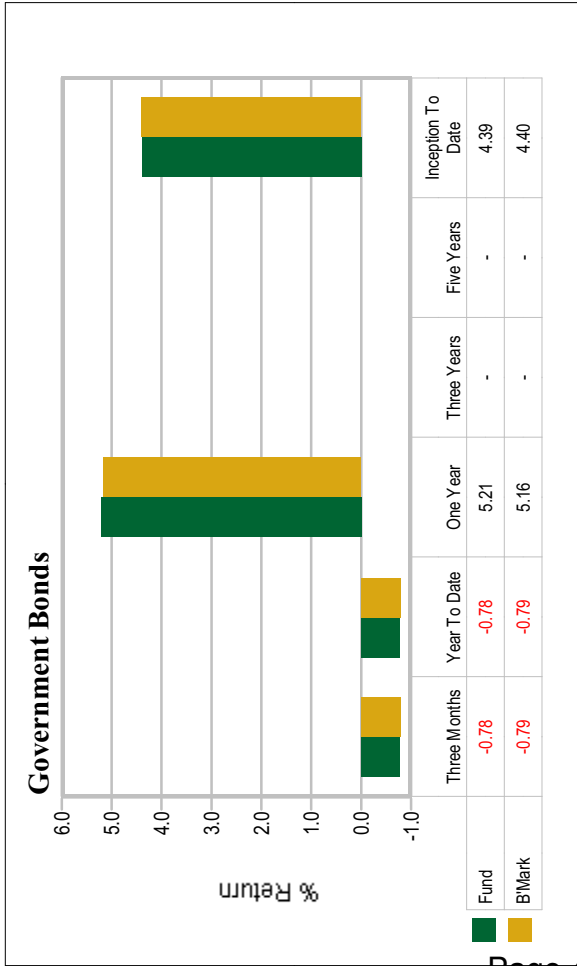


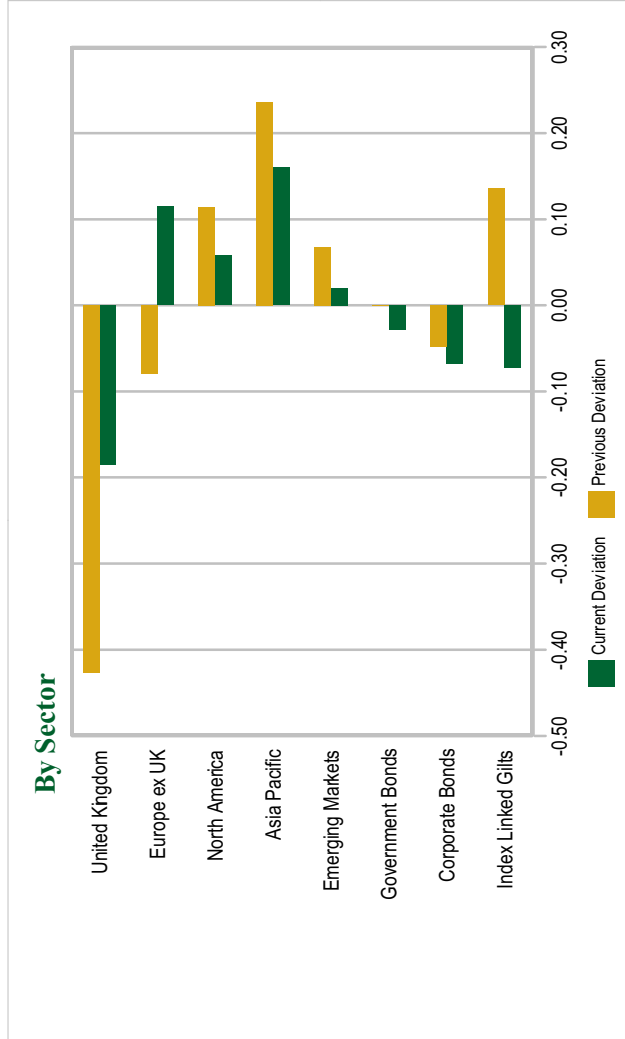
SSGA





SSGA

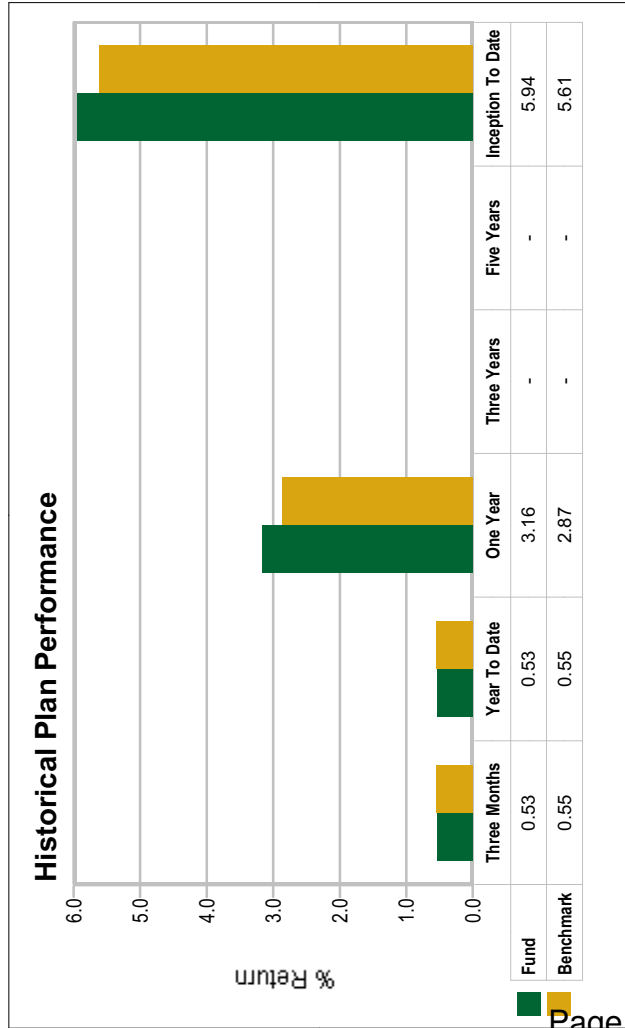




	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
Equity	80.17	79.91			80.17	79.91
United Kingdom	43.82	43.57	44.00	44.00	-0.18	-0.43
Europe ex UK	11.11	10.92	11.00	11.00	0.11	-0.08
North America	11.06	11.11	11.00	11.00	0.06	0.11
Asia Pacific	11.16	11.24	11.00	11.00	0.16	0.24
Emerging Markets	3.02	3.07	3.00	3.00	0.02	0.07
Fixed Income	9.90	9.95			9.90	9.95
Government Bonds	1.47	1.50	1.50	1.50	-0.03	0.00
Corporate Bonds	8.43	8.45	8.50	8.50	-0.07	-0.05
Index Linked Gilts	9.93	10.14	10.00	10.00	-0.07	0.14



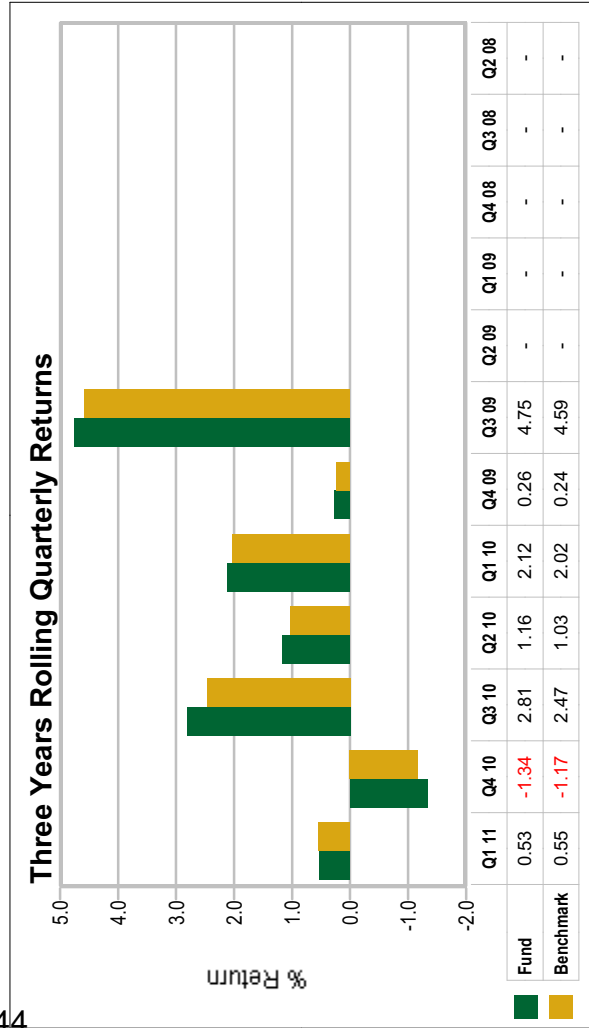
SSGA Drawdown



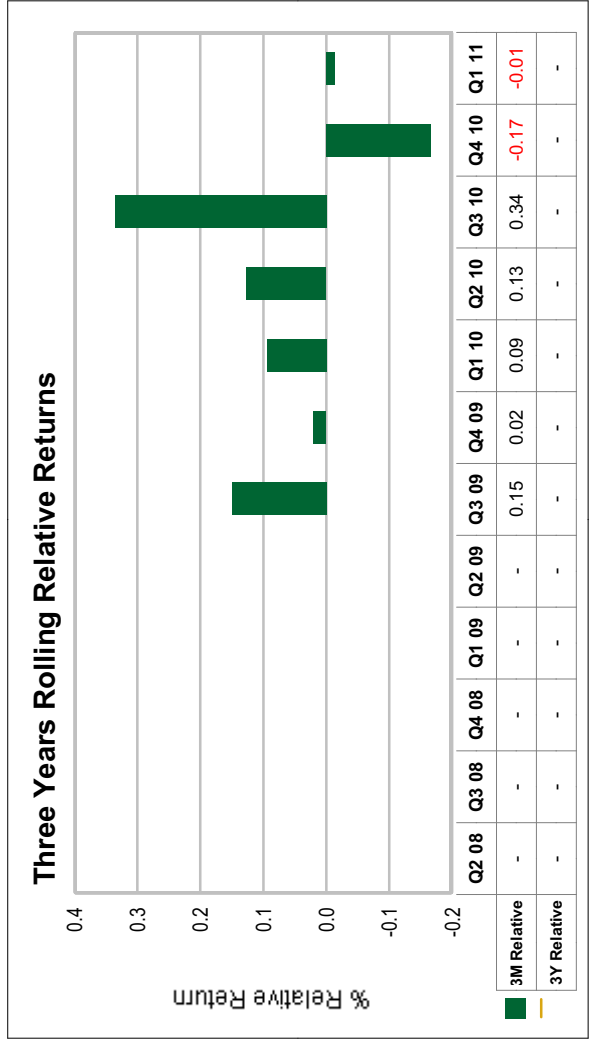
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	3.0	-
Inception Date	Jun-2009	-
Opening Market Value (£000)	18,756	-
Net Investment £(000)	-2,207	-
Income Received £(000)	0	-
Appreciation £(000)	85	-
Closing Market Value (£000)	16,634	-

Three Years Rolling Quarterly Returns

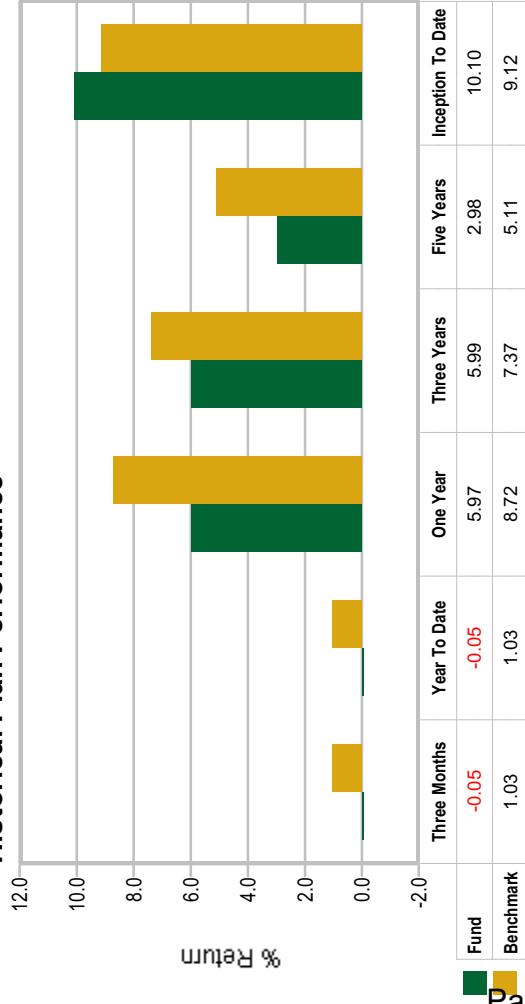


Three Years Rolling Relative Returns





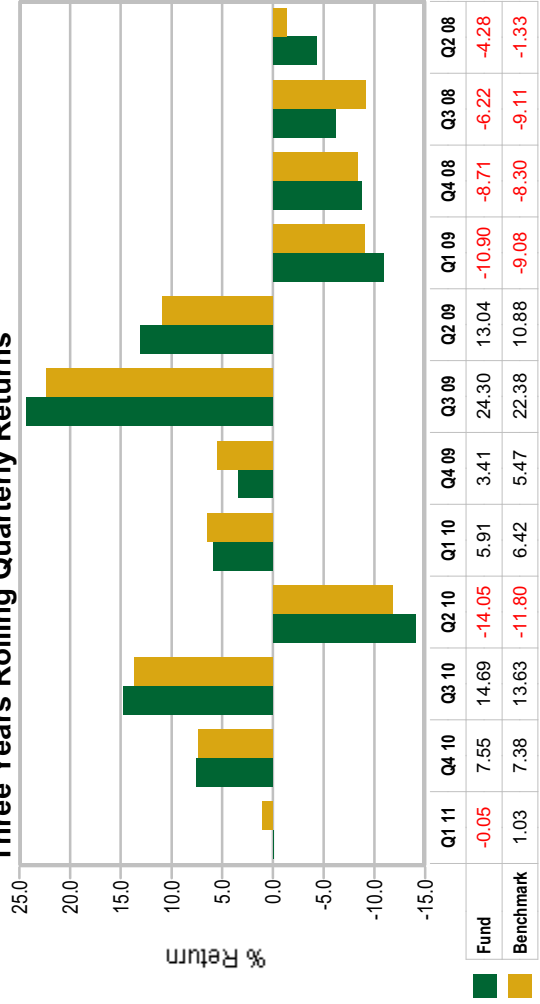
Historical Plan Performance



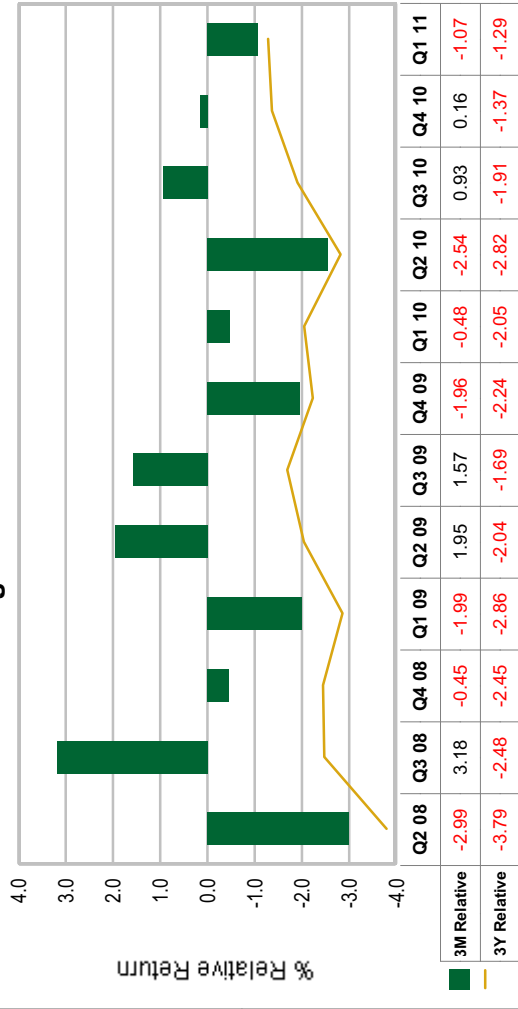
Risk Statistics - 3 years

	Fund	B' mark
Performance Return	5.99	7.37
Standard Deviation	20.71	18.41
Relative Return	-1.29	
Tracking Error	4.54	
Information Ratio	-0.30	
Beta	1.10	
Alpha	-1.45	
R Squared	0.96	
Sharpe Ratio	0.15	0.24
Percentage of Total Fund	19.8	
Inception Date	Dec-1988	
Opening Market Value (£000)	110,785	
Net Investment £(000)	0	
Income Received £(000)	771	
Appreciation £(000)	-827	
Closing Market Value (£000)	110,729	

Three Years Rolling Quarterly Returns

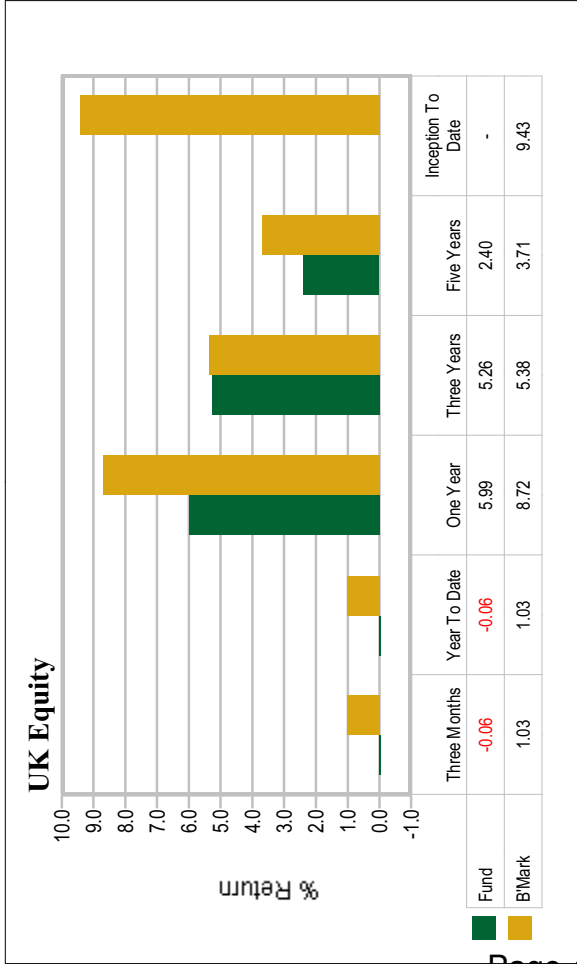


Three Years Rolling Relative Returns





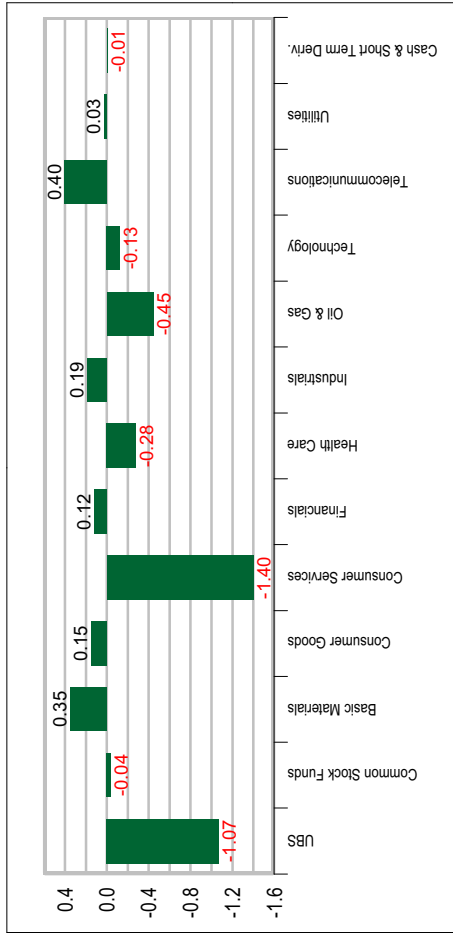
UBS



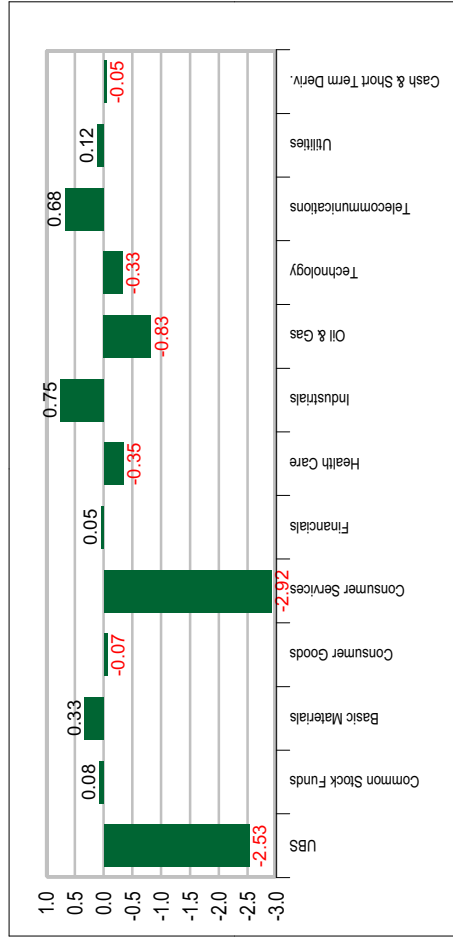


UBS

Relative Contribution - Three Months



Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-0.05	1.03	-1.07	0.34	-1.42	-1.07
Common Stock Funds	-0.99	-	-0.99	-0.04	0.00	-0.04
Basic Materials	-1.94	-3.33	1.44	0.23	0.12	0.35
Consumer Goods	1.63	0.03	1.60	0.05	0.10	0.15
Consumer Services	-13.42	-4.66	-9.19	-0.20	-1.20	-1.40
Financials	1.67	1.03	0.64	0.00	0.12	0.12
Health Care	-2.57	0.66	-3.21	-0.01	-0.27	-0.28
Industrials	3.68	2.01	1.64	0.03	0.16	0.19
Oil & Gas	3.19	6.30	-2.93	0.15	-0.60	-0.45
Technology	-0.42	8.02	-7.81	-0.01	-0.12	-0.13
Telecommunications	7.30	4.79	2.40	0.16	0.25	0.40
Utilities	2.61	1.75	0.85	-0.00	0.03	0.03
Cash & Short Term Deriv.	0.62	-	0.62	-0.01	0.00	-0.01

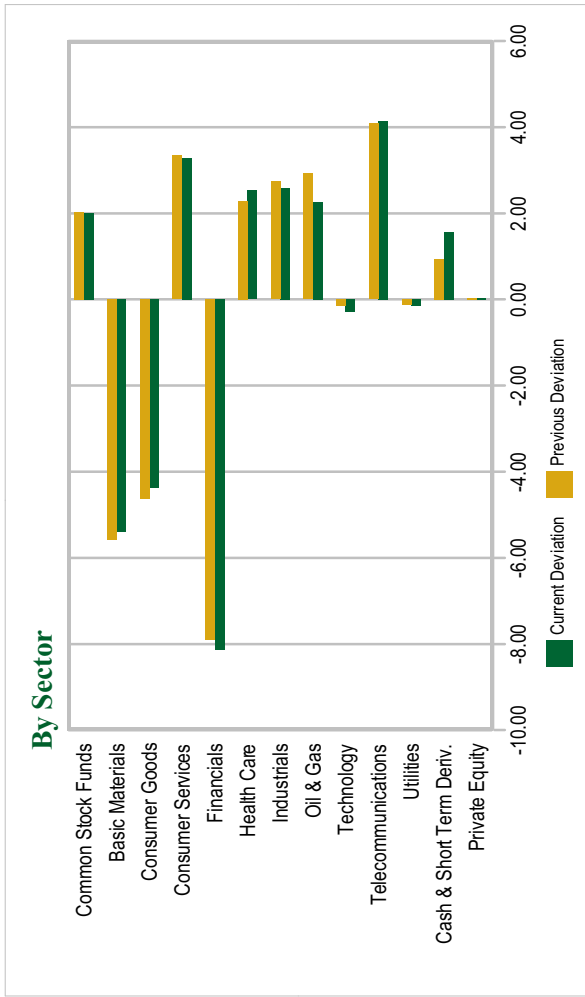
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	5.97	8.72	-2.53	0.48	-3.06	-2.53
Common Stock Funds	11.60	-	11.60	0.08	0.00	0.08
Basic Materials	19.44	12.61	6.07	-0.15	0.48	0.33
Consumer Goods	8.08	9.25	-1.07	0.01	-0.08	-0.07
Consumer Services	-17.77	1.24	-18.78	-0.30	-2.62	-2.92
Financials	0.83	3.67	-2.74	0.38	-0.33	0.05
Health Care	0.20	3.11	-2.83	-0.05	-0.30	-0.35
Industrials	25.69	18.22	6.32	0.10	0.65	0.75
Oil & Gas	2.70	7.36	-4.35	-0.04	-0.79	-0.83
Technology	0.66	26.26	-20.28	-0.04	-0.29	-0.33
Telecommunications	24.62	22.80	1.49	0.53	0.15	0.68
Utilities	21.61	17.41	3.58	0.01	0.11	0.12
Cash & Short Term Deriv.	0.54	-	0.54	-0.05	0.00	-0.05



UBS

1st Quarter, 2011

London Borough of Hillingdon

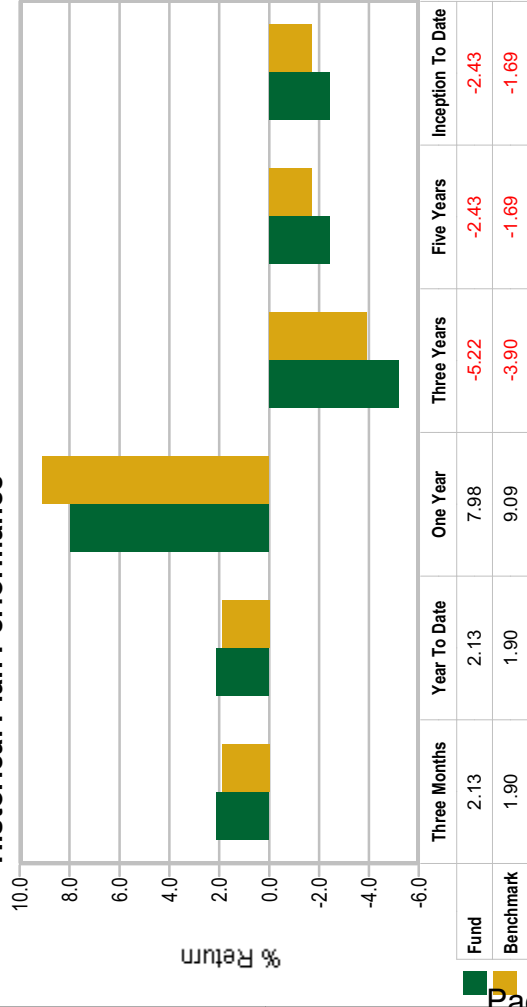


	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Common Stock Funds	2.01	2.03		2.01		2.03
Basic Materials	8.10	8.50	13.48	-5.39	14.08	-5.58
Consumer Goods	6.77	6.69	11.13	-4.37	11.32	-4.62
Consumer Services	12.59	13.02	9.30	3.29	9.67	3.35
Financials	14.41	14.69	22.55	-8.14	22.59	-7.90
Health Care	9.27	9.20	6.74	2.53	6.91	2.28
Industrials	10.00	10.03	7.41	2.59	7.29	2.74
Oil & Gas	20.00	19.78	17.73	2.27	16.86	2.92
Technology	1.42	1.42	1.72	-0.30	1.57	-0.15
Telecommunications	10.40	10.11	6.26	4.14	6.02	4.09
Utilities	3.53	3.55	3.67	-0.14	3.69	-0.13
Cash & Short Term Deriv.	1.56	0.94		1.56		0.94
Private Equity	0.04	0.04		0.04		0.04

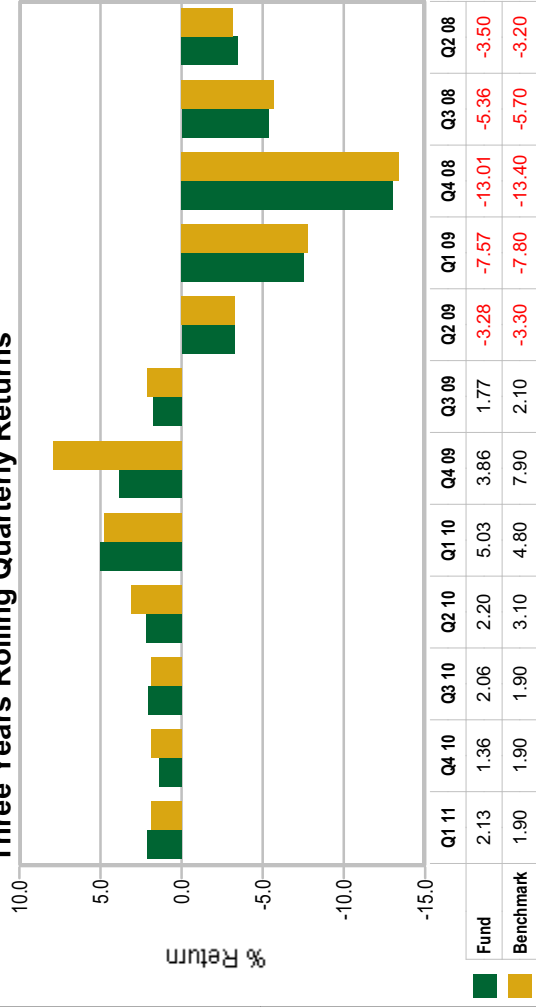


UBS Property

Historical Plan Performance



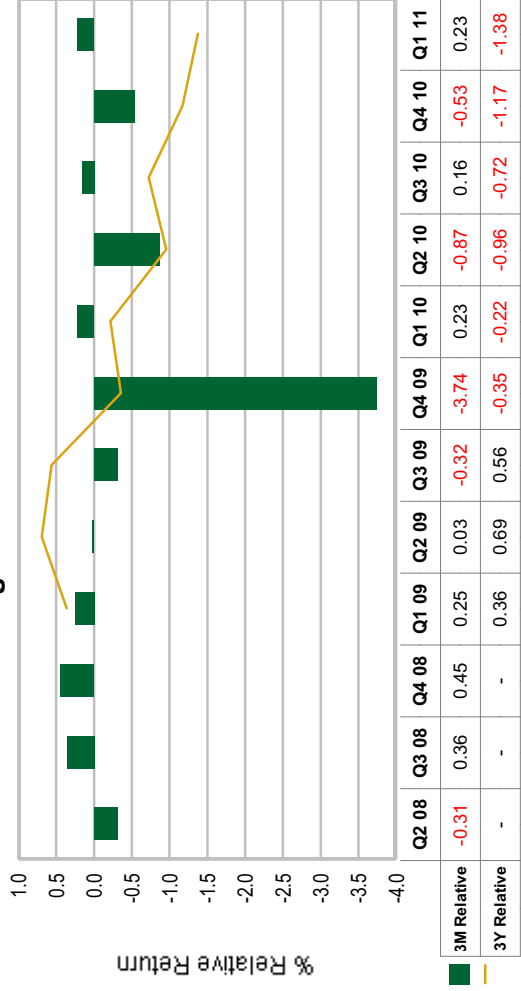
Three Years Rolling Quarterly Returns



Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-5.22	-3.90
Standard Deviation	6.54	6.81
Relative Return	-1.38	
Tracking Error	2.62	
Information Ratio	-0.50	
Beta	0.90	
Alpha	-2.03	
R Squared	0.88	
Sharpe Ratio	-1.24	-1.00
Percentage of Total Fund	8.3	
Inception Date	Mar-2006	
Opening Market Value (£000)	45,573	
Net Investment (£000)	-3	
Income Received (£000)	728	
Appreciation (£000)	243	
Closing Market Value (£000)	46,541	

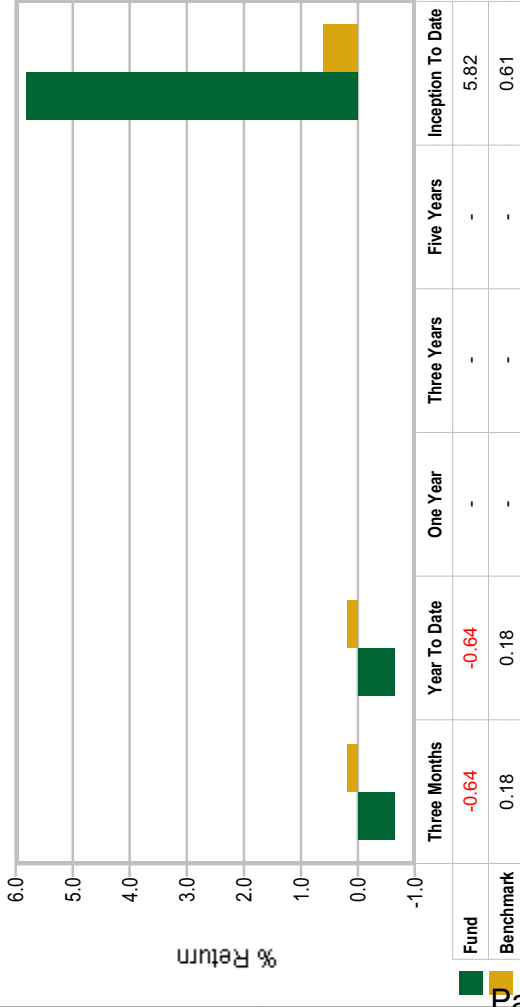
Three Years Rolling Relative Returns





Ruffer

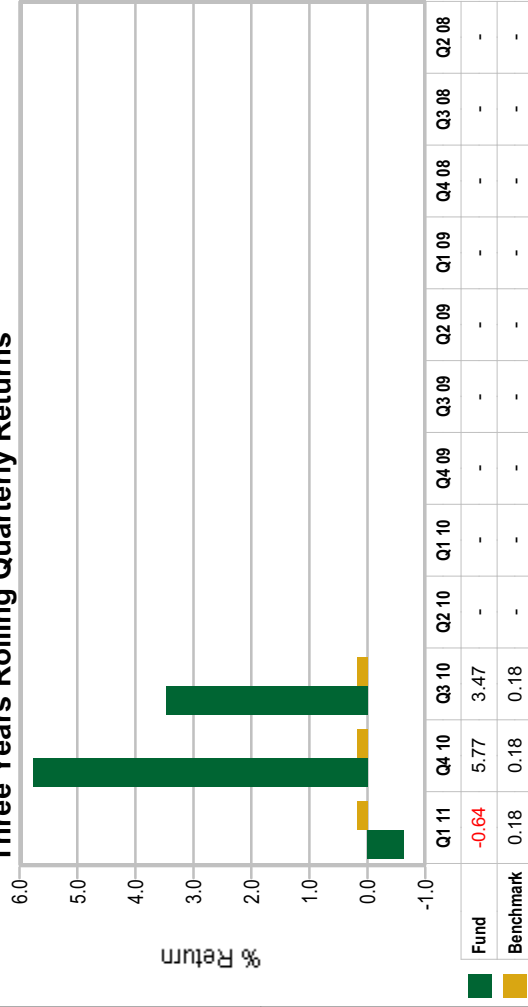
Historical Plan Performance



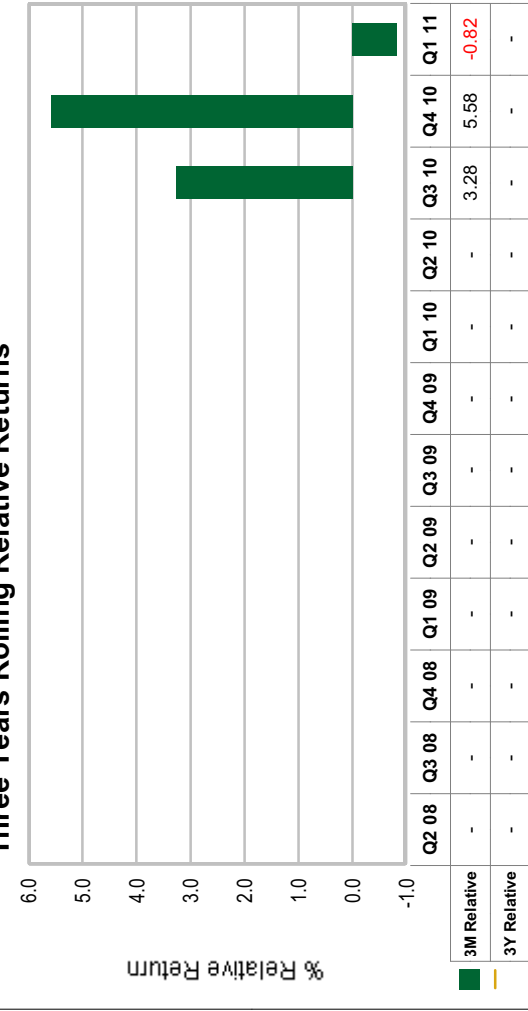
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	9.5	-
Inception Date	May-2010	-
Opening Market Value (£000)	53,574	-
Net Investment £(000)	0	-
Income Received £(000)	260	-
Appreciation £(000)	-601	-
Closing Market Value (£000)	53,233	-

Three Years Rolling Quarterly Returns



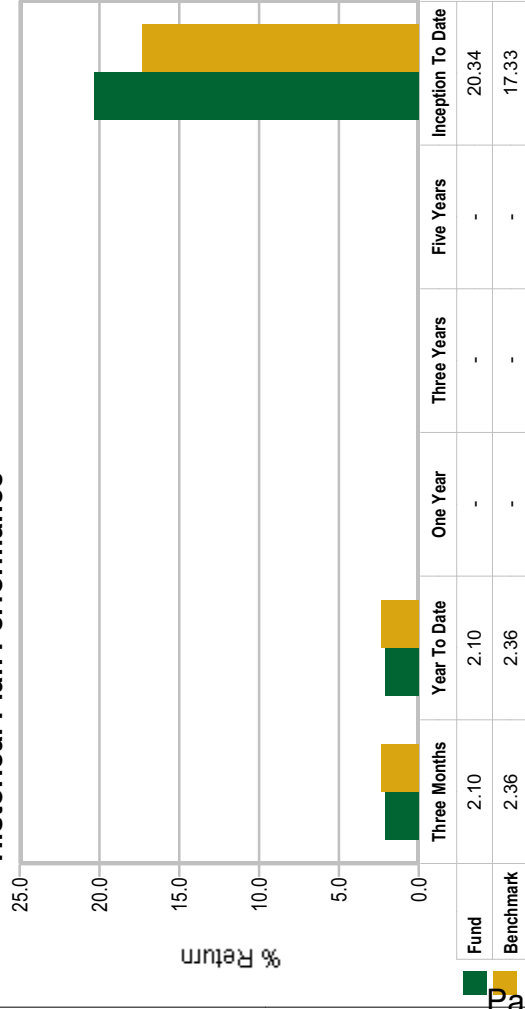
Three Years Rolling Relative Returns





Marathon

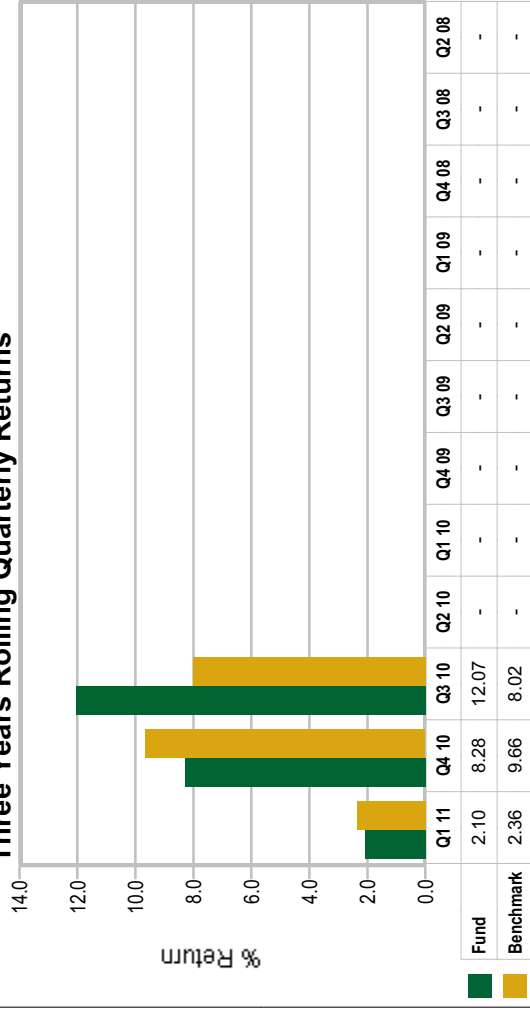
Historical Plan Performance



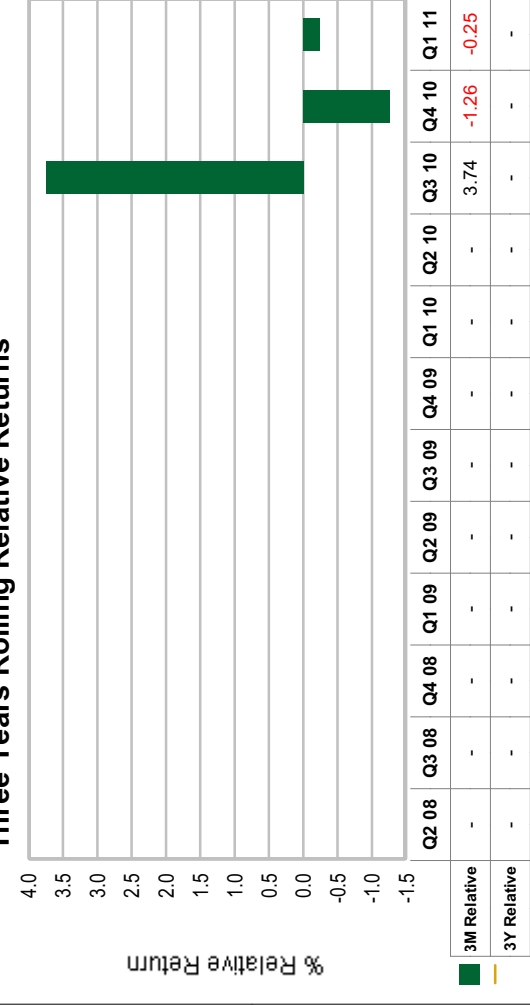
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	10.5	-
Inception Date	Jun-2010	-
Opening Market Value (£000)	57,556	-
Net Investment (£000)	0	-
Income Received (£000)	0	-
Appreciation (£000)	1,211	-
Closing Market Value (£000)	58,767	-

Three Years Rolling Quarterly Returns



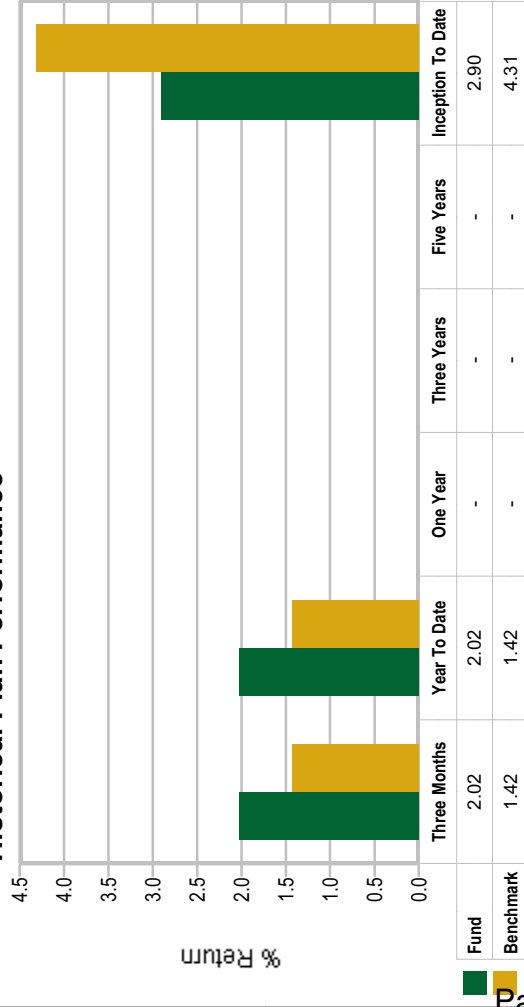
Three Years Rolling Relative Returns





Fauchier

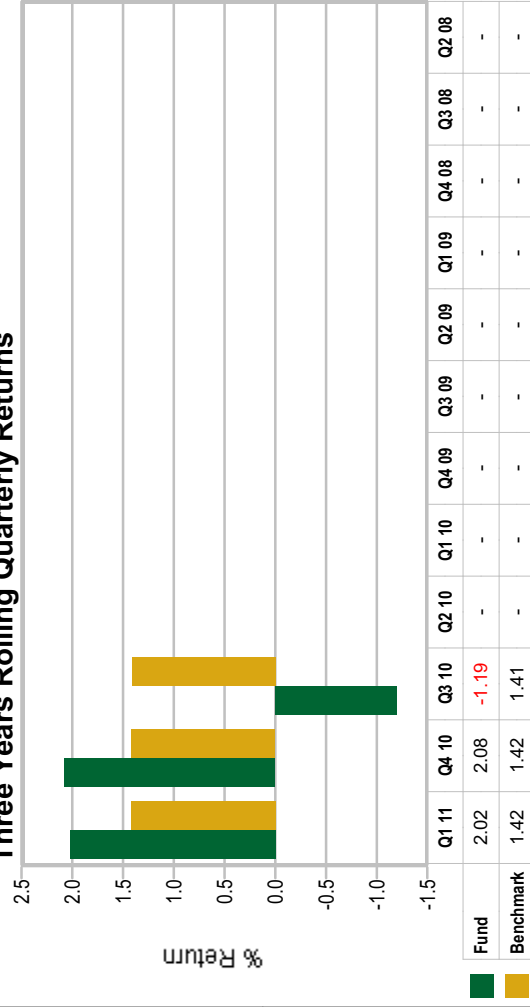
Historical Plan Performance



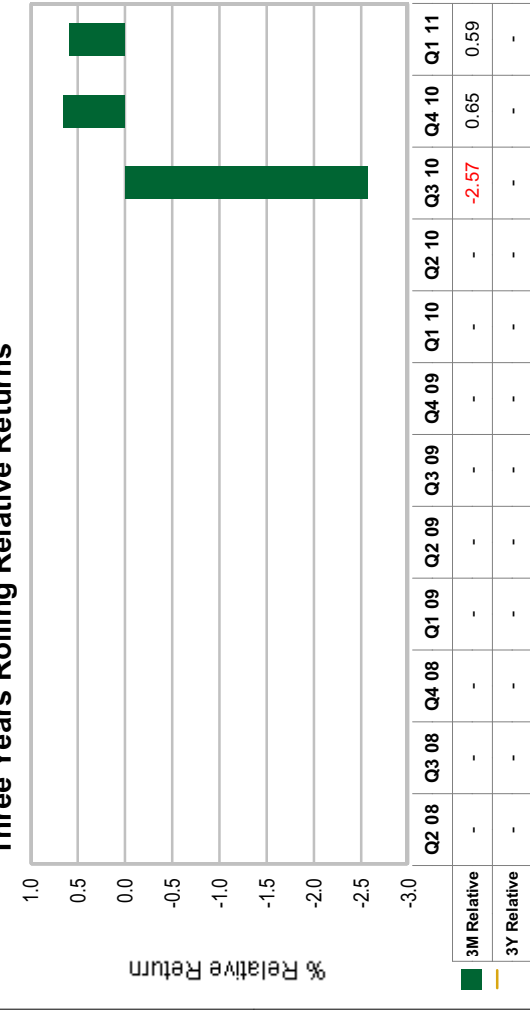
Risk Statistics - 3 years

	Fund	Bmark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	4.6	-
Inception Date	Jun-2010	-
Opening Market Value (£000)	25,013	-
Net Investment £(000)	0	-
Income Received £(000)	0	-
Appreciation £(000)	506	-
Closing Market Value (£000)	25,519	-

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns





Total Plan Benchmark

- 36.8 FTSE All Share
- 12.9 FTSE AW North America
- 11.1 FTSE AW Developed Europe ex UK
- 5.5 FTSE AW Japan
- 3.7 FTSE AW Developed Asia Pacific ex Japan
- 3.7 FTSE AW Emerging Markets
- 1.6 FTSE All Stock
- 8.9 iBox £ Non-Gilts (82.35%) / iBox £ Non-Gilt 15+ (17.65%)
- 5.3 FTSE Index Linked Gilts 5+ Yrs
- 10.5 UBS Property Index

Alliance Bernstein

- 30.0 FTSE AW Developed Europe ex UK
- 35.0 FTSE AW North America
- 15.0 FTSE AW Japan
- 10.0 FTSE AW Developed Asia Pac ex Japan
- 10.0 FTSE AW Emerging Markets

Goldman Sachs

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

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 PPF All Balanced Funds Index

Ruffer

- 100.0 LIBOR 3 Month GBP

Marathon

- 100.0 MSCI World

Fauchier

- 100.0 LIBOR 3 Month +5%



Previous Benchmark

Alliance Bernstein

- 50.0 FTSE All Share
- 15.0 FTSE AW Developed Europe ex UK
- 17.5 FTSE AW North America
- 7.5 FTSE AW Japan
- 5.0 FTSE AW Developed Asia Pac ex Japan
- 5.0 MSCI Emerging Markets



Tracking Error

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

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

Where

Equals

ER Excess return (Portfolio Return minus Benchmark Return)

\overline{ER} Return) Arithmetic average of excess returns (Portfolio Return minus Benchmark

T Number of observations

p Periodicity (number of observations per year)

Page 55 The tracking error measures the extent to which a portfolio tracks its benchmark. The higher the tracking error, the higher the variability of the portfolio returns around the benchmark. The tracking error will always be greater than zero, unless the portfolio is exactly tracking the benchmark.

Information Ratio

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

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

Where

Equals

\overline{ER} Return) Arithmetic average of excess returns (Portfolio Return minus Benchmark

T Number of observations

p Periodicity (number of observations per year)

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



Alpha

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

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market Beta – measure of the sensitivity of a portfolio’s rate of return against

n Number of observations

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

Beta

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

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market Beta – measure of the sensitivity of a portfolio’s rate of return against

n Number of observations

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



R-Squared

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

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

The R² 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 R² 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 a growth factor. A stock must have been public for at least five years to have this characteristic.

Price to Book Ratio

Security Level Calculation:

Current price/Most recent book value per share

Description:

This is usually considered to be a measure of "value", with stocks having high price to book ratios considered to be undervalued.

Dividend Yield

Security Level Calculation:

Dividend for current fiscal year/Period end closing price

Description:

This measures the annual rate that dividends are being paid by a company, including any extra dividends. High dividend yields can also be an attribute of value stocks.

Debt to Capital

Security Level Calculation:

Long term liabilities, deferred taxes, tax credits, minority interest/Sum of debt, total common equity and total preferred stock

Description:

This measure indicates the amount of leverage (debt) being used. A large debt to capital ratio is usually indicative of a highly leveraged company. Stocks having a zero value are still included in the total portfolio calculation.

Price to Sales Ratio

Security Level Calculation:

Current price/Annual sales per share

Description:

This is used primarily by value managers to identify companies having low profit margins. Value managers use this as another indicator in finding undervalued stocks with the potential for improved profitability. This measure varies in informational value by industry, as different industries have different price to sales ratio expectations.

Return on Equity

Security Level Calculation:

Net profits after taxes/Book value

Description:

This relates a company's profitability to its shareholders equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage.



Coupon Rate

Description:

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

Years to Maturity

Description:

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

Macaulay Duration

Description:

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

Yield to Maturity

Description:

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

Moody Quality Rating

Description:

This is a measure of the quality, safety and potential performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evaluates the bond issues and assigns a code with Aaa as the highest and C as the lowest.



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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 March 2011

	COMMITMENTS		CALLED TO DATE		DISTRIBUTIONS		NET CURRENT		IRR
	BASE CURRENCY	% of Fund	£	%	% of Fund	RECEIVED	% of Fund	INVESTMENT	
	£	%	£	%	%	£	%	£	%
LBH PRIVATE EQUITY FUNDS	000		000			000		000	Mar-11
Crown private Equity European Buyout Opport.	12,011	2.02	9,080	1.53	0.94	5,571	0.94	3,509	8.10
Crown Global Secondaries Plc (US\$)	1,871	0.31	1,582	0.27	0.15	915	0.15	667	4.93
Crown Private Equity European Fund	4,396	0.74	3,042	0.51	0.04	251	0.04	2,791	2.70
Crown Private Equity European Buyout Opport. II	8,793	1.48	3,473	0.58	0.04	246	0.04	3,227	0.47
Crown Asia-Pacific Private Equity Plc (US\$)	1,871	0.31	1,227	0.21	0.04	217	0.04	1,010	11.30
Crown European Middle Market II plc	3,517	0.59	809	0.14	0.00	0	0.00	809	19.34
Crown Global Secondaries II Plc (US\$)	1,372	0.23	524	0.09	0.01	71	0.01	453	52.73
TOTAL(S) LGT CAPITAL PARTNERS	33,831	5.69	19,737	3.32	1.22	7,271	1.22	12,466	
	£		£			£		£	Dec 10
ADAMS STREET PARTNERS									
Adam Street Partnership Fund - 2005 US Fund	8,732	1.47	6,697	1.13	0.20	1,173	0.20	5,524	4.63
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,742	0.63	2,958	0.50	0.06	366	0.06	2,592	6.98
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,807	0.47	1,918	0.32	0.02	146	0.02	1,772	4.92
Adam Street Partnership 2006 Direct Fund	936	0.16	859	0.14	0.01	75	0.01	784	-0.91
Adam Street Partnership Fund - 2006 US Fund, L.P	5,613	0.94	3,713	0.62	0.09	512	0.09	3,201	4.12
Adams Street Direct Co-Investment Fund, L.P.	1,871	0.31	1,754	0.29	0.00	0	0.00	1,754	N/A
Adams Street Partnership 2007 Direct Fund LP	312	0.05	271	0.05	0.01	44	0.01	227	7.02
Adams Street Partnership - 2007 Non -US Fund	1,091	0.18	499	0.08	0.00	0	0.00	499	5.66

Adams Street Partnership - 2007 US Fund	1,715	0.29	888	0.15	149	0.03	739	0.12	12.46
Adams Street Partnership - 2009 US Fund	936	0.16	171	0.03	0	0.00	171	0.03	42.85
Adams Street Partnership - 2009 Direct Fund	187	0.03	61	0.01	2	0.00	59	0.01	27.86
Adams Street Direct Co-Investment Fund II.	1,559	0.26	378	0.06	0	0.00	378	0.06	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	187	0.03	17	0.00	0	0.00	17	0.00	14.36
Adams Street Partnership 2009 Non-US Developed Market	561	0.09	44	0.01	0	0.00	44	0.01	38.60
TOTAL(S) ADAMS STREET PARTNERS FUNDS	30,249	5.08	20,228	3.40	2,467	0.41	17,761	2.98	

FUND VALUE	595,017
COMMITMENT STRATEGY TO ACHIEVE INVESTMENT	8.75%
	5.00%
CURRENT INVESTMENT BOOK COST	5.08%
CURRENT INVESTMENT MARKET VALUE	5.55%

Fund Value as per NT Report (Excluding PE & Macquarie)	559,377.0
PE Investment (Market Value)	35,393.0
Macquarie (Market value)	1,277.0
Nomura/Pasco	-1,030.00
Total Fund Value	595,017.0
Mid Market Value	595,017.00

**London Borough of Hillingdon Pension Fund
Adams Street Partners Update: fourth Quarter 2010**

Industry Update

As the exclamation point on a year of steadily increasing activity, the fourth quarter of 2010 drew to a close with a significant ramp up in capital calls and distributions from our underlying partnerships. While it remains to be seen whether this heightened pace will continue at the same rate throughout 2011, the first few months of activity are notably higher than this time last year. This is most pronounced on the distribution side, with \$240 million in distributions received from our general partners (GPs) in January and February of 2011, compared to \$95 million for the same period in 2010.

Portfolio Statistics as of December 31, 2010

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Private Equity Market	Public Market
Total Hillingdon Portfolio	02/2005	96%	67%	70%	1.05x	4.54%	N/A	1.71%
2005 Subscription	02/2005	100%	77%	77%	1.08x	5.37%	N/A	1.88%
2006 Subscription	01/2006	100%	69%	69%	1.01x	3.51%	N/A	1.63%
2007 Subscription	01/2007	93%	52%	56%	1.10x	9.54%	N/A	3.95%
2009 Subscription	01/2009	36%	15%	41%	1.10x	36.14%	N/A	20.41%
Direct Co-Investment Fund	09/2006	100%	94%	94%	0.94x	-1.64%	N/A	-1.93%
Co-Investment Fund II	01/2009	100%	24%	24%	1.04x	22.09%	N/A	17.89%
*Gross of client's management fees paid to Adams Street Partners, LLC. Internal rates of return are not calculated for fund less than one year old; instead the return is the change in value over amount invested.								
Note: The Private Equity Market represents the performance of the vintage years, based on data from Venture Economics, that are comparable to those of the ASP vehicle. December 31st was not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.								

Main Drivers of Performance

The resurgence of the debt markets is one factor driving this trend. Most notably, the leveraged loan and high-yield debt markets have been remarkably robust. After waiting for the dust to settle from the financial crisis, lenders that had generously supplied capital during the 2005-2007 boom have become noticeably more aggressive. GPs are taking advantage of the improving credit environment to step up investing efforts. Buyout activity grew to almost \$200 billion during 2010, marking an 84% increase over the depressed levels of 2009. While positive, we are starting to become a bit wary of the fact that in the process there has been an increase in purchase price multiples being paid. Importantly, however, GPs are also using the debt markets to improve the health of their existing portfolio companies through debt refinancing - materially altering the 2012-2014 "wall of debt" that was anticipated. While the refinancings alone have not generated immediate liquidity for investors, the eager debt markets have also allowed managers to complete dividend recapitalizations, something rarely seen since the 2005-2007 timeframe. These recapitalizations have contributed to the growth in distributions, providing much-anticipated liquidity to investors.

In the venture space, improving market conditions and increasing valuations have only begun to translate into investor liquidity. However, there is a level of excitement returning to the industry that hasn't been present for over a decade. There are a number of significant technology trends, and venture GPs are very well-positioned to be meaningful players in these areas. Further, investors have begun rewarding fundamentally sound and established portfolio companies with higher valuations and more exit opportunities. In the aftermath of the economic slowdown, it has become apparent that many venture-backed companies have emerged stronger, as GPs working with management teams have made improvements to both cost rationalization and revenue growth. To date, venture investments made in the past decade have struggled to produce attractive performance, however, we're excited about the seeds for future venture returns that the past decade has planted. The companies that were formed and grown during this period are now benefiting from increasing valuations while still privately-held. Across our Direct Funds, the fourth quarter saw mark-ups of 9% in aggregate, with the combined portfolio up 32% for the calendar year 2010. Within our Partnership Funds, valuations for companies such as Facebook, Zynga, Twitter and Groupon have continued to rise. Though the final realizations from these investments have yet to be determined, we're optimistic that the strong operational performance that many of these companies have generated in recent years is now starting to be reflected in stronger investment performance for our portfolios.

Portfolio Outlook

For more detailed commentary about the State of the Private Equity Industry, as well as a review of our expected future returns for ASP private equity portfolios, please refer to our March 2011 Newsletter. In addition, on Wednesday, May 11 we will be hosting our next Private Equity Discussion Series (PEDS) call. We're looking forward to having William Macaulay, Chairman and CEO of First Reserve, join us to discuss the energy industry. If you would like to participate, please contact Melissa Lefko at mlefkof@adamsstreetpartners.com or (312) 553-8491.

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End Q1 2011 portfolio overview



- ◆ The portfolio has performed strongly in the quarter having a TV/PI of 1.19x compared with 1.13x last quarter
- ◆ Since the last report, net invested capital has decreased by Euro 0.4 million as underlying managers distributed more capital than they invested
- ◆ Distributions as a proportion of paid-in capital rose to 0.37x from 0.33x last quarter
- ◆ Total portfolio gains now amount to Euro 4.2 million, being Euro 18.4million of NAV less Euro 14.2million of net invested capital
- ◆ The USD weakened by 5.8% against the Euro in the period which had a Euro 0.1million negative effect on portfolio performance
- ◆ The outlook remains positive as managers continue to increase both investment and divestment activity

Q1 2011	Net Performance (in millions of Euros)									
	LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	Cash Multiple	Gross	Net
Total Euro Exposure	32.7	18.7	-6.9	11.8	15.1	3.3	0.37	1.18	57%	36%
Euro equivalent Dollar Exposure @ 1.4158 USD / Euro	5.8	3.8	-1.4	2.4	3.3	0.9	0.36	1.23	65%	42%
Total Exposure (in Euro millions)	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

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BREAKDOWN OF FUND MANAGERS' FEES FOR APR 10 TO MAR 11

NB: Actual fees charged not entirely based on fee basis. See FM Fees Breakdown Spreadsheets for details, including "Rebates". Annualised Fee Based on Sept 10 Valuation

MANAGER		Jun-10	Sep-10	Dec-10	Mar-11	Total(s)	Fees Calculation Basis	%	Annualised Fee Based on Sept 10 Valuation
UBS	Market Value of Holdings	89,669,837.00	103,170,883.00	110,380,790.00	0.00		First £50 Million @	0.425%	382,927.21
	Fees	85,356.74	95,731.80	100,237.99	0.00	281,326.54	Next £50 Million @	0.325%	
	Market Value of Holdings						Over £100 Million @	0.250%	
	Mkt Valueless In-hous func	44,140,494.00	45,064,674.00	45,375,104.00	0.00		Flat rate @	0.200%	
UNS PROPERTY	FEES	11,953.52	12,310.15	12,580.27	0.00	36,843.94	Plus expenses incurred by Funds within Portfolio		49,240.61
	Expenses	100,419.21	89,103.83	92,528.37		282,051.41			
GOLDMAN SACHS	Market Value of Holdings	63,297,279.00	65,416,446.00	65,607,848.00	0.00		First £50 Million @	0.280%	44,635.28
	FEES	43,310.80	44,635.28	44,754.90	0.00	132,700.97	Over £50 Million @	0.250%	
ALLIANCE BERNSTEIN	Market Value of Holdings	77,644,237.44	56,544,021.81	61,680,035.55			First £15 Million @	0.800%	363,492.12
	FEES	115,474.77	90,873.03	97,515.04		303,862.84	Next £15 Million @	0.650%	
CUSTODIAN	Northern Trust (Fees)	26,023.73	62,775.02	24,456.99		113,255.74	Next £60 Million @	0.550%	
							Over £120 Million @	0.400%	
STATE STREET	Market Value of Holdings	201,028,073.90	123,619,161.48	128,835,315.75			on Volume of transactions and other variable factors. See Invoice for Details.		82,585.97
		25,949.02	20,646.49	21,280.40		67,875.91	Account 1	0.06%	
FAUCHIER	Market Value of Holdings		24,503,862.95	24,342,334.58			Account 2	0.06%	220,534.77
	Flat rate Performance Related		55,133.69	54,770.25		109,903.94	Account 2	0.06%	
MARATHON	Market Value of Holdings		53,154,733.73	57,555,953.70			Account 2	0.10%	132,886.83
	Flat Rate Performance Related		33,221.71	35,972.47		69,194.18	Account 2	0.10%	
RUFFER	Market Value of Holdings	48,857,623.37	50,582,350.04	53,406,707.83			(Less Fee Rebate 0.15%)	0.90%	0
		35,071.75	108,664.70	114,313.42		258,049.87	Performance Fee (10% with High watermark)	10.00%	
MAQUARIE	Market Value of Holdings			2,600,000.00			Management Fee Annualised	0.25%	9,750.00
				9,750.00		9,750.00	Fee (Over 60 Month Period)	0.20%	
TOTAL	Market Value of Holdings						First £10 Million @	1.00%	
							Next £10 Million @	0.90%	
							Over £25 Million @	0.80%	
							India Fund (Invested or Uninvested)	1.50%	
							Europe Fund (Invested Or	1.25%	
TOTAL						1,664,815.35			

Please note fund managers listed below deduct their fees directly from the fund value. No invoice is received and no cash paid over for their fees above. Performance Related fees are not accounted for as yet, as these are measured over a period of time, exceeding the accounting period, and will be determined at a later date:

Fauchier: Maquarie; Ruffer: M&G Investments and Private Equity holdings with Adam Street and LGT Capital Partners

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The following summary is based on 45 funds with a total Market Value of £68,740m.

Update 1 - 06/05/2011

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	66.9	66.7	1.4	2.0	1.4	2.0	9.2	8.4
GLOBAL POOLED INC UK	3.7	3.8	1.9	2.0	1.9	2.0	7.4	8.4
UK EQUITIES	29.8	29.4	1.0	1.0	1.0	1.0	9.7	8.7
OVERSEAS EQUITIES	33.4	33.6	1.6	2.1	1.6	2.1	8.9	8.5
North America	9.8	10.0	3.3	3.5	3.3	3.5	9.7	9.6
Europe	8.8	9.3	5.3	5.7	5.3	5.7	8.6	7.5
Japan	3.8	3.6	-6.0	-6.9	-6.0	-6.9	-2.0	-4.0
Pacific (ex Japan)	4.2	4.2	-0.3	0.2	-0.3	0.2	13.3	14.6
Emerging Markets	5.3	5.1	-0.7	-1.2	-0.7	-1.2	12.0	11.9
Global ex UK	1.5	1.5	3.1	2.1	3.1	2.1	9.7	8.5
TOTAL BONDS	17.9	17.7	0.4	-	0.4	-	5.7	-
U.K. BONDS	10.1	10.3	0.8	-0.8	0.8	-0.8	6.0	5.2
OVERSEAS BONDS	2.7	2.6	-0.3	-0.5	-0.3	-0.5	2.4	2.1
INDEX LINKED	4.8	4.6	0.1	0.0	0.1	0.0	6.6	6.5
POOLED BONDS	0.3	0.3	0.9	-1.4	0.9	-	5.9	-
TOTAL CASH	3.7	3.7	0.0	0.1	0.0	0.1	2.1	0.4
ALTERNATIVES	5.4	5.6	3.0	-	3.0	-	7.7	-
Total Private Equity	3.0	3.1	4.5	-	4.5	-	10.3	-
Total Hedge Funds	1.5	1.5	1.4	-	1.4	-	5.7	-
Other Alternatives	0.9	1.0	1.1	-	1.1	-	3.7	-
TOTAL EX-PROPERTY	93.7	93.7	1.3	1.1	1.3	1.1	8.1	7.7
TOTAL PROPERTY	6.3	6.3	2.0	2.3	2.0	2.3	9.2	10.7
TOTAL ASSETS	100.0	100.0	1.3	1.2	1.3	1.2	8.2	7.9

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Fund Manager & Custodian Compliance with Statements of Internal Control	
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<i>Contact Officers</i>	James Lake, 01895 277562
<i>Papers with this report</i>	None

SUMMARY

This report provides an update of the London Borough of Hillingdon Pension Fund's fund manager and custodian control reviews. These are recommended under the Statement on Accounting Standards (SAS 70) and the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales (AAF 01/06). The reviews give an overview of the third party audit opinion of those controls. Whilst there is no strict requirement to produce these reports and as such not all managers undertake a SAS 70 or AAF01/06 review, it is recommended under best practice.

RECOMMENDATIONS

Committee are requested to:

- 1. Review the content of the report regarding the internal controls in place with the fund managers and custodian.**
- 2. Consider whether sufficient assurance can be obtained in terms of the effectiveness of controls, audit opinions and management responses, or whether further assurance is required, taking the current status of the fund managers into consideration.**

INFORMATION

The Statement on Accounting Standards (SAS 70) and the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales (AAF 01/06) are guidance which allows service organisations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. The issuance of a service auditor's report prepared in accordance with SAS 70 or AAF 01/06 signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm. The service auditor's report, which includes the service auditor's opinion, is issued to the service organisation at the conclusion of the examination.

Officers requested the latest versions of the custodian and fund manager Statements of Internal Control and audit opinions and reviewed the noted exceptions. Reports were provided by Northern Trust, Alliance Bernstein, Goldman Sachs, Marathon, Ruffer, State Street Global Advisors and UBS. Both Fauchier and M&G outsource their back office services to a custodian who provided reports. Adams Street Partners, LGT Capital

Partners and Macquarie have not implemented their own SAS 70/AAF 01/06 review and some additional commentary on each of their processes is included in the appendix. The audit opinion for those managers who undertook an external review showed the described controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved. However, testing showed some exceptions where the control had not been applied successfully:

- Alliance Bernstein test results detailed exceptions within trade activity where evidence of review could not be provided and asset pricing with incorrect calculations and review inconsistencies. There were also issues regarding IT applications and inappropriate access. Following Committee's decision in March 2011 to terminate the IMA with Alliance Bernstein no further action is required.
- Goldman Sachs had only one exception where a trade input had no evidence of review by a second individual. Goldman Sachs has implemented a new system which now forces a second individual to comment on the trade and therefore this area of concern should now be eliminated, with no further action is required.
- The fund's custodian Northern Trust had a number of exceptions relating to a variety of areas. Although none of the exceptions noted had any impact on the fund and management have taken measures to improve processes, the number and variety of issues raises concerns and should form part of the appraisal criteria when the custody contract is re-tendered later this year.
- Of the exceptions noted for Marathon two have resulted in new procedures being set up. These included ensuring that the Marathon broker counterparty list is accurately recorded and that proxy votes are cast correctly. There is very little direct financial risk to the fund, however, from a governance point of view, Committee may want to discuss the implications should a vote be incorrectly cast in the future and whether this warrants further assurance.
- M&G outsource their administration and custody services to State Street Corporation. The review of State Street showed an exception where a cash reconciliation could not be evidenced and instances relating to application access and amendment. The main area of concern relates to software applications; however management have reiterated the importance of controls and new processes have been implemented.
- SSgA had two areas where exceptions were noted. These included verification of trade authorisation letters and issues surrounding emergency or special access to applications. Management have reiterated the importance of evidencing a call back in terms of authorisation letters and have updated the technology relating to application access.
- Two areas where exceptions were noted for UBS include the recording of client data and access, and issues around database management. New systems and retraining have been initiated to avoid problems in the future
- For M&G, SSgA and UBS the main area of concern relates to application management. The exceptions appear to have been addressed with the reinforcement of controls, retraining and new processes and systems. The

manager's concerned have also advised that any risk relating to Hillingdon is low as the fund would not be liable for any fraudulent activities. As such no further action is recommended.

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

The attached appendix shows more detailed information about the controls, where exceptions occurred and the management response to each issue. In addition all parties with exceptions were asked to comment on their reports and advise whether the exceptions had any detrimental impact on the London Borough of Hillingdon Pension Fund. In summary none of the parties claimed there had been an impact on the fund.

Three managers did not undergo an external audit of their controls and these included Adams Street Partners, LGT Capital and Macquarie. Details of their reasoning and alternative approaches are included in the appendix. Committee need to examine the responses and decide whether these provide reasonable assurance or whether further action is required.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

Fund Manager SAS 70/AAF 01/06 Compliance Reports

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Fund Manager and Custodian Results where Control Reports supplied

Appendix A

Alliance Bernstein		
Auditor: PricewaterhouseCoopers		Period Tested: 01/10/09 to 30/09/10
Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that trade orders are authorised, allocated and recorded accurately, completely and in a timely manner	For two of 55 new securities (equity and fixed income) selected in Melbourne, peer review of security characteristics set-up in APEX could not be evidenced.	The security set-ups were verified as having been done correctly but the paperwork could not be located. Supplemental staff training on the importance of keeping complete records was undertaken
Controls provide reasonable assurance that trading activities are in compliance with client directives.	There is no evidence that access to Error Tracking System was reviewed during the period under review.	Management conducted a formal review of access during October 2010 and removed inappropriate access for two individuals.
Controls provide reasonable assurance that securities are valued using prices obtained from authorized sources in accordance with Alliance Bernstein policy and procedures and are updated into the accounting and reporting systems on a timely basis.	There is no evidence that the access recertification was performed during the year for a shared drive containing pricing spreadsheets.	Management validated that Business user access to the shared drive was appropriate and that the Information Technology personnel had an appropriate segregation of duties based on their shared drive access.
	Two Best Pricing shared folders did not have restricted IT access via break glass nor were the permissions to the folders reviewed on a quarterly basis for appropriateness.	Management has reinforced the requirement to implement a regular access review for these two shared folders.
	One of 22 AB Advantage users was not removed timely after the user no longer required access.	The AB Advantage user, whose access was not removed on a timely basis, was the former manager of the group and had been asked to work on a special project for which access to AB Advantage was approved and required. At the conclusion of the project in late September, access was not immediately removed but has since been removed.

	<p>For two of 47 securities sampled an incorrect price was manually calculated. The two securities were a total return swap and derivative.</p>	<p>The price variance review serves as the compensating control</p>
	<p>For one of 125 manually input security prices, the security price was incorrectly input into Best Pricing.</p>	<p>The price variance review serves as the compensating control.</p>
	<p>For one of 12 months selected, there is no evidence of secondary review of the Derivatives Pricing Checklist.</p>	<p>The remaining 11 monthly control occurrences were reviewed and evidence of secondary review of the derivatives checklist was present. Management has reinforced the importance of properly documenting evidence of the secondary reviews.</p>
<p>Controls provide reasonable assurance that new applications and changes to existing applications are authorized, tested, approved and implemented.</p>	<p>Of a population of 24 administrative IDs/groups with access to the TFS version control system in the first quarter of 2010, one was found with inappropriate access.</p>	<p>The group in question had automatically been installed when TFS was implemented. However, the group in question contains GETS Windows administrators; they are not developers. Hence, separation of duties between the developers who use the product and those with administrative privileges was still maintained. Also, TFS does not contain production business data. Inappropriate access for these individuals would have been restricted to code located on a development server, which would require testing before being promoted to production</p>
	<p>Of a population of 31 administrative IDs/groups with access to the version control system in the third quarter of 2010, one was found with Inappropriate access.</p>	<p>The user's access to the system was appropriate; only the level of access was incorrect due to a CAAG oversight. The access level was rectified post audit.</p>

<p>Controls provide reasonable assurance that logical access to programs and data is limited to authorized individuals.</p>	<p>The ACEBOSSPROD Sybase database does not require passwords to contain at least one alpha character and one numeric character.</p>	<p>The ACEBOSSPROD finding was rectified post-audit. All other password controls were in place; only the "check for digit" option was not working properly.</p>
<p>Controls provide reasonable assurance that production jobs are accurately scheduled and any problems or deviations are identified and resolved</p>	<p>For three of 45 Service-now tickets selected no documented evidence was available to indicate the Service-now ticket was resolved and closed in a timely manner.</p>	<p>The jobs ran successfully at the next scheduled time. Policies and procedures concerning Service-now documentation will be reinforced with technical personnel</p>
<p>Impact on the pension fund</p>	<p>There was no impact for the Hillingdon fund.</p> <p>After each report Alliance Bernstein do an internal review to retroactively ensure there has been no impact to the client. If there was an impact or a failed control objective, there would have been a notification to any impacted client. After each report Alliance Bernstein do post-mortem reviews with the Investment Operations, IT teams and PwC to address lessons learned, exceptions and future plans that may impact IT and Operations controls in scope for SAS 70.</p>	

Goldman Sachs Asset Management		
Auditor: PricewaterhouseCoopers		Period Tested: 01/10/09 to 30/09/10
Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that client account transactions and cash and security positions are completely and accurately recorded and settled in a timely manner	1 of 25 manually input trades selected for testing were not reviewed by a second individual	Management agreed with observation. In May 2010 control changed to an online review of all trades whereby a second individual (approver) must comment on each individual manual trade.
Impact on the pension fund	<p>To the best of GSAM's knowledge, the exception noted in GSAM's 2010 SAS70 report did not negatively impact the portfolio and remedial actions were implemented.</p> <p>In May 2010, this control was changed to an online review and evidence of this review is available centrally and provides enhanced visibility for management to ensure that 100 % of checks are complete.</p>	

Northern Trust		
Auditor: KPMG		Period Tested: 01/10/09 to 30/09/10
Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that transactions are received from authorised sources	9 of 384 transactions selected were not authorised by personnel on the authorised signers listing.	Management conducted team meetings to train and reinforce various procedures and processes surrounding client transactions.
	7 of 247 transactions tested a call back was not performed. 4 of 247 transactions tested a call back was performed but not in line with procedures.	Updated policy has been approved which provides more clarity regarding requirements. Current implementation efforts include review and update to specific processes, authorities and applicability.
Controls provide reasonable assurance that transactions are completed and accurately recorded in a timely manner	8 of 189 accounts tested 2 had incorrect coding for investment responsibility and 6 had incorrect coding for proxy voting.	A new account set up system is in the process of being implemented which will allow for a more rule- based logic to reduce the opportunity for inappropriate coding
Controls provide reasonable assurance that cash is monitored for overdrawn account balances and uninvested balances are identified and invested in authorised instruments	2 of 112 accounts tested the short term investment vehicle was not appropriately hard coded in the system	Management reiterated with all staff the need for proper coding. In addition a new account set up system is in the process of being implemented which will allow for a more rule- based logic to reduce the opportunity for inappropriate coding. Additional key field will be reviewed following initial entry
Controls provide reasonable assurance that new assets and changes to assets are authorised and established in a complete, accurate and timely manner on the Trust system	1 of 103 asset setups selected a secondary review was not performed.	Management reiterated the importance of an independent review and that it was required in all instances

<p>Controls provide reasonable assurance that complete and accurate information is obtained from accounting systems to perform specific performance measurement (rate of return) calculations and that adjustments to transaction information are made through appropriate procedures.</p>	<p>5 of 43 clients selected late reporting was not properly tracked for timeliness of completion and delivery</p>	<p>Management will continue to monitor deliverable metrics and provide guidance to staff on the codes they can use to track the timeliness of performance reporting. Additionally management will reiterate to all staff the existing procedures.</p>
<p>Controls provide reasonable assurance that Investment Guidelines are accurately set up/maintained within the NT compliance analysis system and exception reports are properly generated</p>	<p>1 of 24 compliance monitoring subscribers tested the service agreement on file did not match the level of service provided to the client</p>	<p>In this instance the level of service being received was higher than that stated in the agreement.</p> <p>Management is working with Risk Management to establish a practice of imaging SLA documentation as an overall Custody/Legal agreements client have with NT.</p>
<p>Controls provide reasonable assurance that benefit payment transactions are properly authorised</p>	<p>Not applicable to LBH</p>	
<p>Controls provide reasonable assurance that operating system installation, changes and maintenance are authorised, tested and documented</p>	<p>1 of 29 emergency changes did not evidence timely approval within the required time frame of 5 business days.</p>	<p>Although not approved within the required timeframe the change was deemed warranted and ultimately approved by the appropriate manager</p>

Controls provide reasonable assurance that logical access to application data files and programs is limited to properly authorised individuals.	1 of the 37 user selected did not have sensitive access removed upon their transfer	Upon identification management immediately removed access. The user did not create transactions or perform approvals from the date of transfer. Manual business unit reconciliations exist to monitor the integrity of key application data.
	1 of 10 Windows servers had individuals with unnecessary or inappropriate logical access to critical system files.	Upon identification management immediately removed the unnecessary access. No inappropriate access had been used. Management to create a monthly review process that will periodically validate group membership.
	2 of 42 critical application resources selected there were 5 individual ID's that were granted unnecessary or inappropriate access to critical application resources.	Upon identification management immediately removed the unnecessary access. It did not appear that inappropriate access had been used. Management to implement a weekly review process to help identify and ensure that administrative support access to the application is warranted.
	1 of 35 access violation reports, documentation showing follow up action was taken could not be obtained.	Management determined that the violation related to invalid log in attempts due to incorrect password entry and no unauthorised access was identified. Management will reiterate to staff the importance of documenting follow up action taken
Controls provide reasonable assurance that the NT computer network is adequately secured and monitored to allow permitted traffic, protect against inappropriate intrusions and help ensure transmissions are complete, accurate and authorised.	2 of 10 Windows servers selected a patch update was not installed. Although the primary patch was applied other related sub patches were not included.	Upon identification the sub patches were updated immediately. The risk was mitigated as both servers resided behind the firewall and intrusion detection servers.

<p>Controls provide reasonable assurance that physical access to computer equipment, storage media and program documentation is limited to properly authorised individuals. Preventive and detective controls exist to protect the data centre from environmental hazards.</p>	<p>1 of 6 data centres selected a sufficient periodic access review was not performed. The access list reviewed failed to identify all users with access to the data centre.</p>	<p>The report used was deemed incomplete; however no inappropriate access was identified. Management has enhanced the reporting used to review data centre access going forward.</p>
<p>Impact on the pension fund</p>	<p>Northern Trust can confirm that London Borough of Hillingdon was not impacted by any of the exceptions noted in the SAS70. None of the exceptions highlighted in the report required new procedures or systems to be set up that were relevant to London Borough of Hillingdon.</p>	

M&G (State Street Corporation as custodian and fund administrator)

M&G do not produce an internal control report, however their fund administrator's and custodians State Street Corporation do. The custodian has legal title to the fund's assets and has a regulatory obligation for ensuring that the fund is operating within set guidelines. In these instances the fund manager does not handle client money.

Auditor: Ernst & Young**Period Tested:** 01/11/09 to 31/10/10

Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that portfolio investments and cash balances are completely and accurately stated and cash availability is reported accurately and timely.	For 1 of 40 daily cash reconciliations selected evidence could not be found the reconciliation had been performed	Although no same day reconciliation evidence could be provided the activity was reviewed for the respective days and it was confirmed all discrepancies were researched and resolved. Management has reiterated the importance of maintaining necessary support evidencing review and approval.
Controls provide reasonable assurance that logical access to production applications, databases and operating systems is restricted to authorised individuals based on business need.	1 of 18 access requests for application access the documentation for the request and approval were not available.	Management acknowledges documentation was not available. The user was a member of the development team and members of the team require read only access to perform their job. Management has reiterated that access will not be granted to members of the development team without an approved access request form.
	2 of 25 terminated users selected, notification of termination was not sent to the security administration personnel in a timely manner.	Management acknowledges notifications was not sent in a timely manner, however once received access was promptly removed. Management has implemented an automated notification process to prevent this from reoccurring.

	2 of 25 user ID's selected for testing access to production applications was restricted to State Street personnel based on job description.	Management acknowledges that the access for two read only users was not timely removed. Management will implement a process with the business teams to notify the security administration team monthly of all transfers and terminations to ensure the timely removal of access.
Controls provide reasonable assurance that changes to production applications, databases and operating systems are tested, approved and reviewed prior to implementation.	For 18 vendor recommended operating system patches selected, 2 of 18 administration personnel did not approve the change prior to implementation and 1 of 18 system administration approval was provided after the change implementation date	Management acknowledges evidence of prior approval could not be provided, however considers these exceptions to be a result of a documentation issue as these were authorised changes that were required to be installed. Management has reinforced change control procedures for documenting and retaining approvals with systems administration personnel.
Impact on the pension fund	State Street does not disclose whether a specific client's fund was impacted under the review. M&G and their auditor will review the exceptions that would be applicable to them and determine how significant they deem them to be, and then decide if further audit of client specific procedures was required to gain assurance. On this occasion the auditor of M&G did not believe the exceptions to be significant and so did not investigate further.	

Marathon		
Auditor: Deloitte		Period Tested: 01/01/10 to 31/12/10
Control	Test Results	Fund Manager Response
Transactions are undertaken with only approved counterparties.	2 brokers with active status on the order management system were not on the compliance approved broker list.	Whilst no trades were executed with either counterparty, it is important that we ensure that all brokers in the OMS mirror those detailed on the Approved Broker List. In order to ensure this remains so, we completed a one-off exercise to purge any old broker details from the system and going forward the Head of Compliance, who manages changes to the Approved Broker List, will also ensure that all additions and deletions are accurately recorded in thinkFolio.
Investment related and cash transactions are completely and accurately recorded and communicated for settlement in a timely manner	1 of 15 new security set up forms could not be located	We firmly believe this to have been an isolated human error and do not envisage making any procedural changes. We have undertaken additional checks and no other forms have been found to be missing.
Proxy voting instructions are generated, recorded and carried out accurately and in a timely manner	1 of 25 proxy votes tested was found to be cast incorrectly.	The cause of the exception was human error when inputting the response into the proxy voting administration system. We have strengthened the controls surrounding this manual process by ensuring that all votes cast are reviewed by another member of the Proxy Voting team before being confirmed in the system.
Impact on the pension fund	There was no impact on the Hillingdon portfolio as a result of these exceptions.	

SSgA		
Auditor: Ernst & Young		Period Tested: 01/07/09 to 30/06/10
Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that client contribution and redemption activity is authorised and recorded accurately, completely and timely	1 of 140 letters tested did not contain evidence that the verification of trade authorisation was performed	Management acknowledged that one letter did not contain evidence of a call back. SSgA subsequently confirmed the instruction was valid. Management have communicated and reinforced the importance of evidencing call backs consistent with their guidelines.
Controls provide reasonable assurance that logical access to production applications, databases and operating systems is restricted to authorised individuals based on business need	2 of 50 ID requests selected for testing, appropriate IT Manager approval to authorise activation could not be provided.	While management recognises approval could not be provided in the two instances, the Firecall ID was approved but used beyond the specified time parameter. The technology supporting the application has since been updated preventing use beyond the specified time parameter. Management have confirmed the use of the ID was for legitimate business purposes.
Page 88 (A firecall ID is an administrative account (systems and infrastructure) that lies disabled the majority of the time. If a situation arises where an individual needs to, in case of emergency or escalation, make use of this special access, they can call a dedicated admin group and have it temporarily enabled to correct a problem or troubleshoot an issue on the particular system is gives control over.)	1 of 7 Firecall ID approvers/designees selected for testing evidence for recertification could not be provided	Management has reviewed controls and procedures to strengthen the workflow related to granting to Firecall approval. In addition the process has been fully integrated and is now included in the overall Firecall recertification procedure.
	2 of 50 Firecall ID requested selected for testing were not deactivated in a timely manner	Technology supporting the application has since been updated preventing use beyond the specified time parameter
Impact on the pension fund	SSgA are unable to say if the London Borough of Hillingdon were included in any of the samples chosen, however as the examination centres on controls, any exceptions highlighted would be reviewed and suitable remedial action(s) implemented.	

UBS		
Auditor: Ernst & Young		Period Tested: 01/01/10 to 31/12/10
Control	Test Results	Fund Manager Response
Controls provide reasonable assurance that reporting of client account and investment data is complete and accurate.	For the period January 2010 to June 2010, for five out of eleven samples selected, E&Y observed that dual sign off on a spreadsheet was used to evidence four-eye review. Due to the absence of access or lock down controls, we do not consider the spreadsheet control to be designed effectively.	Upon receipt of E&Y's notification, for those five instances where dual sign off on a spreadsheet was used to evidence four-eye review, an additional review was undertaken of the returns calculated and included in client reports by the Head of Performance, UK. All returns were found to be correct. UBS can confirm that the use of quality checklists to evidence four-eye review is in place and being adhered to.
Controls provide reasonable assurance that logical access to databases, data files, programs, and operating systems are reasonably restricted to properly authorised individuals	<p>1 user from a sample of 25 new joiners was setup before line manager and application owner approval was provided. In mitigation, the access granted was in line with business requirements.</p> <p>8 movers from a sample of 25 for which access rights that were no longer required had not been removed in a timely manner. In mitigation, these users did not inherit any conflicting access rights.</p> <p>2 new MAP user account creations from a sample for 5 for which line manger and application owner approval could not be verified. In mitigation, the access granted was in line with business requirements</p>	The user set-up and movers issues noted have been achieved retrospectively. Re-training has been performed to re-emphasize use of the strategic user access tool as intended for the Joiner, Mover and Leaver process. Also a project has commenced to automatically remove movers from the application.

	<p>2 users from a sample of 25 leavers were not removed from the Carousel and Cosmos applications, and 1 user that was not removed from the Sophis and GIM II applications in a timely manner. In mitigation, network access for these users had been revoked in a timely manner.</p>	<p>The 3 user access removals relating to application level access have been achieved retrospectively and completed. The primary control relating to network access disallowed the application level access from being used. Re-training has been performed to reemphasise use of the strategic user access tool as intended for the Joiner, Mover & Leaver process and a project has commenced to automatically remove leavers from Global Asset Management applications. As at March 2011 this project is 50% complete with the remaining automation to be completed in October 2011.</p>
	<p>Our review found that a system default group had not been replaced/removed from the databases supporting the Longview, Tradeflow and MAP applications. This is a configuration that does not comply with the UBS secure build standard. In mitigation, users with access to the system default group identified no exceptions.</p>	<p>The system default group access has been removed for the applications in-scope and controls have been implemented to scan UBS databases on a periodic basis to identify any recurrence of the issue. As part the UBS review, they validated that access to the group was restricted to authorised IT personnel.</p>
	<p>The Security Operations Centre (SOC) team responsible for security logging and monitoring activity on platforms does not currently log and alert on key privileged user activity. Specifically, key privileged user activities are not monitored with predefined alerts. In mitigation, privileged user access rights to the operating system and databases supporting the applications in-scope identified no relevant exceptions.</p>	<p>Logging and monitoring over the activities noted across the applications in-scope is now in place. The UBS infrastructure team has also further enhanced controls relating to managing Highly Privileged access as part of the "Infrastructure Privileged Access Control Program." The program includes identification of associates that have Highly Privileged access, implementation of pre-defined alerts for privileged users' activities, periodic review of defined alerts and systematic review of Highly Privileged accounts by senior management.</p>
Impact on the pension fund	Of the exceptions noted there was no detrimental impact on the Hillingdon portfolio.	

Ruffer	
Auditor: Ernst & Young	Period Tested: 01/10/09 to 30/09/10
Impact on the Fund	The audit report showed there were no exceptions in relation to the controls tested. There was therefore no impact on the Fund

Fauchier (HSBC as custodian and fund administrator)

Fauchier Partners do not produce an internal control report, however their fund administrator's and custodians HSBC do. The custodian has legal title to the fund's assets and has a regulatory obligation for ensuring that the fund is operating within set guidelines. In these instances the fund manager does not handle client money.

Auditor: KPMG**Period Tested:** 01/01/10 to 31/12/10**Impact on the Fund**

The audit report showed there were no exceptions in relation to the controls tested. There was therefore no impact on the Fund

Fund Manager Responses where no Control Report Supplied

Macquarie

Macquarie Infrastructure do not produce a report on internal controls, such as the SAS 70 or AAF 01/06. However, Macquarie claim internal controls are core to the operations of the funds both at a fund level and through their Risk Management Group (RMG).

Risk within Macquarie is owned at the business level with business heads responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Clear controls exist in relation to credit, market, operational, regulatory and reputation risks. These areas have implications outside the businesses and are tightly controlled by the RMG.

The RMG is an independent, central unit responsible for ensuring all risks are appropriately assessed and managed across Macquarie. Its functions are Credit, Prudential, Capital and Markets, Operational Risk and Compliance. The Head of RMG has oversight of Internal Audit jointly with the Board Audit and Compliance Committee (BACC).

Two divisions of the RMG have the greatest impact on the Macquarie infrastructure business. Compliance assesses legal, regulatory and reputation risks from a Macquarie-wide perspective. It creates Macquarie-wide policies and procedures to manage these risks and monitors and oversees the management of compliance risks by each of Macquarie's businesses. Internal Audit provides independent assurance to senior management and the BACC on the adequacy of design and the effectiveness of Macquarie's financial and risk management framework.

Macquarie Infrastructure and Real Assets is responsible for the internal controls impacting their business, with each fund's Chief Operating Officer (COO) playing an important role in ensuring the operations and internal control procedures are adhered to. The COO's and their operations team perform a number of functions including ensuring the fund operations are compliant with constituent documents and Macquarie's policies and procedures.

The Macquarie Finance team are primarily responsible for the implementation of the Macquarie's financial controls. The Macquarie Finance team are part of the Central finance division of Macquarie and not directly part of the Macquarie Funds Group. This gives the Macquarie Finance team independence from the Macquarie Infrastructure and Real Assets division, allowing them to operate with objectivity.

Specialist functions within Macquarie Infrastructure and Real Assets (such as Corporate Communications, Legal, Company Secretarial, Tax etc) are also responsible for the controls environment within their areas of expertise.

Private Equity

Adams Street Partners and LGT Capital Partners have been contracted on a fund of funds basis. As such they are consolidating the accounting of managers to which funds are committed. Both managers have considered the implementation of a SAS 70/AAF 01/06 review but to date have deemed it unnecessary.

All the funds held by the private equity managers have undergone an audit of their financial statements. Although not expressly checking internal controls an audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls over financial reporting. The full complement of 2010 accounts for private equity is yet to be audited but where available an unqualified opinion was provided. Prior year's accounts have been checked and these show no qualified opinions.

PENSION FUND BUDGET 2010 - 2011

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

SUMMARY

Although not explicit within the Terms of Reference of the Pensions Committee, as part of its role in governance of the pension fund, the Committee has responsibility to oversee the setting of the annual budget for the operation of the Pension Fund and to monitor income and expenditure against that budget. This report is being put before the Committee to enable them to fulfil this responsibility. At Committee in March 2011, Committee approved the budget for 2011/12 and noted the forecast position as at Month 9 on the 2010/11 budget. This report now brings the outturn position for the 2010/11 budget to Committee and a revised budget for 2011/12 based on this final outturn position.

RECOMMENDATION

It is recommended that Committee note the budget outturn position for the 2010/11 financial year.

BUDGET MONITORING 2010/11 – Outturn position

As explained previously, preparing a budget for the Pension Fund is complex and the investment areas are very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. Therefore, budgets for the Pension Fund are prepared which make no forecast for the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. Budget monitoring is therefore based on “Surplus/Deficit from Operations” however it should be noted certain items within this section can also be difficult to predict and are therefore subject to large variances.

Total member income was £1,295k more than forecast and a further improvement on the position shown at month 9. Going forward the caveat noted previously remains in that if the number of redundancies continues to rise then a fall in scheme membership would occur, and potentially member income could fall.

Member’s expenditure was £919k higher than budget, an increase of 3% on last year. This position is much better than expected earlier in the year considering the number of redundancies which have already occurred.

Net administration expenditure is slightly lower than budget although has increased from last year by £39k. The increase results from an increase in the number of staff in the administration team and a strengthening in the governance arrangements for the fund.

A deficit from operations has been forecast throughout 2010/11 however the final outturn delivered a surplus of £518k. The main reason for this was the higher than forecast member contributions.

PENSION FUND BUDGET 2011- 2012

A draft budget was brought to committee in March proposing that the budget for 2011/12 be aligned with the actuals for 2010/11. This draft budget has now been fully aligned with the actual outturn position. The final 2010/11 figure for employer contributions has been increased by the impact of an additional 1% contributions and the final pension payments figure has been increased by the annual pensions increase figure of 3.1%. As transfer values both inwards and outwards are unknown, these have been set to have a zero impact on the budget. As explained previously, the big unknown for 2011/12 is the impact of redundancies on both income, in terms of reduced contributions, and expenditure in terms of increased benefits. Additionally, due to the Council setting salary inflation at zero for 2011/12, total administration costs are expected to remain flat against the actuals for 2011/12.

As we cannot forecast returns on investments we have restricted the budget to cover only the surplus from operations

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications in this report.

	2009-010 Actual	2010-11 Budget	2010-11 Outturn	2011-12 Budget
Member Income				
Employers Contributions	21,448	21,558	22,687	23,940
Employees Contributions	8,310	8,253	8,358	8,358
Transfer Values Receivable	4,057	3,906	3,968	3,815
Net Member Income	33,815	33,718	35,013	36,113
Member Expenditure				
Pension Payments	(22,025)	(22,115)	(23,243)	(23,964)
Lump Sum Retirement Benefits	(4,602)	(4,526)	(5,850)	(5,850)
Lump Sum Death Benefits	(503)	(639)	(991)	(991)
Refunds of Contributions	(7)	(8)	(8)	(8)
State Scheme Premiums	(2)	(3)	(2)	(2)
Transfer Values Payable	(4,557)	(5,547)	(3,663)	(3,815)
Net Member Expenditure	(31,696)	(32,838)	(33,757)	(34,630)
Net Member Surplus	2,119	880	1,256	1,483
Administration Expenditure				
Pensions Administration	(402)	(538)	(630)	(630)
Miscellaneous Costs	(126)	(55)	(1)	(1)
Investment Administration	(171)	(172)	(107)	(107)
Net Administration Expenditure	(699)	(765)	(738)	(738)
Surplus from Operations	1,420	115	518	745

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Retirement Performance Statistics and Cost of Early Retirements Monitor	
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<i>Contact Officers</i>	Ken Chisholm, 01895 250847
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<i>Papers with this report</i>	nil
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SUMMARY

This report summarises the number of Early Retirements in the year 2010/11. 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 for the year 2010/2011

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
2009/2010	16	0	13	31
2010/2011	20	0	11	34

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 these are:-

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

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

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

** reasonable period is defined as 3 years.

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

The Local Government Pension Scheme Regulations 2008 introduced a protection for employees aged 45 and over who were members of the LGPS as at 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 2008, to meet anticipated early retirement costs. This 1% employer's contribution is locked in to the rate until March 2011.

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 01.04.2008 to 31.03.2011

	Capital Cost of early retirement to the fund	Payroll Total	Cost as a % of payroll
2008/09	879,902	111,300,000	0.80
2009/10	501,559	111,600,000	0.45
2010/11	575,754	112,800,000	0.52

FINANCIAL IMPLICATIONS

The cost to the pension fund of early retirements on the grounds of ill health, is recorded by the pensions section, 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

nil

SUMMARY

This report summarises the key work areas of the pension's administration section. The targets shown are within the nationally agreed targets for England and Wales. Full year performance data is also included in the Annual Report for the fund. All data shown is extracted from the Pensions Administration System and monitored on a monthly basis.

RECOMMENDATIONS

That Committee notes the officer action to address the fall in specific aspects of pensions administration performance.

Background

From September 2010, Pensions Administration was combined with Payroll under a single manager. Whilst this change required a small initial investment in staffing, the business case for change was that efficiencies could be realised through the merging of these teams and a reduction in the duplication of work. An initial drop in performance would be expected as experienced staff left the team, and new staff were developed.

The performance detailed below covers the four quarters of the year 2010/11. Quarter 1 and 2 were under the previous separate team structure and quarters 3 and 4 were under the new structure. The report to Committee in March explained the drop in performance from quarter 2 to quarter 3 could be attributed to the recruitment of 2 new members of staff, and that it was largely in the area of deferred benefits, which would be as a result of appropriate prioritisation of work.

Quarter 4 results show that performance has now improved over quarter 3 results in a number of areas, particularly in deferred benefits. The performance results for notification of dependant benefits unfortunately have not improved, with three cases out of eighteen not being processed within the agreed timescales. Further investigation in this area has identified that a new procedure has been introduced to for this task which appears to be delaying the process. This new procedure helps to improve accuracy; however it is now being reviewed to ensure there is a balance between improved accuracy against the impact on the customer at this sensitive time.

Performance in the area of issuing actual retirement benefits is of concern. Urgent action is now being taken to address a related knowledge gap which has recently been identified through staff absence. In addition the team have also been involved in producing a larger than usual number of redundancy estimates. In view of these increasing numbers, the process of calculating redundancy estimates is under

review, with a view to transferring this task to the responsibility of other HR Shared Services officers.

Improving performance in pensions administration is a key priority for officers from Corporate Finance and HR, who are now working closely to develop an action plan for rapid improvement in the short term. Serious consideration will also be given to alternative options for the future delivery of this service. Progress will be reported to Committee in September.

KEY PERFORMANCE INDICATORS – for the fourth quarter - 2010/2011

Area of Work	Target (Days)	Percentage within Target Quarter 1	Percentage within Target Quarter 2	Percentage within Target Quarter 3	Number processed within target	Percentage within Target Quarter 4	Total Cases
Transfer in Quote	5	80.00	91.30	75.00	39	81.25	48
Transfer Out Actual	9	100.00	100.00	91.67	14	43.75	32
Transfer Out Quote	5	74.19	100.00	80.00	17	70.83	24
Refund	5	87.50	60.00	50.00	2	66.66	3
Estimate of Retirement Benefits	10	94.35	95.08	91.35	215	71.67	300
Actual Retirement Benefits	5	90.12	95.71	86.15	45	55.56	81
Condolence Letter	2	96.43	96.67	98.08	41	100.00	41
Notification of Dependants Benefits	5	100.00	100.00	90.00	15	83.33	18
Deferred Benefits	10	98.06	99.28	37.68	51	91.07	56
Answer General Enquiry Letter	7	100.00	100.00	100.00	194	100.00	194
Benefit Statement Enquiry	10	100.00	100.00	100.00	78	98.73	79
Admit new entrant	20	97.32	99.21	97.60	132	93.62	141
Additional Service Purchase	10	100.00	100.00	50.00	1	100.00	1

GOVERNANCE ISSUES

Contact Officers

Ken Chisholm

Papers with this report

None

SUMMARY

This report is to provide an update on Pension Fund Governance issues.

RECOMMENDATIONS

1. That Members discuss and agree an approach to member development
2. That the contents of the report are noted

INFORMATION

1. Member Development

In June 2009, Pensions Committee agreed to a proposal on Member development proposed by Cllr Markham to commit to a target of 3 days (21 Hours) per year. A copy of that proposal is attached for reference.

To assist with improving governance and to identify training needs, we purchased a subscription to the Knowledge and Skills Framework, with the aim of members using this framework to assess their knowledge, identify gaps and to feed this back to officers to enable suitable further training and development events to be arranged. Access to the framework is through the website, to which all Members have been given access. The website contains a large store of information on all aspects of the scheme and has been developed by experts to contain all the basic knowledge required to undertake proper governance of the fund.

To date there has been very limited feedback from Members on their use of this site or the identification of any training needs. We are therefore asking that members discuss how they wish to move this forward.

- Have members used the knowledge & skills website? Are there difficulties with the site?
- Would hard copies of the material be more suitable?
- If Members conclude that the Knowledge and Skills Framework is an acceptable vehicle for developing and maintaining member knowledge, a development programme could be produced, which will suggest how to best utilise the Knowledge and Skills Framework between committee meetings, so that feedback can be reported or discussed at the next Pensions Committee meeting.
- Alternatively, if the Knowledge and Skills Framework does not meet Members requirements, then an alternative arrangement would have to be identified and members will need to agree how to progress this.

2. Communication – web site

At the last Committee, a request was made to report on the improvements due to be made to the pensions information held the Council's website. All older material has now been placed in an archive area of the website and all the forms and information leaflets are up to date. Links to other relevant websites have been tested and are working. The website will continue to be monitored monthly, and updated when required.

3. Future Training and Development Events

DATE	EVENT	LOCATION
7 – 9 September	LGC Investment Summit	Newport
13 October	UBS First Steps	London
10 November	UBS Second Steps	London
23 November	UBS Third Steps	London

If members are interested in attending any of these events please contact Nancy Leroux.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

PROPOSAL

Following a discussion on Member Training and Development at Pensions Committee in March, Cllr Markham has tabled the following proposal for discussion and possible adoption by Committee as a training and development plan.

MEMBER DEVELOPMENT

1. The value of continual enhancement of knowledge about matters relating to their role on the Pensions Committee has been fully accepted by Members.
2. An annual target of three days training (21 hours) per year is considered to be acceptable for committee Members.
3. Substitutes are also expected to enhance their knowledge and a target of one days training (8 hours) hours per year is considered to be acceptable
4. It will be up to each Member to determine the gaps in their knowledge and the sources they wish to use in developing their skills.
5. The following sources are considered relevant:
 - Attendance at full committee meetings (comparable to 4 hours per meeting)
 - Attendance at briefing meetings with officers, fund managers and other invited speakers (comparable to 2 hours per meeting)
 - Internal seminars on pension related subjects (comparable to 3 hours per meeting)
 - Attendance at relevant external conferences (comparable to 8 hours per day, per event)
 - Relevant reading material i.e. reports from advisors, fund managers and other sources, pension and financial related magazines and conference delegate packs obtained by fellow Members or officers (up to a maximum 12 hours per year)
 - On-line and power point presentations (comparable to 1 hour per presentation)
6. Officers will be responsible for keeping a record of attendance at meetings and conferences. Members should keep them advised as to time spent on other activities.
7. Officers will continue to inform Members as to relevant meetings and events and of relevant reading material held at the Civic Centre and available to Members.

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