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A

Pensions Committee

Councillors on the Committee

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Paul Harmsworth
Janet Duncan
Richard Lewis
David Simmonds

Date:	**WEDNESDAY, 14 DECEMBER 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

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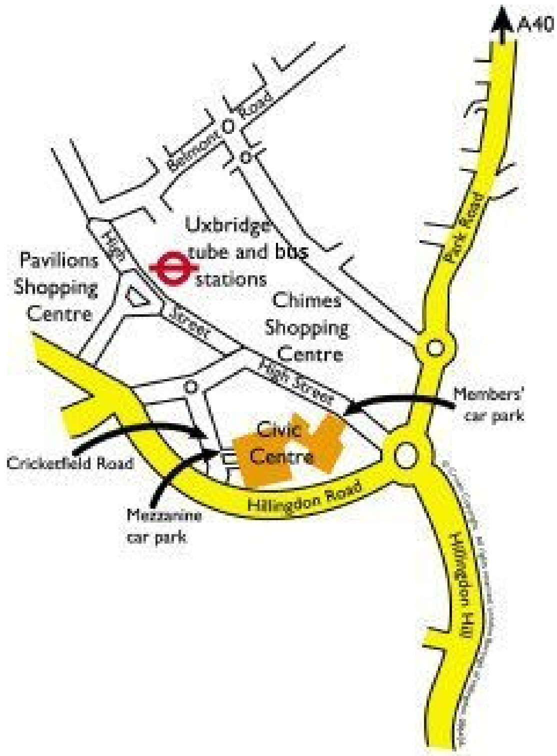
Useful information



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Agenda

Part 1 - Public

Part 2 - Members Only

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Minutes

PENSIONS COMMITTEE

20 September 2011

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

	Committee Members Present: Councillors Philip Corthorne (Chairman) Richard Lewis, Peter Kemp and Beulah East. John Holroyd and Andrew Scott. **LBH Officers Present**: Nancy Le Roux, Senior Finance Manager Ken Chisholm, Corporate Pensions Manager James Lake, Investment Manager Natasha Dogra, Democratic Services Officer **External Officers** John Hastings, Hymans	
24.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies had been received from Cllrs Duncan, Harmsworth, Markham and Simmonds. Cllr East Substituted for Cllr Duncan and Cllr Kemp substituted for Cllr Markham.	**Action by**
25.	**DECLARATIONS OF INTEREST** *(Agenda Item 2)* Cllr Corthorne, Lewis, Kemp and East declared a personal interest in all Agenda Items, in that he was a member of the Local Government Pension Scheme, and remained in the room.	**Action by**
26.	**AGREEMENT OF MINUTES** *(Agenda Item 3)* The minutes of the previous meeting were agreed as an accurate record	**Action by**
27.	**TO CONFIRM THAT ALL ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND ALL ITEMS MARKED PART II WOULD BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* It was confirmed that the Part 1 agenda (items 5 – 9) would be considered in public and the Part 2 agenda (items 10 – 14) would be considered in private.	**Action by**

28.	**EXTERNAL AUDITORS REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS** *(Agenda Item 5)* The Chairman introduced the report. This report summarised the findings of the External Auditor on the audit of the 2010/11 Pension Fund Annual Report and Accounts. Heather Bygrave, Deloitte Audit Partner, gave a verbal update of the external auditor's report on London Borough of Hillingdon Pension Fund Annual Report and Accounts. As part of the audit planning process three areas of risk were identified: ▪ The risk surrounding identification calculation and payment of contributions – no issues were noted with the exception of an incorrect classification of the contributions between employer deficit and employer normal contributions. This had been adjusted. ▪ The calculation of both benefits in retirement and ill health, and death benefits – no issues were identified. ▪ The valuation of private equity – no issues were identified. The auditor had indicated that it was expected that an unmodified opinion would be given on the Pension fund statements and would be issued by 30 September 2011. This report would also be represented to the Council's Audit Committee on 28 September 2011. **Resolved:** **The Chairman thanked the auditor for her presentation and noted the improvements. Members commented this was an area of good practice.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
29.	**REVIEW ON THE PERFORMANCE MEASUREMENT OF THE PENSION FUND** *(Agenda Item 6)* The Chairman introduced the report which reviewed the fund management performance of the London Borough of Hillingdon Pension Fund for the quarter to 30 June 2011. Members noted that the last quarter marked a period of outperformance of 0.03% with a positive return of 1.64% compared to the benchmark of 1.61%. One year figured presented returns of 16.25%, an underperformance of 3.04%. Officers informed Members that equity markets were unsettled over the quarter with the ongoing issues in the Middle East and concerns over the Eurozone debt. In the report, officers had compared the London Borough of Hillingdon Pension Fund Value to the MSCI World Index in the last ten years. Officers explained by doing so they were able to look at the LBH Pension Fund in the bigger picture and a better context in the long term. The graph showed that the value of the fund broadly followed the	**Action by** *Nancy Le Roux, Senior Finance Manager*

	MSCI World Index trend. Members noted that the growth of the Pension Fund in March 2008/09 had been maintained and was running parallel to the growth of the world markets. External officers highlighted that the LBH Pension Fund was not invested 100% in equities, whereas the MSCI World Index was. Therefore, when the value of equity decreased the MSCI World Index would decrease further than the LBH Pension Fund. **RESOLVED: That the content of the report and the performance of the Fund Managers be noted.**	
30.	**RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR** *(Agenda Item 7)* The Chairman introduced the report which summarised the number of early retirements in the first quarter. The report also gave an update on the current situation on the cost to the fund of early retirements. Members commented that the current performance statistics showed a reasonable position. Officers commented that 17 redundancies were made for those over the age of 55 years old and they would be entitled to payment of pension. As this number increased there could be an effect on cash flow. **RESOLVED: That the content of the report be noted.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
31.	**PENSIONS ADMINISTRATION PERFORMANCE** *(Agenda Item 8)* The Chairman introduced the report which summarised the key work areas of the pensions administration section. The report highlighted nationally agreed targets. It was noted that the full year performance data was included in the Annual report for the fund. Members noted that the performance data reflected how work had been prioritised, and the "transfers out quote, transfers in actual and transfers in quote" should be reported further down the work area list. Officers noted this and would amend their future reports. **RESOLVED: That the content of the report be noted.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
32.	**GOVERNANCE ISSUES** *(Agenda Item 9)* The Chairman introduced the report which provided an update on the Pension Fund Governance issues. Members of the Committee agreed that the first report recommendation should be deferred to allow Cllr Markham to take part in discussions regarding the approach to member development. **RESOLVED:**	**Action by** *Nancy Le Roux, Senior Finance Manager*

	1. That recommendation 1 "*Members discuss and agree an approach to member development*" be deferred to the Pensions Committee meeting on 14 December 2011. **2. That Committee approved the revisions to the Statement of Investment Principles.**	
33.	**REPORT FROM INVESTMENT SUB COMMITTEE & UPDATE ON INVESTMENT STRATEGY** *(Agenda Item 10)* *This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*	**Action by** *Nancy Le Roux, Senior Finance Manager*
34.	**REPORT ON THE GOVERNANCE ARRANGEMENTS FOR THE PENSION FUND** *(Agenda Item 11)* *This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*	**Action by** *Nancy Le Roux, Senior Finance Manager*
35.	**PENSIONS ADMINISTRATION** *(Agenda Item 12)* *This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*	**Action by** *Nancy Le Roux, Senior Finance Manager*
36.	**QUARTERLY REVIEW OF PENSION FUND RISKS** *(Agenda Item 13)* *This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*	**Action by** *Nancy Le Roux, Senior Finance Manager*

37.	**CORPORATE GOVERNMENT AND SOCIALLY RESPONSIBLE INVESTMENT** *(Agenda Item 14)* *This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*	**Action by** *Nancy Le Roux, Senior Finance Manager*
	The meeting, which commenced at 5.30 pm, closed at 6.15 pm.	

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

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REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	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 30 September 2011. The total value of the fund's investments as at the 30 September was £564.3m.

RECOMMENDATION

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

INFORMATION

1. The annual performance of the Fund as at 30 September 2011 showed an outperformance of 1.99%, with a positive return of 1.34% against the negative benchmark of 0.65%. The three year return figure of 7.33% is also ahead of the plan benchmark which showed 5.78%.

Performance Attribution Relative to Benchmark

	Q3 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	(0.48)	(0.39)	(0.02)	(0.60)	(0.60)
UBS	(0.75)	(1.19)	(1.52)	(2.12)	0.94
UBS Property	(0.23)	(0.24)	(1.52)	(0.55)	(0.67)
SSgA	0.23	0.19	-	-	0.13
SSgA Drawdown	(0.04)	(0.04)	-	-	0.32
Ruffer	(2.01)	3.86	-	-	3.21
M&G	0.60	(0.72)	-	-	(0.71)
Marathon	(2.37)	(2.72)	-	-	0.91
Fauchier	(5.06)	(5.52)	-	-	(6.53)
Total Fund	**1.27**	**1.99**	**1.55**	**(0.30)**	**0.16**

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

Market Commentary

2. Equity markets suffered significant falls during the quarter with concerns over the Eurozone still unsettling sentiment. The rating agencies added to anxiety by downgrading Portuguese debt to below investment grade and by raising alarm over a proposal to roll over Greek Debt. The largest impact though was that contagion could spread to Italy, the worlds third largest and Europe's largest issuer of debt. Another European emergency bail out initially resulted in a modest rally, however sentiment turned quickly as a new area of focus emerged regarding the US debt ceiling. Approval to increase the limit was finally agreed at the last hour however this news was overshadowed by the downgrading of the US credit rating. The continued flow of poor economic data, leading to worries of another recession, along with continued European fiscal apprehension pushed markets lower. As the quarter continued concerns that Greece would not receive their next tranche of aid, along with further weak economic data and the US warning that there were significant downside risks to the economic outlook added to the negative sentiment.

3. Gilts benefited from the negative sentiment which plagued the equity markets as they were seen as a safe refuge away from the perceived high risk asset classes. The 10 year UK gilt and US Treasury bond fell to their lowest levels since 1899 and 1950 respectively, demonstrating the levels investors are willing to accept for perceived safety. Corporate bonds also managed a positive return mainly due to the attractive yields they offer.

4. The UK commercial property market continued to deliver positive results during the third quarter. Returns comprised of capital growth, rental income and to a small degree rental growth. One year results also remain positive with the office sector being the best performer in this area.

MANAGER PERFORMANCE

5. **Manager: FAUCHIER**

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

   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:

	Q3 2011 %	1 Year %	Since Inception %
Performance	(3.61)	0.33	(0.70)
Benchmark	1.45	5.85	5.83
Excess Return	(5.06)	(5.52)	(6.53)

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 6.53%. Although not a full market cycle, returns since inception are currently negative at 0.70% and as such an absolute return has not been achieved.

During the quarter there was mixed performance in the underlying strategies. Positive impacts came from the Short Bias managers which profited not only in the general market sell off but also from their selection in names and themes. Fixed Income was slightly up with volatility benefiting the manager. The Macro strategy was flat with gains by one manager being offset by losses from another. Equity Hedged managers, both high and low volatility were also flat, again with compensating performance. Losses were experienced by Equity Long Bias as markets retreated and Specialist Credit where the bulk of the losses were down to one manager.

Conditions for fund of hedge fund managers have not been conducive over the last twelve months and Fauchier's performance, although behind their benchmark is not dissimilar to other managers in the sector. This indicates it is the market environment rather than the manager's skill which is hindering performance.

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

	Q3 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	2.97	5.03	9.25	5.81	6.07
Benchmark	3.45	5.42	9.27	6.41	6.67
Excess Return	(0.48)	(0.39)	(0.02)	(0.60)	(0.60)

The top down analysis for Q3 failed to deliver results in terms of the cross sector and duration strategies, both of which detracted from performance. GSAM's overweight exposure to corporates experienced a heavy sell off in the risk adverse environment. The bottom up approach added a small outperformance in terms of corporate selection.

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. In a peer group of thirty three bond managers the median return over Q3 was 1% behind the benchmark. During the quarter the GSAM aggregate portfolio sat sixth on the list and only four of the managers were able to outperform. Dispersion of returns was not particularly large with approximately three quarters of managers within plus or minus 1% of the median return. Managers were generally caught out by asset allocation, through being underweight both gilts and duration, which was also the case with GSAM.

6. **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:

	Q3 2011 %	1 Year %	Since Inception %
Performance	(16.43)	(5.96)	1.79
Benchmark	(14.06)	(3.24)	0.88
Excess Return	(2.37)	(2.72)	0.91

Performance since inception remains positive at 1.79% with an outperformance against the benchmark of 0.91***%.*** However, following three quarters of positive returns, this quarter's decisive reversal in markets has resulted in one year returns being negative at 5.96***%*** against a negative benchmark of 3.24***%.*** Geographical allocation was the main detractor over the year; underweight US and overweight Hong Kong having the largest effect. Stock selection made a small positive impact and with the exception of North America all areas added value. Again stock selection was the main contributor for the since inception results.

Whilst the mandate benchmark is based on developed markets, Marathon has the ability to invest in emerging markets. As such any positive or negative returns from emerging market investments can unduly influence relative performance. A proxy to the mandate benchmark is the MSCI All Countries index which includes both developed and emerging markets. For the twelve month period this index has returned a negative 4.98%, which is more comparable, if albeit marginally better than Marathon's returns.

7. **Manager: RUFFER**

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

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

Performance:

	Q3 2011 %	1 Year %	Since Inception %
Performance	(1.82)	4.61	3.95
Benchmark	0.19	0.75	0.74
Excess Return	(2.01)	3.86	3.21

Over the last year Ruffer has returned 4.61% and met their brief by preserving capital and growing the portfolio. For the quarter however performance was negative 1.82% with the strong gains made from bonds being more than offset by the large fall in equity prices. The flight to safety drove government bond yields lower resulting in strong gains in the portfolio’s index linked gilts, especially the long dated US Treasury Inflation Protected Securities. Towards the end of the quarter commodity prices fell as the prospects for global growth came under pressure. Carry trades unwound leading to a rise in the US dollar against the Australian and Canadian currencies driving the price of Ruffer’s “put warrant higher”. Factors which detracted from performance were mainly attributable to the fall in equity prices and in Ruffer’s case, especially their holdings in Ericsson, Deutsche Post, BP and Invensys.

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 benchmark performance for one year returns 3.34% meaning Riffer’s allocation has been able to capture a greater return over the last twelve months.

8. **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:

	Q3 2011 %	1 Year %	Since Inception %
SSgA Main Account			
Performance	(10.84)	(2.42)	11.96
Benchmark	(11.07)	(2.61)	11.83
Excess Return	0.23	0.19	0.13
SSgA Draw Down Account			
Performance a/c 2	0.85	1.24	5.55
Benchmark a/c 2	0.89	1.28	5.23
Excess Return	(0.04)	(0.04)	0.32

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.13%. The Draw Down fund which commenced June 2009 has also outperformed its benchmark and has delivered an excess return of 0.32%. 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.

9. **Manager: UBS**

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

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

Performance:

	Q3 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	(14.25)	(5.55)	5.24	0.29	9.25
Benchmark	(13.50)	(4.36)	6.76	2.41	8.31
Excess Return	(0.75)	(1.19)	(1.52)	(2.12)	0.94

Performance for the past year has been behind the benchmark primarily because of three reasons; an overweight to General Retailers, an underweighting of Tobacco and the performance of Value as a style. UBS believe there is tremendous latent value in retailers such as Dixons (which they expect to generate more bottom line performance for the fund than any other stock in the coming 3-5 years), they did underestimate the shorter term impact of the weak UK consumer backdrop when combined with rising costs and a VAT increase. Conversely, the Tobacco sector has enjoyed a re-rating because of its defensive qualities, despite falling volumes and regulatory pressure. As regards the value cycle, the last three years have not been conducive whilst 'growth, quality and momentum' have significantly outperformed stocks displaying good value characteristics. (Following the alteration of the portfolio three years ago, UBS now only quote their performance in terms of the revised UK equities only mandate. The above results show performance for all historic UBS attributions)

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 the S&P Broad UK Value index, which only includes value stocks, UBS have outperformed over the one year time period by 0.9% and three years by 3.2%.

10. **Manager: UBS Property**

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

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

Performance:

	Q3 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	1.47	7.26	(1.14)	(3.32)	(1.58)
Benchmark	1.70	7.50	0.22	(2.77)	(0.91)
Excess Return	(0.23)	(0.24)	(1.36)	(0.55)	(0.67)

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 Q3, there were transactions on four property funds. In July 2011, sale proceeds of £3.5m were received from the redemption in UBS Triton. This sale has reduced the weighting in the fund to 28.6%. In August 2011, UBS purchased £2.4m in Standard Life Shopping Centre Trust at a 0.5% discount to the prevailing Net Asset Value (NAV), which now has a weighting in the portfolio of 5.1%. In the same month an opportunity was taken to acquire an additional £0.8m of units in Lothbury Property Trust at the prevailing NAV price, which increased its weighting in the portfolio to 6.8%. The fourth transaction took place in September, when £2.1m was deployed into Hermes Property Unit Trust, a balanced fund that now represents 4.3% of the portfolio.

There was a mix of performance in the underlying funds with many adding value, however the main source of underperformance for Q3 were the transaction costs.

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
Fauchier	25,503	(919)	-	-	24,584	(1,291)
GSAM	67,811	1,948	67	-	69,826	(315)
M&G	7,983	142	-	(166)	7,959	47
Marathon	59,809	(9,824)	-	-	49,985	(1,358)
Ruffer	114,235	(2,667)	586	-	112,154	(2,294)
SSgA	126,635	(12,532)	-	-	114,103	251
UBS	113,453	(17,100)	937	-	97,290	(937)
UBS Prop	47,524	79	618	(10)	48,211	(112)

11. 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 M&G and SSgA had a positive impact on the appreciation of holdings contributing £298K in total. Underperformance from Fauchier GSAM, Marathon, Ruffer, UBS and UBS Property reduced appreciation by £6,307k.

M&G Update

12. There were no additions during Q3 to the six holdings already in the fund. M&G have ended discussions with one of the companies in the pipeline but are continuing with the remaining three deals, one of which has entered the documentation stage. Since inception the fund has delivered returns of 4.11***%.***

Macquarie Update

13. Macquarie Everbright Greater China Infrastructure Fund (MEGCIF) has raised total commitments of US$519 million and a further US$250 million of co-investment capital. In September, management conducted an investor roadshow in the United States and will commence a European roadshow in October/November. MEGCIF is on track for US$1 billion in total commitments with a further close planned for early 2012 which will include a number of potential investors that have indicated a strong appetite for MEGCIF. No capital calls have been made at 30 September 2011 but the first capital call for MEGCIF to cover establishment costs will be called before the year end. At the time of preparing this update, six transactions are being actively pursued with an approximate total investment value of up to US$830 million.

    In July 2011 the Macquarie State bank of India Fund (MSIF) completed its newest investment in a company that develops small hydropower plants. With this, MSIF is now close to 60% invested. The assets owned by the fund continue to perform in line with forecasts, with current investments in telecom towers, airports and power generation companies (thermal and renewables), as well as a strong pipeline with investment opportunities in the roads, power transmission, renewables and ports. MSIF is on track to build a well diversified portfolio.

This quarter also saw the first closing of the European fund (MEIF4). All the necessary documentation was approved and executed to enable Hillingdon to participate in the first closing. As this fund is still in its infancy no capital calls have currently been made.

Other Items

14. At the end of March 2011, £31.1m (book cost) had been invested in private equity, which equates to 5.52% 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 £327k and distributed £242k, whilst LGT called £725k and distributed £634k.

15. The securities lending programme for the quarter resulted in income of £12.8k. Offset against this was £4.5k of expenses leaving a net figure earned of £8.3k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 September 2011 the average value of assets on loan during the quarter totalled £21.9m representing approximately 10.5% of this total.

16. 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. On the 5th August 2011 the Japanese Yen was removed from the programme and a 100% Swiss Franc (CHF) hedge was put in place. During the quarter the second roll took place which resulted in income of £708k. As at the 30 September the hedge continued to appreciate and was showing a positive figure of £632k. In Q3 performance was ahead of the assumed half hedge benchmark by 1.4%. Since inception results also show an outperformance with a return of 0.8% against a negative benchmark of 0.2%.

17. For the quarter ending 30 September 2011, Hillingdon returned a negative 6.20%, outperforming against the WM average by 3.10%. The one year figure shows an outperformance of 2.54%, with positive returns of 1.34% against the average negative return of 1.20%.

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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London Borough of Hillingdon

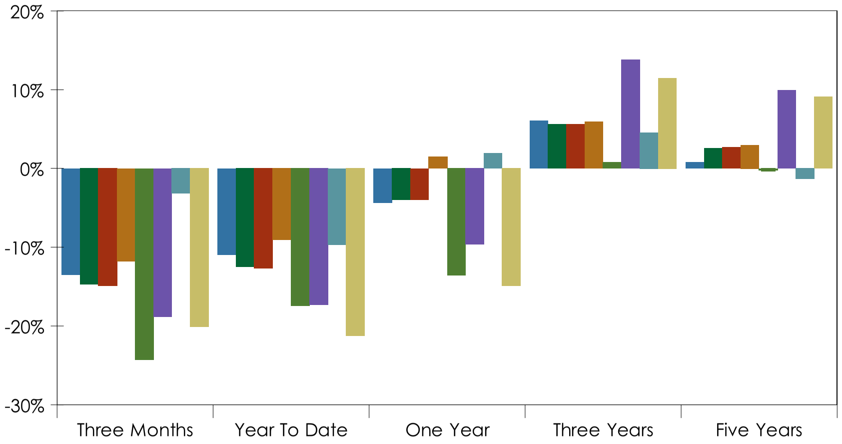
3rd Quarter, 2011

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	-13.5	-10.9	-4.4	6.0	0.8
FT: World	-14.7	-12.5	-4.0	5.6	2.5
FT: World ex UK	-14.9	-12.7	-4.0	5.6	2.7
FT AW North America	-11.8	-9.1	1.5	5.9	3.0
FT: Developed Europe ex UK	-24.2	-17.4	-13.5	0.8	-0.3
FT: Developed Asia Pac x Jp	-18.8	-17.3	-9.6	13.8	9.9
FT AW: Japan	-3.1	-9.7	1.9	4.6	-1.3
MSCI Emerging Markets GD	-20.1	-21.3	-14.9	11.5	9.1

European and US stock markets suffered one of their worst quarterly falls in more than a decade although levels remain up from those reached after the 2008 crunch. Fears of a new banking crisis grew steadily over the three months. The IMF stated the position clearly; "Half of the EUR6,500bn euro area government debt is showing heightened credit risk", banks holding those notes now have substantially more risky and volatile assets on the balance sheet. The IMF puts the risk of a new recession as high as 38% in America but only 10% on a global basis. Growth continues, although slowing, in the emerging economies, predicted to be in the region of 6% pa for the next two years. While debt levels remain so high any significant slowdown in growth could tip Europe back into recession. Companies are in better shape than governments, leading corporations are typically highly profitable, costs are down and cash balances are up. Financials, Industrials and Basic Materials stocks were the weakest sectors over the quarter, Utilities and Consumer Goods lost the least. Gold spiked above $1,800 mid quarter but finished at $1,630 per ounce and the price of crude oil futures dropped to $102 per barrel. The FTSE World was down by -14.7% (GBP) over quarter three 2011 and moves behind over one year returning -4% (GBP).

The FTSE demonstrated its worst quarterly performance since 2002 but there has been strong growth in company payouts via dividends. Payments to equity investors jumped year-on-year by 27% to £19.1bn and there has been an underlying rise in payouts for five successive quarters. Private investors bought a net £1.3bn of UK equities between May and August despite shareholdings losing £20bn during the period. Resources and Financials were the most heavily purchased. Even under the public service cuts implemented by the coalition government the deficit is predicted to be £12bn next year, 25% higher than thought. Inflation was up at 4.5%. The unemployment rate rose to 7.9% in the three months to June. UK GDP grew by only 0.2% in the second quarter of 2011, in line with the eurozone but behind the US. Utilities were the leading sector over quarter three, Materials and Financials the weakest. The FTSE All Share was down -13.5% (GBP) over the third quarter and by -4.4% (GBP) over the year.

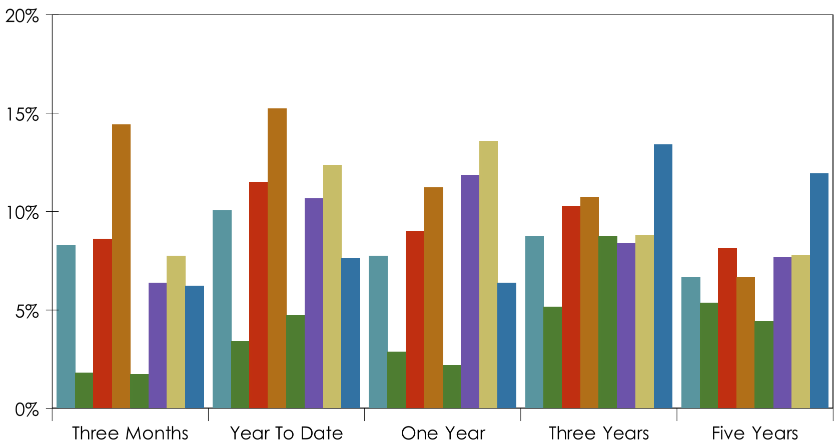
Eurozone inflation surged to a three year high of 3% rendering an ECB rate cut unlikely following the next meeting. German GDP increased by just 0.1% over quarter two. Economists still fear that a Greek default will freeze lending between European banks and push the eurozone back into recession. The OECD predicts negative growth in Germany, France and Italy in quarter four. Stocks in France and Germany have fallen by more than 25% since 30th June having failed to regain ground since crashing towards the end of July. Leading banks from both countries have fared especially badly and there were fears of an institutional run on the French banks. Dexia is the latest high profile casualty; their balance sheet suffers from more than EUR20bn exposure to Greek sovereign debt. Short-selling bans were put in place mid-quarter on 60 European Bank stocks in an attempt to calm excessive market volatility. Eurozone unemployment remained at 10% following the upward revision from quarter two. The FTSE Developed Europe ex UK index returned -24.2% (GBP) over quarter three and -13.5% (GBP) over the year.

The Fed launched "Operation Twist" in an attempt to drive down long-term interest rates by buying $400bn of long-dated treasuries. The S&P 500 experienced a "waterfall" decline losing more than 15% over 11 trading days following the ratings downgrade of US government debt. This was the 23rd such decline on record since the 1920s and history has shown that stocks will usually be higher six months later. Correlations between the movements of big US stocks are at their highest since Black Monday in 1987; economic fears are driving prices as opposed to company fundamentals. Microsoft raised its dividend by 25%, its biggest increase in 8 years of payments. US GDP grew by 1.3% in quarter two following an upward revision. Claims for unemployment were their lowest since April although the national rate of 9.1% remains at double the pre-crisis level. Utilities alone made gains, the biggest losses were in Basic Materials. The FTSE North America index returned -11.8% (GBP) over the third quarter and 1.5% (GBP) for the year.

Japanese GDP fell 2.1% in Q2 significantly more than the 1.3% estimate although the important motor industry recorded its first year-on-year production increase in 11 months. The Japanese economy is expected to expand over quarter three on the back of public spending. The government proposed Y11,200bn ($146bn) in tax increases to pay for reconstruction work following the March earth quake. The FTSE Japan returned -3.1% (GBP) for quarter three; the FTSE Developed Asia Pacific ex Japan returned -18.8% (GBP). Emerging market stocks are down 25% on the year, they were widely expected to drive the global recovery with predicted returns of around 30%. Wage inflation in China is encouraging manufacturers to shift production to Bangladesh and Vietnam. Ford is to build a factory in western India to gain a share of one of the fastest growing car markets. The parts of Asia that peg their currency to the dollar are experiencing housing booms as the zero interest rate maintained by the Fed translates to a negative real interest rate. Rio Tinto confirmed that customers have asked to delay shipments as the manufacturing industries that support the commodities sector move towards caution. High commodity prices have been a blessing for Russia which is now thought to boast one of the best risk/return profiles of any emerging market. MSCI Emerging Markets index returned -20.1% (GBP) for the third quarter.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	8.3	10.1	7.8	8.7	6.7
FTSE All Stock 0-5 Yr. Gilts	1.8	3.4	2.9	5.2	5.4
FTSE All Stock 5-15 Yr. Gilts	8.6	11.5	9.0	10.3	8.1
FTSE All Stock > 15 Yr. Gilts	14.4	15.2	11.2	10.7	6.7
ML STG N-Gilts All Stocks	1.7	4.7	2.2	8.8	4.4
FTSE Index Linked	6.4	10.7	11.9	8.4	7.7
FTSE Index Linked 5+ yrs	7.8	12.4	13.6	8.8	7.8
JPM GBI Global	6.2	7.6	6.4	13.4	11.9

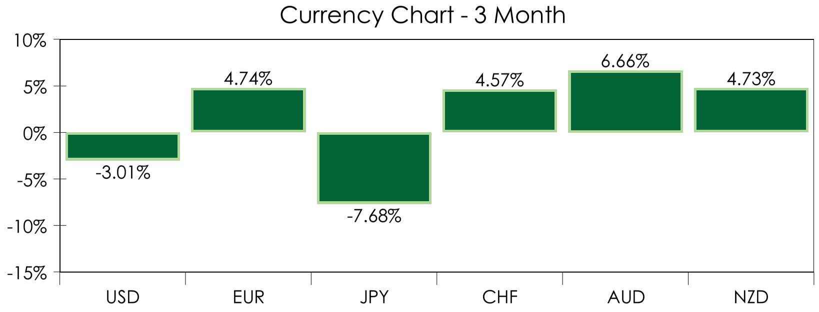
What appeared to be a temporary slowdown in global growth, largely reflecting soaring commodities prices and supply disruption following the natural disasters in Japan, now appears to be a genuine recession risk. This is largely based on damage to financial market confidence spreading to households and companies, as policymakers disagree about responses to the unfolding crises facing the global economy. The ongoing political wrangling almost led to a US debt default while in Europe, markets remain uncertain a credible solution can be agreed upon. Reflecting rising concerns about slowing growth and expectations of low rates for longer, 10-yr bond yields in some countries, including the UK, US and Germany have fallen to record lows. Volatility escalated over Q3 with the leading indicator, the VIX index increasing from 16.52 at the end of June to 42.96 for the end of September. In Japan, recovery is progressing but the pace of economic growth looks likely to slow sharply as the global outlook has deteriorated, hitting external demand for exports. In the emerging economies GDP growth is expected to remain solid at 6.25% for the 2nd half of 2011 per the latest IMF report, but they remain vulnerable to food and energy inflation.

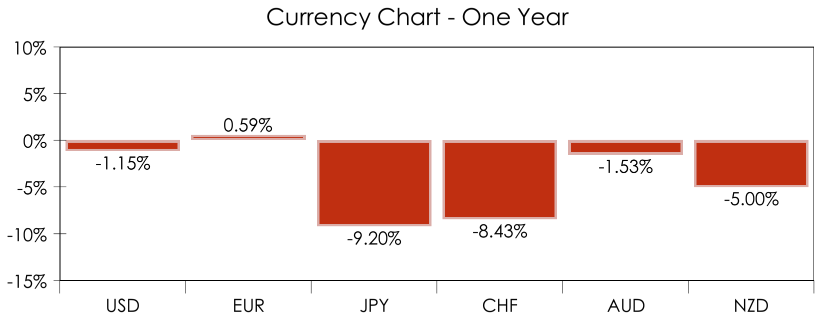
In the UK signs of a sharper global economic slowdown alongside the fiscal austerity measures, are taking their toll on market and consumer confidence. The September UK manufacturing purchasing manager index (PMI) at 51.1 provided some relief, up from the 26 month low of 49.4 in August (below 50 signalling contraction). Q2 GDP has been revised downwards to 0.1% from 0.2%, while the National Institute of Economic and Social Research (NIESR) estimated that output grew by 0.5% between July and September. After 22 months of no change to interest rates or the size of the asset purchase scheme, the Monetary Policy Committee (MPC) surprised the markets by expanding quantitative easing (QE) by £75bn to £275bn at its October meeting holding the base rate at 0.5%. Despite CPI inflation rising to 4.5% y/y in August from 4.4% in July, the Bank of England (BoE) expects it to decline in the early part of 2012 due to a combination of slow growth, weaker commodity prices and this year's 2.5% VAT increase drops out of the measure. The benchmark 10 year gilt yield closed the quarter at 2.4%, significantly down from 3.4% at the end of June. The FTSE All Stock Gilts returned +8.3% (GBP) while the ML Sterling Non Gilts gained +1.7% (GBP) for the third quarter of 2011.

Heightened volatility in the financial markets dominated the quarter as the focus in Europe remains on resolving the worsening sovereign debt crisis. Despite European leaders agreeing to a second EUR109bn bail-out plan in July, Greece's economic outlook is deteriorating so rapidly that the markets see that a default looks almost inevitable. Benchmark bond prices have hit severely distressed levels with the 10-yr Greek bond yield reaching a record high of 24.3% mid-September. Italian and Spanish bond yield's spiked over 6% in early August, prompting the ECB to extend its bond buying programme in the secondary market to include the two countries. Concerns about regional banks' exposure to sovereign debt have caused difficulties in the bank funding markets, leading the ECB to state that it would provide unlimited 3 month loans at least until early 2012. The German ratification of changes to the EUR440bn European Financial Stability Fund (EFSF) returned some reassurance to the markets. Official interest rates were left at 1.5% at the October ECB meeting. Over the third quarter the iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, soared to close at 202.45 from 105.75 at the end of June. The JPM European Govt Bond index returned +5.5% (EUR) while the Barclay Capital Global Aggregate Credit index delivered +6.8% (EUR) for the quarter.

In the US business and consumer confidence plummeted after the trauma of raising the debt ceiling in August which was eventually increased by $2.1trn, the subsequent downgrade by S&P of the US's AAA credit rating and the ongoing sovereign debt crisis in Europe. Market concerns of a slip back into economic recession saw the Federal Reserve respond by stating the it would hold short term lending rates at their current very low levels until 'at least mid 2013'. In addition, the Fed announced in September 'Operation Twist', extending the average maturity of its Treasury holdings by selling $400bn shorter term and purchasing longer term Treasuries in the expectation of lowering long term interest rates. The Institute for Supply Management (ISM) surveys have held just above the key 50 level (signalling expansion) over the quarter but are well below levels seen earlier this year. Employment conditions are weak as the unemployment rate stands at 9.1% for Q3. The 10-year benchmark Treasury yield had been falling even before 'operation twist' was announced from 3.16% at the end of June to close at 1.93% at the end of Q3. For the quarter the JPM US Govt Bond index returned +6.5% (USD) while the Barclay Capital US Aggregate Corporate Bond index return +2.8% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-3.01	-0.50	-1.15	-4.49	-3.63
European Union euro	4.74	-0.51	0.59	-2.96	-4.78
Japanese yen	-7.68	-5.59	-9.20	-15.16	-12.15
Swiss franc	4.57	-3.09	-8.43	-11.51	-10.08
Australian dollar	6.66	4.82	-1.53	-11.45	-8.91
New Zealand dollar	4.73	1.67	-5.00	-8.99	-6.78

The third quarter of 2011 has been a turbulent time for exchange rates with the Euro feeling the pressure of the sovereign debt crisis in Greece, Spain and Italy. The Euro lost ground against the US Dollar, Sterling, Yen and many other currencies. It seems that Greece is stuck in a vicious cycle of insolvency, low competitiveness, public unrest and ever deepening depression. Exacerbated by a draconian fiscal austerity, which has angered the general public, Greece's public debt is approaching 200% of gross domestic product. In stark contrast to the Euro, the Japanese Yen strengthened against many currencies this quarter. There was speculation in early September that the Bank of Japan, under orders of the Ministry of Finance, may intervene to limit the gains in the Yen. This did not happen and the Bank kept the same monetary setting it adopted in early August, when it expanded a programme under which it buys Japanese government bonds and other assets to push down effective market interest rates. The Swiss National Bank stunned financial markets in early September by setting a ceiling for the Swiss franc against the Euro in an attempt to prevent the strength of its currency from pushing its economy into recession. The central bank said it would set a minimum exchange rate of SFr 1.20 against the Euro. This action came after the previous measures to weaken its currency proved ineffective as the worsening eurozone crisis prompted a flight to safety by investors, boosting haven demand for the Franc and sending it up to record levels.

In the UK, as in Q2 2011, fears over the slow pace of Britain's economic recovery has materialised in sterling's poor performance in Q3 2011. This was influenced by the Bank of England's decision to keep interest rates at 0.5 percent. Annual inflation rate rose to 4.5% in August and to 5.2% in September. Rising Utility bills along with higher clothing, footwear and furniture prices have pushed up inflation significantly. Inflation has not been higher since the CPI series started in 1997. Inflation based on the RPI rose to 5.6% in September, the highest in 20 years. The UK jobless total rose to 2.57 million, its highest level in 17 years, showing that the country's painfully slow recovery from recession has taken its toll on the labour market. This larger than expected hike in unemployment figures pushed up the unemployment rate to 8.1%, up 0.4% from the 7.7% 3 months earlier. The number of unemployed youths (16 to 24 year olds) rose to 991,000, 21.3% of this age group. UK house prices have been broadly stable during the quarter with the average price of a house across the country falling by 0.1% and stands 0.3% lower than one year earlier. The picture of the national housing market is consistent with the latest credit conditions report from the Bank of England in which lenders said that the availability of secured credit to households had improved slightly over the quarter. Sterling closed the quarter down against the USD by 3.0% and the Yen by 7.7%, however it gained against the Euro by 4.7%.

In the US, fear across the financial markets has strengthened the US Dollar against the Euro and Sterling over Q3 2011 with the US Dollar retaining its position of safe harbor in times of stormy weather despite the distinctly lackluster US fundamentals during Q3 2011. In the absence of a definitive solution to the Eurozone debt crisis, and alongside the weakening global economy, the dollar could enjoy further safe haven support in the months to come. Consumer sentiment rose in early September from a nearly 3 year low, but citizens' outlook for the future was the gloomiest since 1980 as economic and political turmoil weighed on confidence. Unemployment has seen a small fall to 9.1% (as of September 2011), down from the 9.2% of June 2011. Though this is high by US standards, it is still well down from the 9.6 per cent of last August. Sales of new homes fell to a 6 month low in August as buyers continue to flock to cheaper, distressed properties, highlighting the effect of the foreclosure crisis on the US housing market. In August, the US trade deficit was virtually unchanged from July at $45.6 billion, with both exports and imports falling by $0.1 billion. The closely watched trade gap with China widened to $29 billion as the US imported more Chinese goods than ever before. Political pressure has increased dramatically in the US, with the Senate to vote in early October on a bill, clearly aimed at China, that would impose tariffs on imports from countries with undervalued currencies. The Dollar ended the quarter gaining against the Sterling and Euro by 3.0% and 7.8% respectively, however it was down compared to the Yen by 4.7%.

In the Euro area, the Euro significantly weakened against the Dollar, Yen and Sterling this quarter. This has been largely driven by the European sovereign debt crisis and rising inflation. Italian debt was downgraded by S&P to A in September, this was followed in October by Moody's falling in line and downgrading Italy by 3 notches to A2 citing long term funding risks as a result of sustained non-cyclical erosion of confidence in Euro sovereigns due to the current sovereign debt crisis as a contributing factor. Eurozone inflation surged unexpectedly to a 3 year high of 3.0% at the end of September, much higher than the 2% target for the tenth consecutive month. This added to the dilemma facing the European Central Bank as an escalating debt crisis pushes the region towards recession. Unlike the US Federal Reserve, the European Central Bank has room to cut interest rates which it raised twice this year, most recently to 1.5% in July. The unemployment rate in the Eurozone remains unchanged at 10% of the work force. Nearly 5 million people in Spain are unemployed and the country has an unemployment rate of more than 21% of the workforce, more than double the European Union average. For young Spaniards, the rate is over 40%. The Euro ended the quarter down against the US Dollar, Sterling and Yen by 7.8%, 4.7% and 12.4% respectively.

Scheme Performance

The third quarter of 2011 proved to be another volatile period for global equity markets. The European sovereign debt problems refuse to go away and, with investor confidence battered further by the spectre of slowing global growth, equity markets suffered an indiscriminate sell-off as investors fled for safe haven assets. The London Borough of Hillingdon declined -6.20% during the period but still managed to beat the Total Plan composite benchmark which returned -7.47%; this resulted in a relative return of 1.37%. On a 'look through' basis, the positive relative performance can be attributed to, in part, the outperforming developed equity with all regions above their respective index, coupled with the strong absolute returns from the Private Equity holdings. Fixed Income investments also performed better than the index, but this was due to the unbenchmarked government bonds, as corporate instruments were below target.

The Plan has now outperformed the composite benchmark for two straight quarters and this has subsequently improved the longer-term performance. Year to date, one year, three year and inception to date relative returns are now all in the black having previously exhibited underperformance at the end of Q2, 2011. On an annualised basis, the Plan now beats the composite benchmark by 15bps each rolling twelve month period from inception in September 1995 to the end of Q3, 2011.

Manager Performance

Fauchier

During the latest quarter Fauchier declined -3.61% and relative to the target benchmark, LIBOR 3 month + 5%, which returned 1.45%, this resulted in a relative underperformance of -4.98%. Since funding June 2010, Fauchier has trailed the benchmark in three out of five quarters, and each of the last two. The since inception performance is negative with -0.70% for the assets versus 5.83% for the benchmark, resulting in a relative return of -6.17%. Please note though that NT's month end value is on a 1 month lag and this causes the return to be slightly lower than expected.

Goldman Sachs

The Goldman Sachs bond portfolio returned 2.97% in Q3, trailing the composite benchmark return of 3.45% to post a relative underperformance of -0.46%. Poor selection within the fixed income impacted performance, detracting 20bps in the period, while the underweight position in Index-Linked issues also hurt performance. Goldman Sachs now exhibit relative underperformance across all reported periods and the manager lags the benchmark each rolling twelve-month period by 56bps on an annualised basis from inception in December 2001 to the end of Q3, 2011. The one year attribution pinpoints asset allocation in index-linked gilts as the predominate driver of underperformance.

Macquarie

The Macquarie portfolio returned 6.74% in absolute terms during the quarter. This strong quarterly performance has improved the since inception (September 2010) return which is now positive at +0.99 per annum.

At present no benchmark has been applied to this mandate.

Marathon

The Marathon portfolio suffered significant underperformance in Q3 posting a return of -16.43% versus the benchmark MSCI World index return of -14.06%. As a result, Marathon now registers underperformance in the year to date and one year timeframes, with only the numbers since inception remaining positive at 1.79% versus 0.88% (+0.91% relative).

Manager Performance

M&G Investments

Over the third quarter, M&G investments posted a return of 1.80%, 59 basis points ahead of 3 Month LIBOR +4% p.a. target of 1.21%. Although all other time periods show the fund behind target and since inception at the end of May 2010, the portfolio registers a 4.11% annualised return against the benchmark of 4.82%. Please note though that NT's month end value is on a 1 month lag and this causes the return to be slightly lower than expected.

Ruffer

The Ruffer portfolio declined 182bps during the quarter and versus the return of 0.19% for LIBOR 3 Month GBP, suffered a relative underperformance of -2.01%. Despite this setback, however, since portfolio inception in May 2010, relative outperformance of 318bps is exhibited over an annualised basis.

Private Equity

The private equity assets, consisting of funds with LGT and Adam Street, totaled £38.6m as at 30th September 2011. The Adam Street portfolio rose 7.48% during the period, and posts 3.34% per annum from October 2008. The LGT portfolio returned -1.10% during the quarter and, since October 2008, registers a return of 5.31% per annum.
At present no benchmark has been applied to these mandates.

SSGA

The SSGA passively managed portfolio fell -10.84% in the quarter but was ahead of the benchmark with a relative outperformance of 26bps. With the underlying components roughly in line with their respective benchmarks, the gain can be attributed to asset allocation, with the slight overweight of Index Linked Gilts being the main driver contributing 10 basis points. This positive relative margin has been maintained since inception of the portfolio, with relative outperformance numbers of +20bps over both year to date and one year periods, and +11bps on an annualised basis from November 2008 when the manager was funded. The underlying funds have broadly tracked their respective benchmark indices across all periods measured.

Manager Performance

SSGA Drawdown

The SSGA Drawdown fund was marginally behind the custom benchmark in Q2 with a return of 0.85% versus 0.89%. Longer-term, the fund is 12bps ahead of the benchmark year to date and 31bps ahead from inception; underperformance is only observed at the one year period as the fund has registered underperformance three out of the last four quarters. The constituent corporate bond fund trailed its benchmark index in Q3 by 5bps. The cash fund added 8bps above its respective benchmark return over the same period.

UBS

UBS UK Equity fell -14.25% over the quarter and, in relative terms, was 87bps behind the FTSE All Share which returned -13.50%. The portfolio has now trailed the benchmark for seven of the last twelve quarters. Stock selection drove latest period's underperformance with significant detraction to performance from the sectors of Consumer Services (-0.87%), Financials (-0.83%) and Industrials (-0.71%). The underweight allocation to Consumer Goods also resulted in a negative effect on the bottom line with 88bps lost, but this was more than made up for by also underweighting Basic Materials (+ 96bps). Looking over the last four quarters, a similar picture unfolds, with a relative return of -1.24% caused by selection in Consumer Services and Financials, subtracting 167bps and 185bps respectively from the fund's performance. In addition, the underweight position within Consumer Goods remains a drag on long-term performance, with this asset allocation decision detracting 105bps over the twelve months to the end of Q3, 2011. Apart from the inception to date relative performance, which stands at +0.86%, UBS exhibits relative underperformance across all longer periods, with -1.43% for three years and -2.07% over five years.

UBS Property

The UBS Property portfolio posted a return of 1.47% during the period but trailed the IPD UK PPFI All Balanced Funds index, which returned 1.70%. The negative relative return snapped a run of two consecutive quarters of outperformance. Despite the latest quarter, the fund continues to exhibit outperformance year to date with a relative return of 0.31%. Unfortunately, this is the only reported period demonstrating positive relative returns as underperformance is observed over one year (-0.22% relative), three years (-1.36%), five years (-0.57%) and from inception (-0.68%).

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 07/11	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 08/11	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 09/11	Active Contribution 3Q 2011
Adam Street	-1.78	-	-1.78	-	-348,170.35	0.81	-	0.81	-	155,610.71	8.55	-	8.55	-	1,651,270.50	1,458,710.86
Fauchier	-0.76	0.48	-1.23	-1.23	-316,349.35	-0.65	0.48	-1.13	-1.12	-287,262.70	-2.24	0.48	-2.72	-2.71	-686,926.08	-1,290,538.13
Goldman Sachs	3.24	2.91	0.34	0.33	235,404.32	-1.42	-1.01	-0.41	-0.41	-283,469.25	1.17	1.56	-0.38	-0.37	-266,821.96	-314,886.89
LGT	-3.00	-	-3.00	-	-522,253.04	2.07	-	2.07	-	350,788.18	-0.10	-	-0.10	-	-17,643.94	-189,108.80
Macquarie	1.31	-	1.31	-	17,521.12	0.81	-	0.81	-	11,042.94	4.52	-	4.52	-	61,868.30	90,432.36
Marathon	-3.85	-3.97	0.12	0.13	70,643.15	-7.51	-6.29	-1.22	-1.31	-658,649.16	-6.02	-4.51	-1.52	-1.59	-769,949.64	-1,357,955.65
M&G Investments	0.99	0.40	0.59	0.59	46,973.95	0.00	0.40	-0.40	-0.40	-31,704.96	0.80	0.40	0.40	0.40	31,849.48	47,118.48
Nomura	-2.14	-	-2.14	-	-4,916.53	31.67	-	31.67	-	45,881.71	-1.74	-	-1.74	-	-3,640.00	37,325.18
Ruffer	-0.29	0.07	-0.36	-0.36	-414,500.85	-3.31	0.06	-3.37	-3.36	-3,836,479.18	1.84	0.06	1.78	1.78	1,957,243.11	-2,293,736.92
SSGA	-1.77	-1.75	-0.02	-0.02	-23,947.07	-5.81	-5.88	0.07	0.08	76,627.16	-3.64	-3.84	0.20	0.20	202,385.60	255,065.69
SSGA Drawdown	1.25	1.34	-0.10	-0.09	-9,962.61	-0.52	-0.57	0.06	0.06	5,703.42	0.13	0.13	0.00	0.00	230.57	-4,028.61
UBS	-2.72	-2.20	-0.52	-0.53	-575,353.75	-8.48	-6.89	-1.59	-1.71	-1,631,291.08	-3.68	-5.01	1.32	1.39	1,269,836.01	-936,808.82
UBS Property	0.72	0.61	0.11	0.11	52,287.60	0.90	0.61	0.28	0.28	136,494.53	-0.15	0.47	-0.62	-0.62	-300,714.68	-111,932.55

Total Fund Market Value at Qtr End: £564.3 M

Scheme Performance

			Three Months				Year To Date				One Year			
	Market Value £m	% of Fund	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	564.3	100.00	-6.20	-7.47	1.27	1.37	-3.56	-5.08	1.52	1.60	1.34	-0.65	1.99	2.00

By Manager

	Market Value £m	% of Fund	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	21.0	3.72	7.48	-	-	-	19.30	-	-	-	26.96	-	-	-
Fauchier	24.6	4.36	-3.61	1.45	-5.05	-4.98	-1.72	4.37	-6.08	-5.83	0.33	5.85	-5.52	-5.21
Goldman Sachs	69.8	12.37	2.97	3.45	-0.48	-0.46	6.29	6.83	-0.54	-0.51	5.03	5.42	-0.39	-0.37
LGT	17.0	3.02	-1.10	-	-	-	13.75	-	-	-	16.01	-	-	-
Macquarie	1.4	0.25	6.74	-	-	-	-0.69	-	-	-	0.99	-	-	-
Marathon	50.0	8.86	-16.43	-14.06	-2.36	-2.75	-13.15	-11.76	-1.39	-1.58	-5.96	-3.24	-2.72	-2.81
M&G Investments	8.0	1.41	1.80	1.21	0.60	0.59	3.07	3.62	-0.55	-0.53	4.12	4.84	-0.72	-0.69
Ruffer	112.2	19.87	-1.82	0.19	-2.01	-2.01	-1.09	0.57	-1.66	-1.65	4.61	0.75	3.86	3.83
SSGA	103.8	18.39	-10.84	-11.07	0.23	0.26	-8.26	-8.44	0.18	0.20	-2.42	-2.61	0.19	0.20
SSGA Drawdown	10.3	1.83	0.85	0.89	-0.04	-0.04	2.61	2.48	0.13	0.12	1.24	1.28	-0.04	-0.04
UBS	97.3	17.24	-14.25	-13.50	-0.75	-0.87	-12.18	-10.93	-1.25	-1.40	-5.55	-4.36	-1.19	-1.24
UBS Property	48.2	8.54	1.47	1.70	-0.23	-0.23	5.82	5.50	0.33	0.31	7.26	7.50	-0.24	-0.22

Total Fund Market Value at Qtr End: £564.3 M

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Scheme Performance

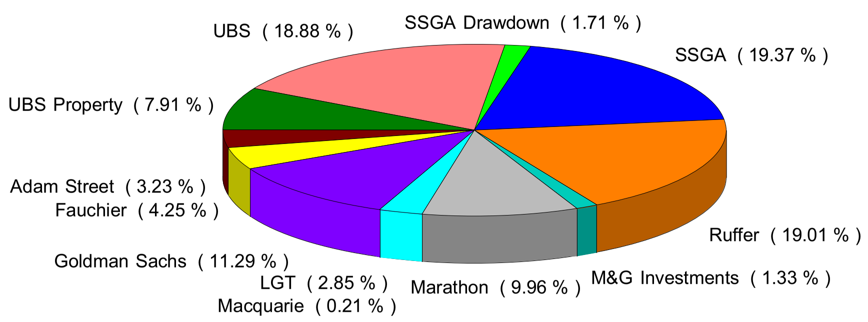
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return		Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	7.33	5.78	1.54	1.46	1.84	2.14	-0.31	-0.30		6.25	6.09	0.16	0.15

By Manager

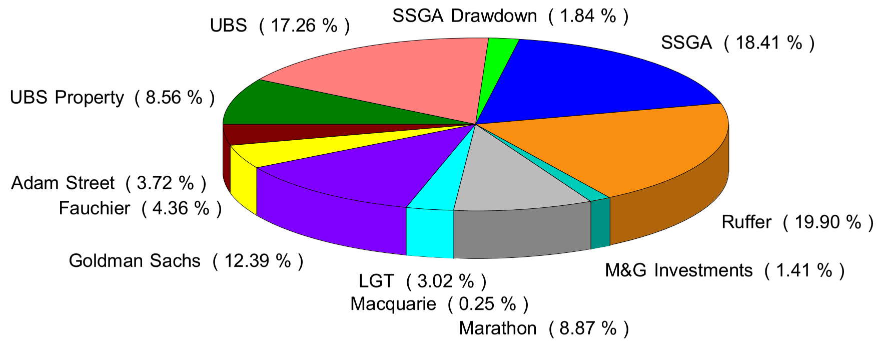
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	-	-	-	-	-	-	-	-	31/10/08	3.34	-	-	-
Fauchier	-	-	-	-	-	-	-	-	30/06/10	-0.70	5.83	-6.53	-6.17
Goldman Sachs	9.25	9.27	-0.02	-0.02	5.81	6.41	-0.60	-0.56	31/12/01	6.07	6.67	-0.59	-0.56
LGT	-	-	-	-	-	-	-	-	31/10/08	5.31	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	0.99	-	-	-
Marathon	-	-	-	-	-	-	-	-	09/06/10	1.79	0.88	0.92	0.91
M&G Investments	-	-	-	-	-	-	-	-	31/05/10	4.11	4.82	-0.71	-0.68
Ruffer	-	-	-	-	-	-	-	-	28/05/10	3.95	0.74	3.20	3.18
SSGA	-	-	-	-	-	-	-	-	30/11/08	11.96	11.83	0.12	0.11
SSGA Drawdown	-	-	-	-	-	-	-	-	30/06/09	5.55	5.23	0.32	0.31
UBS	5.24	6.76	-1.53	-1.43	0.29	2.41	-2.12	-2.07	31/12/88	9.25	8.31	0.94	0.86
UBS Property	-1.14	0.22	-1.37	-1.36	-3.32	-2.77	-0.55	-0.57	31/03/06	-1.58	-0.91	-0.67	-0.68

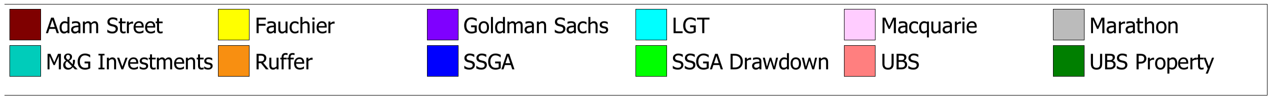
Total Fund Market Value at Qtr End: £564.3 M

Weighting at Beginning of Period



Weighting at End of Period

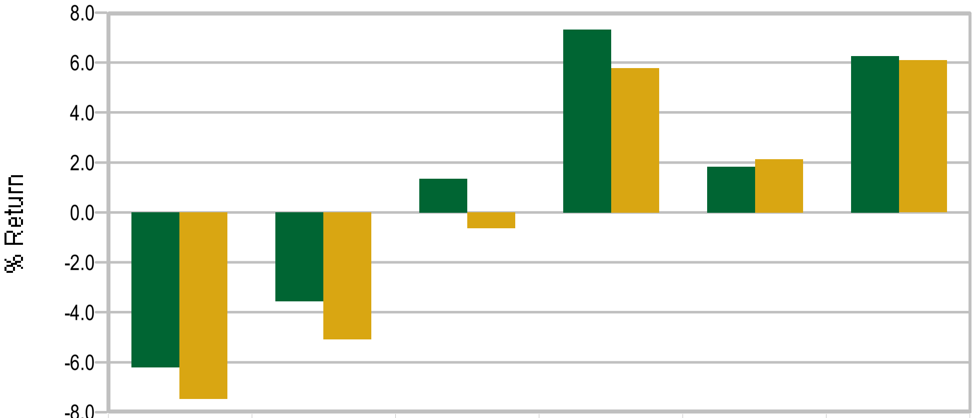




	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	601,449	100.00	208	-39,524	2,214	564,347	100.00
Adam Street	19,428	3.23	85	1,458	0	20,972	3.72
Alliance Bernstein	131	0.02	-90	1	-41	-0	-0.00
Fauchier	25,503	4.24	0	-919	0	24,584	4.36
Goldman Sachs	67,811	11.27	0	1,948	67	69,826	12.37
LGT	17,121	2.85	91	-186	0	17,026	3.02
M&G Investments	7,983	1.33	-166	142	0	7,959	1.41
Macquarie	1,275	0.21	67	90	-0	1,432	0.25
Marathon	59,809	9.94	0	-9,824	0	49,985	8.86
Nomura	300	0.05	-132	-8	47	206	0.04
Ruffer	114,235	18.99	0	-2,667	586	112,154	19.87
SSGA	116,381	19.35	0	-12,619	0	103,762	18.39
SSGA Drawdown	10,254	1.70	0	88	0	10,341	1.83
UBS	113,453	18.86	0	-17,100	937	97,290	17.24
UBS Property	47,524	7.90	-11	79	618	48,211	8.54

London Borough of Hillingdon

Historical Plan Performance

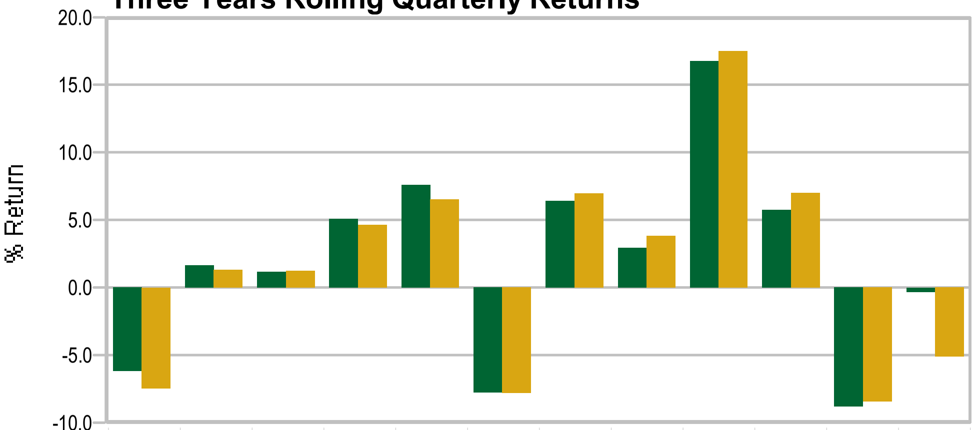


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-6.20	-3.56	1.34	7.33	1.84	6.25
Benchmark	-7.47	-5.08	-0.65	5.78	2.14	6.09

Risk Statistics - 3 years

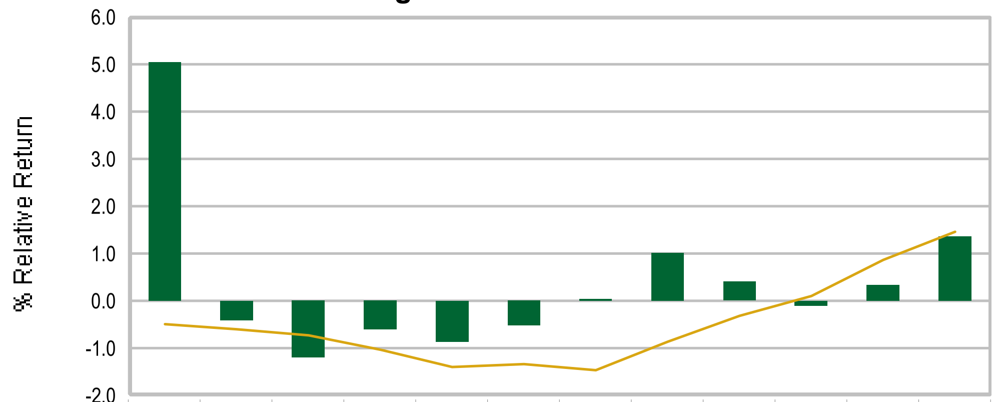
	Fund	B'mark
Performance Return	7.33	5.78
Standard Deviation	11.85	13.37
Relative Return	1.46	
Tracking Error	3.32	
Information Ratio	0.46	
Beta	0.86	
Alpha	1.90	
R Squared	0.95	
Sharpe Ratio	0.44	0.28
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	601,449	
Net Investment £(000)	208	
Income Received £(000)	2,214	
Appreciation £(000)	-39,524	
Closing Market Value (£000)	564,347	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-6.20	1.64	1.15	5.08	7.60	-7.77	6.41	2.93	16.78	5.74	-8.82	-0.33
Benchmark	-7.47	1.31	1.26	4.67	6.52	-7.81	6.97	3.83	17.50	7.02	-8.44	-5.12

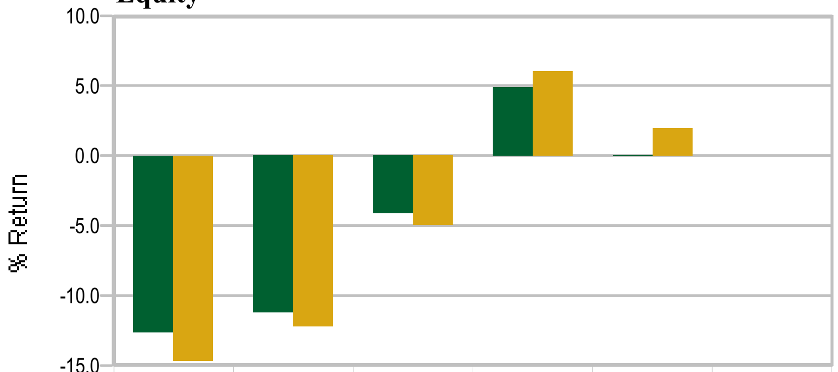
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	5.05	-0.41	-1.19	-0.61	-0.87	-0.52	0.04	1.01	0.40	-0.11	0.33	1.37
3Y Relative	-0.49	-0.60	-0.73	-1.04	-1.40	-1.34	-1.47	-0.87	-0.32	0.10	0.86	1.46

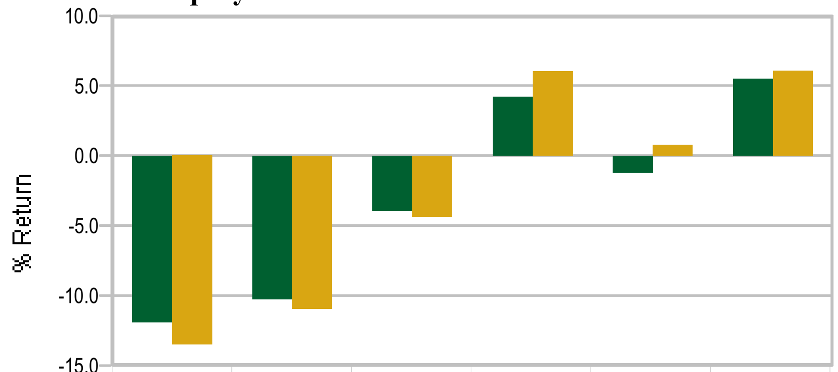
London Borough of Hillingdon

Equity



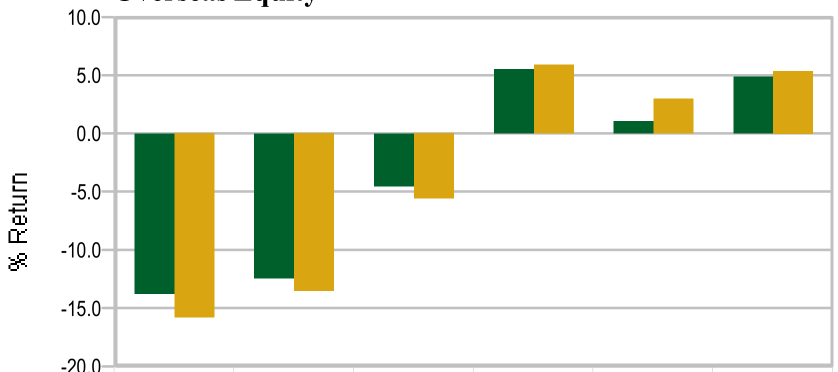
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.62	-11.21	-4.13	4.87	-0.05	-
B'Mark	-14.66	-12.23	-4.95	6.04	1.94	-

UK Equity



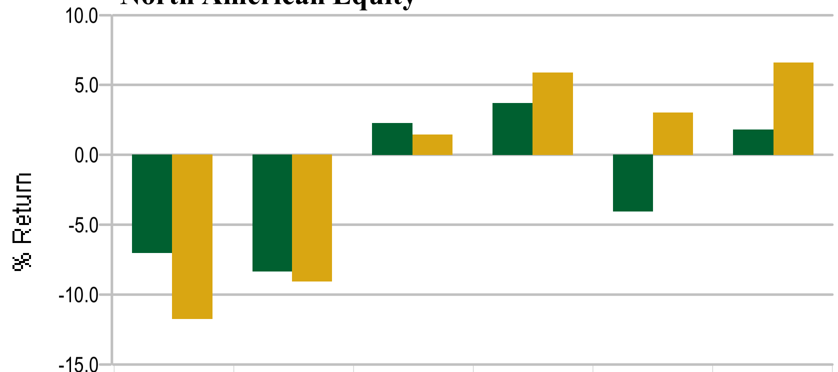
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.89	-10.26	-3.93	4.20	-1.22	5.48
B'Mark	-13.50	-10.93	-4.36	6.03	0.78	6.07

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-13.76	-12.46	-4.54	5.54	1.07	4.88
B'Mark	-15.81	-13.54	-5.60	5.89	3.00	5.38

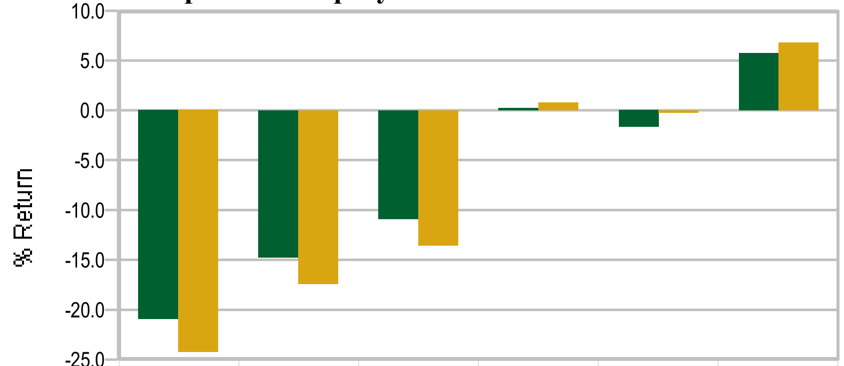
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.03	-8.35	2.28	3.72	-4.06	1.81
B'Mark	-11.76	-9.07	1.47	5.90	3.01	6.60

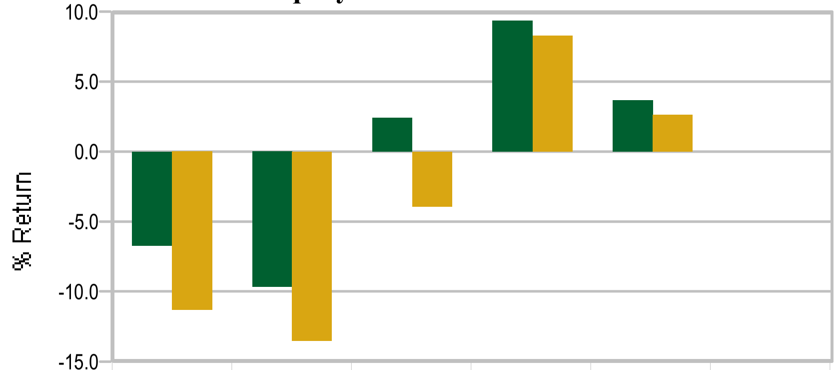
London Borough of Hillingdon

Europe ex UK Equity



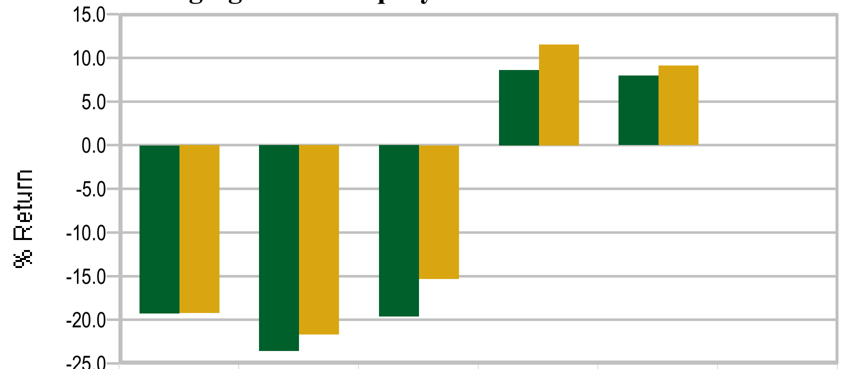
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-20.94	-14.78	-10.90	0.25	-1.67	5.76
B'Mark	-24.24	-17.41	-13.55	0.80	-0.25	6.79

Asia Pacific Equity



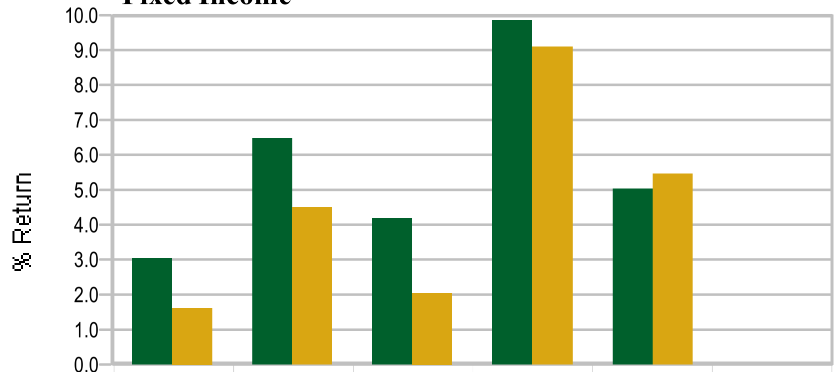
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-6.71	-9.67	2.42	9.35	3.64	-
B'Mark	-11.32	-13.51	-3.94	8.28	2.62	-

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-19.24	-23.54	-19.63	8.62	7.92	-
B'Mark	-19.18	-21.62	-15.30	11.51	9.08	-

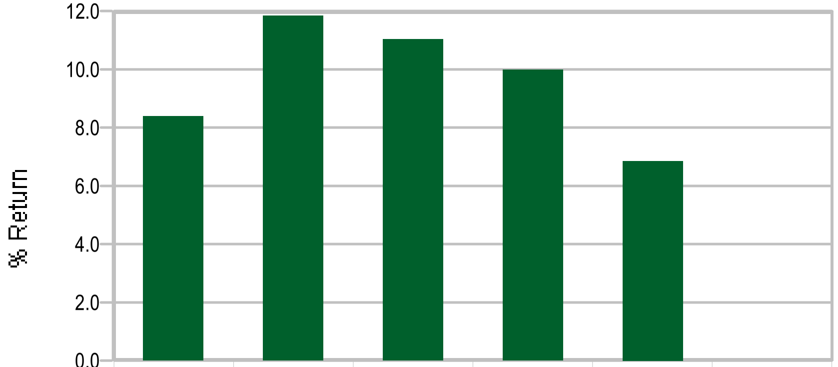
Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.05	6.48	4.19	9.85	5.02	-
B'Mark	1.62	4.50	2.05	9.10	5.46	-

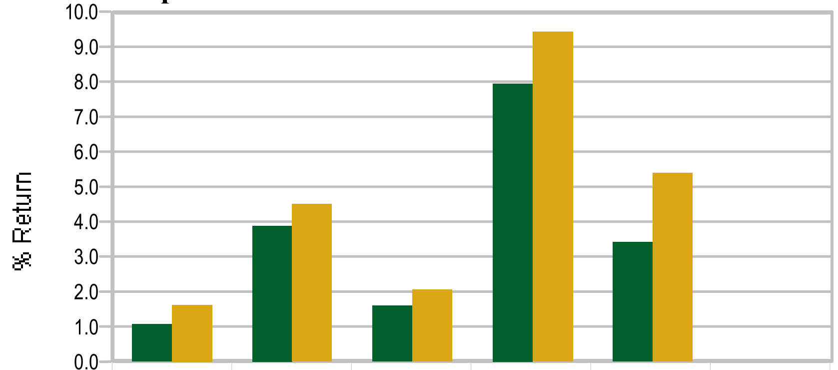
London Borough of Hillingdon

Government Bonds



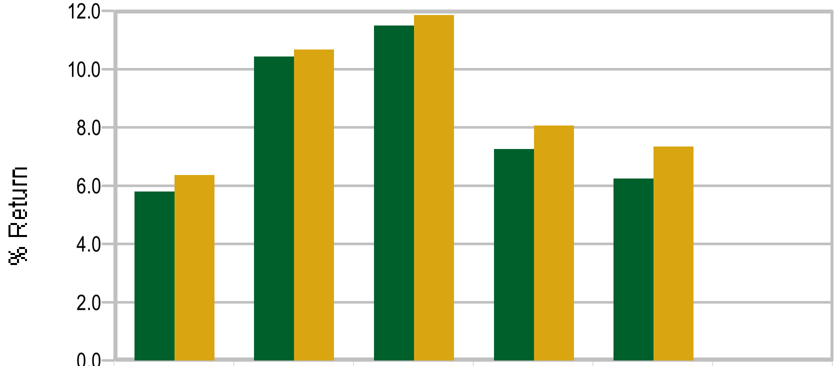
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.39	11.85	11.04	9.99	6.85	-

Corporate Bonds



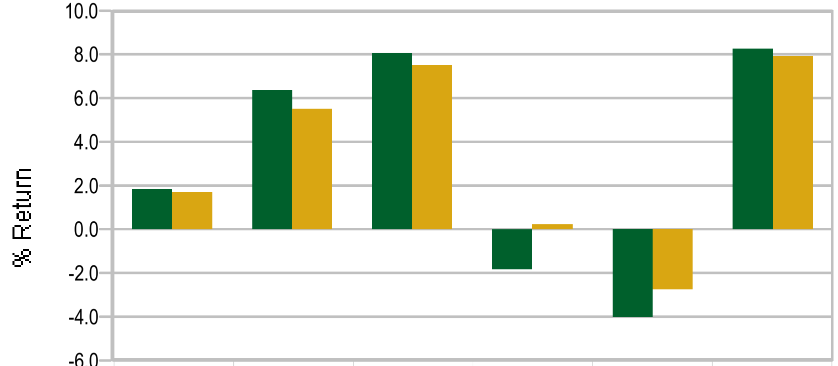
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.07	3.89	1.59	7.95	3.42	-
B'Mark	1.62	4.50	2.05	9.43	5.40	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.79	10.44	11.49	7.25	6.25	-
B'Mark	6.36	10.67	11.86	8.06	7.34	-

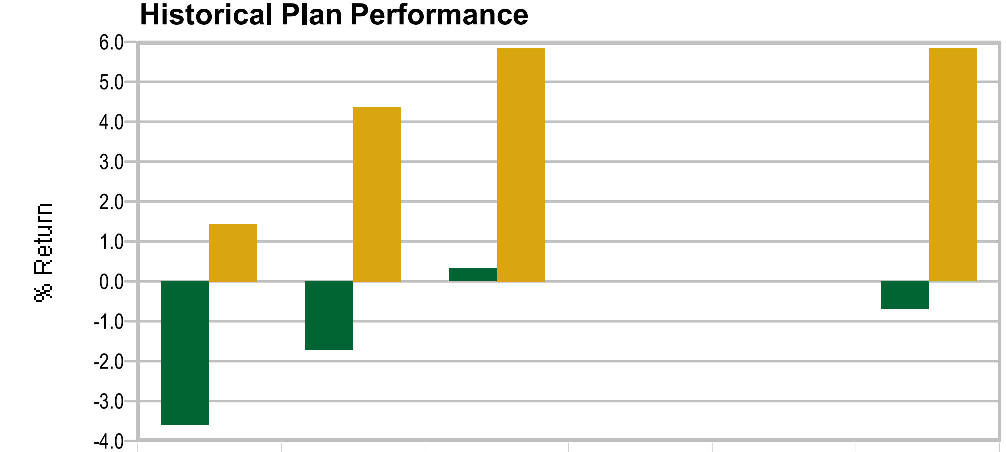
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.84	6.36	8.05	-1.83	-4.02	8.24
B'Mark	1.70	5.50	7.50	0.22	-2.77	7.91

Fauchier

Historical Plan Performance

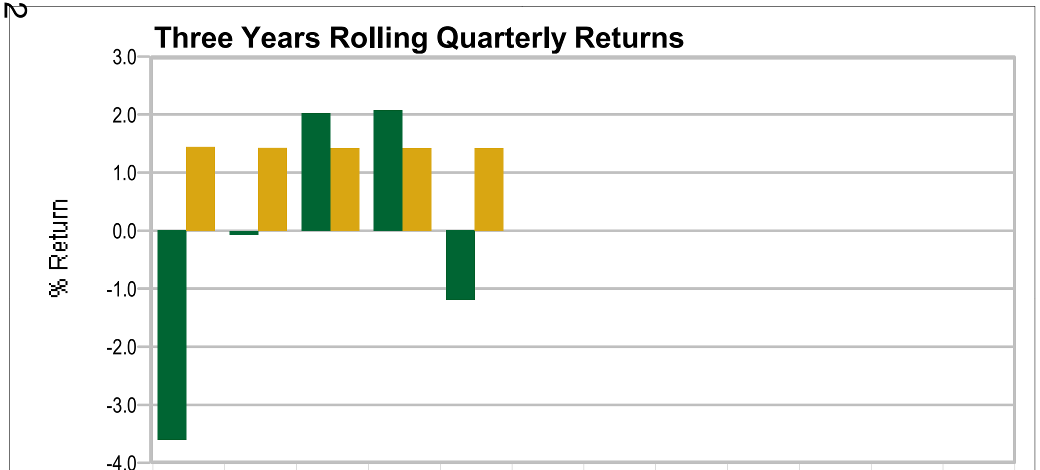


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.61	-1.72	0.33	-	-	-0.70
Benchmark	1.45	4.37	5.85	-	-	5.83

Risk Statistics - 3 years

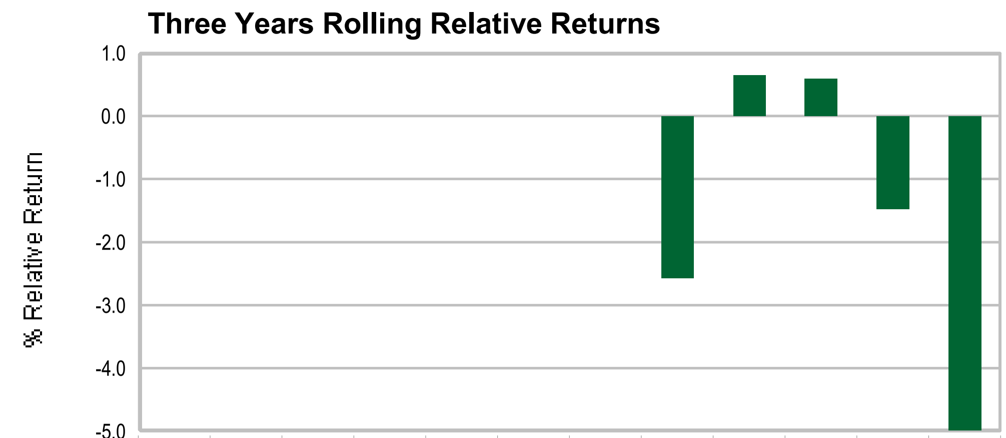
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	4.4	
Inception Date	Jun-2010	
Opening Market Value (£000)	25,503	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-919	
Closing Market Value (£000)	24,584	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-3.61	-0.06	2.02	2.08	-1.19	-	-	-	-	-	-	-
Benchmark	1.45	1.43	1.42	1.42	1.41	-	-	-	-	-	-	-

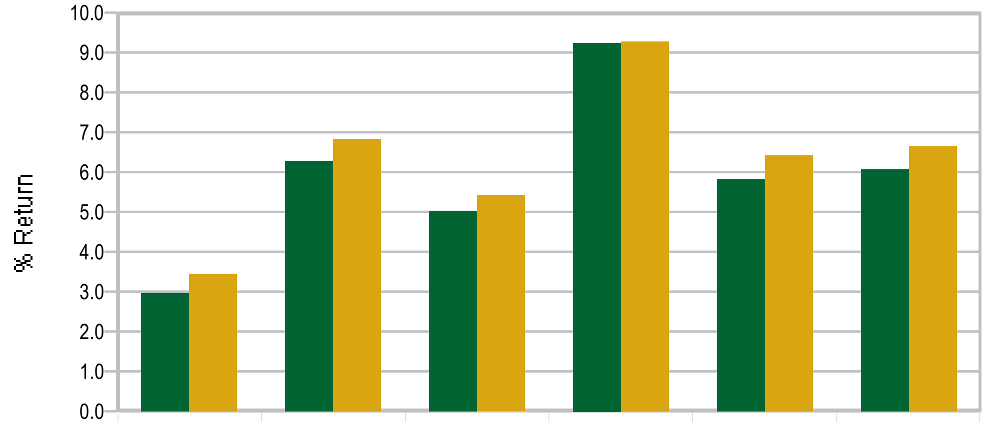
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-	-	-	-	-	-	-	-2.57	0.65	0.59	-1.48	-4.98
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Goldman Sachs

Historical Plan Performance

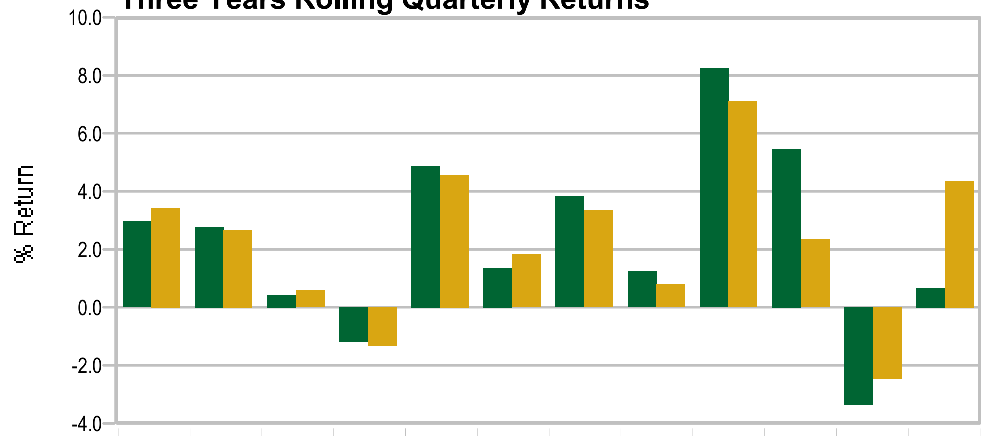


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.97	6.29	5.03	9.25	5.81	6.07
Benchmark	3.45	6.83	5.42	9.27	6.41	6.67

Risk Statistics - 3 years

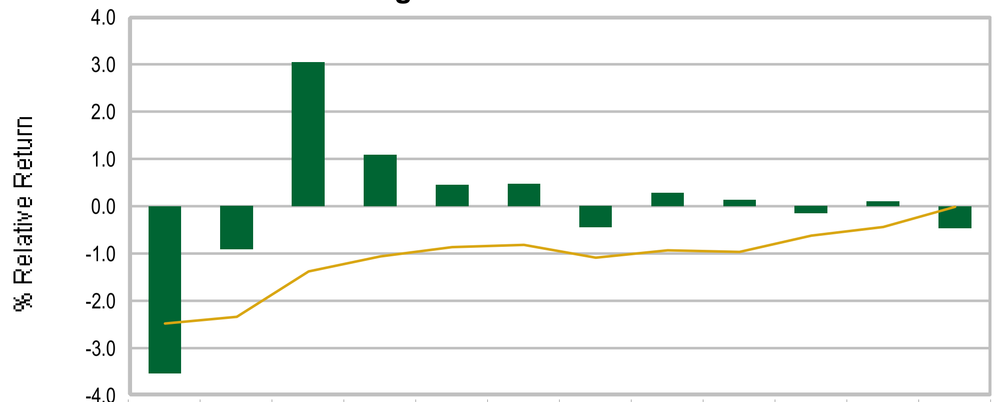
	Fund	B'mark
Performance Return	9.25	9.27
Standard Deviation	7.09	6.71
Relative Return	-0.02	
Tracking Error	1.96	
Information Ratio	-0.01	
Beta	1.03	
Alpha	-0.20	
R Squared	0.93	
Sharpe Ratio	1.01	1.07
Percentage of Total Fund	12.4	
Inception Date	Dec-2001	
Opening Market Value (£000)	67,811	
Net Investment £(000)	0	
Income Received £(000)	67	
Appreciation £(000)	1,948	
Closing Market Value (£000)	69,826	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	2.97	2.78	0.42	-1.18	4.88	1.35	3.84	1.25	8.26	5.46	-3.37	0.67
Benchmark	3.45	2.68	0.57	-1.32	4.59	1.81	3.36	0.79	7.09	2.34	-2.48	4.36

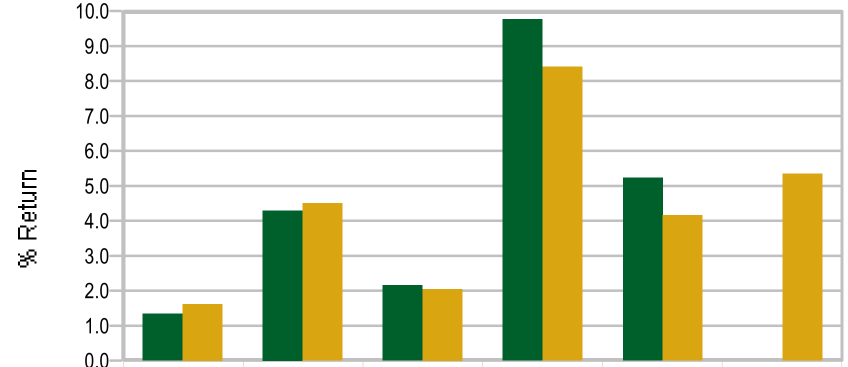
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-3.54	-0.91	3.05	1.09	0.46	0.46	-0.45	0.28	0.14	-0.15	0.10	-0.46
3Y Relative	-2.48	-2.34	-1.38	-1.06	-0.87	-0.82	-1.09	-0.93	-0.97	-0.63	-0.44	-0.02

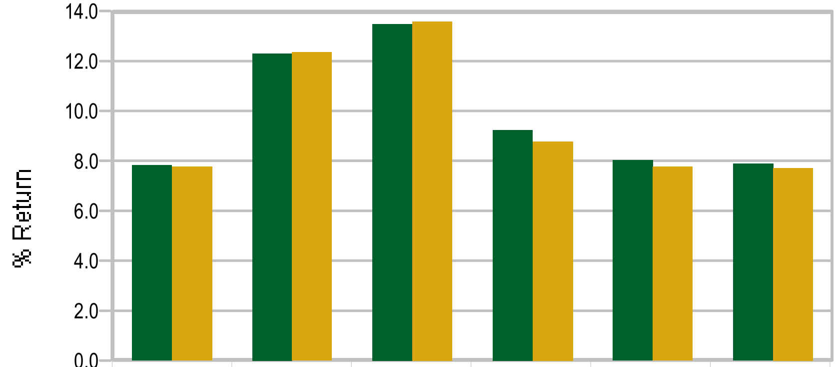
Goldman Sachs

World Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.35	4.30	2.16	9.77	5.24	-
B'Mark	1.62	4.50	2.05	8.40	4.16	5.34

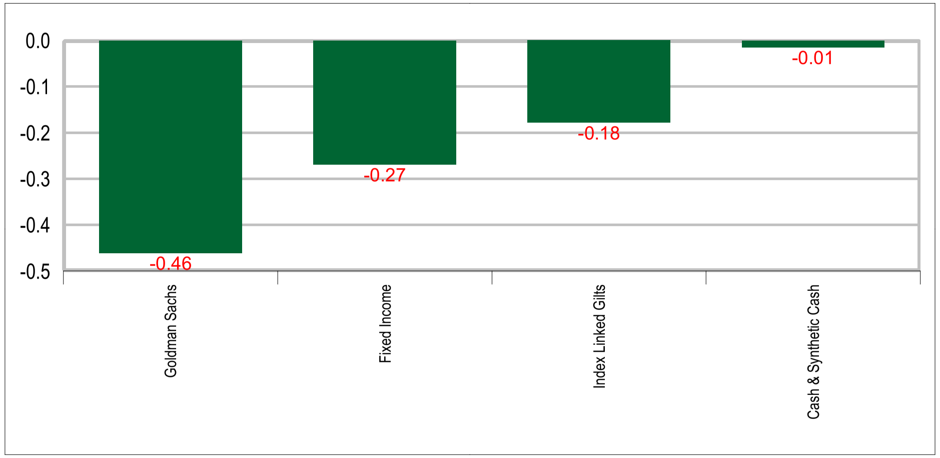
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.83	12.30	13.49	9.24	8.04	7.89
B'Mark	7.76	12.35	13.58	8.77	7.77	7.72

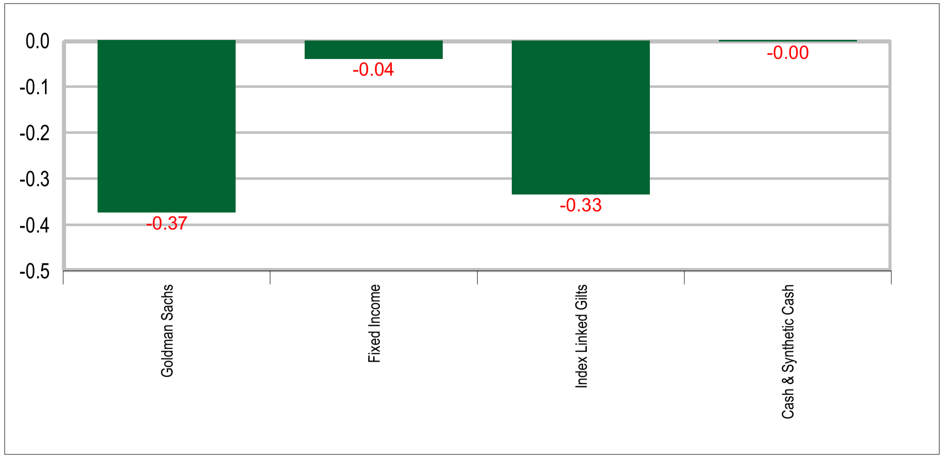
Goldman Sachs

Relative Contribution - Three Months



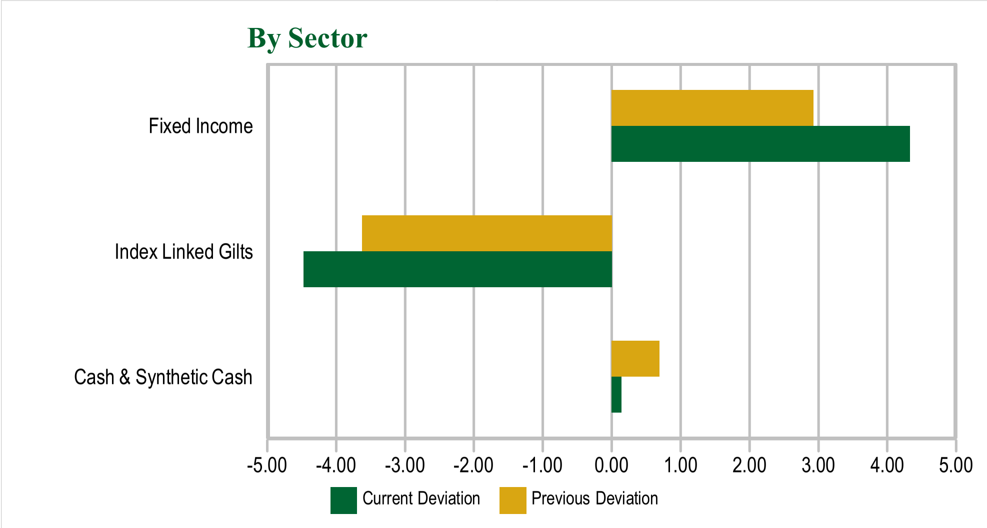
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
Goldman Sachs	2.97	3.45	-0.46	-0.28	-0.19	0.00	-0.46
Fixed Income	1.35	1.62	-0.27	-0.07	-0.20	0.00	-0.27
Index Linked Gilts	7.83	7.76	0.06	-0.19	0.02	0.00	-0.18
Cash & Synthetic Cash	0.12	-	0.12	-0.02	0.00	0.00	-0.01

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
Goldman Sachs	5.03	5.42	-0.37	-0.43	0.05	0.00	-0.37
Fixed Income	2.16	2.05	0.11	-0.11	0.07	0.00	-0.04
Index Linked Gilts	13.49	13.58	-0.08	-0.31	-0.02	0.00	-0.33
Cash & Synthetic Cash	0.17	-	0.17	-0.00	0.00	0.00	-0.00

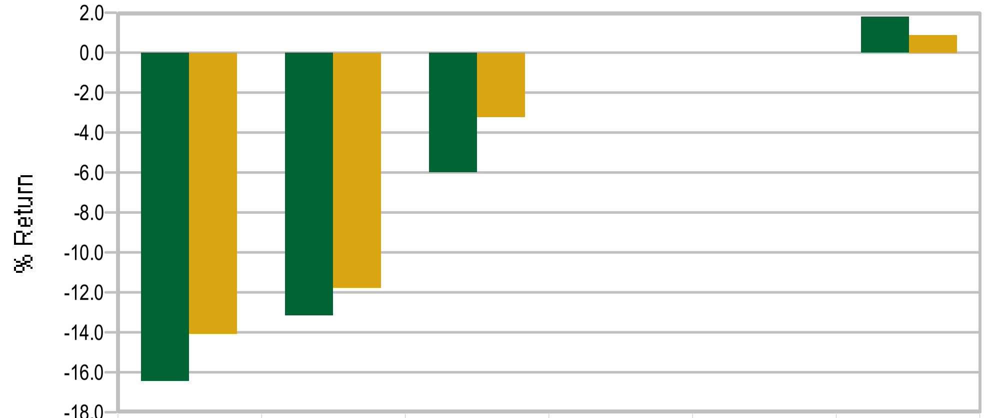
Goldman Sachs



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	74.33	72.93	70.00	4.33	70.00	2.93
Index Linked Gilts	25.53	26.38	30.00	-4.47	30.00	-3.62
Cash & Synthetic Cash	0.14	0.69		0.14		0.69

Marathon

Historical Plan Performance

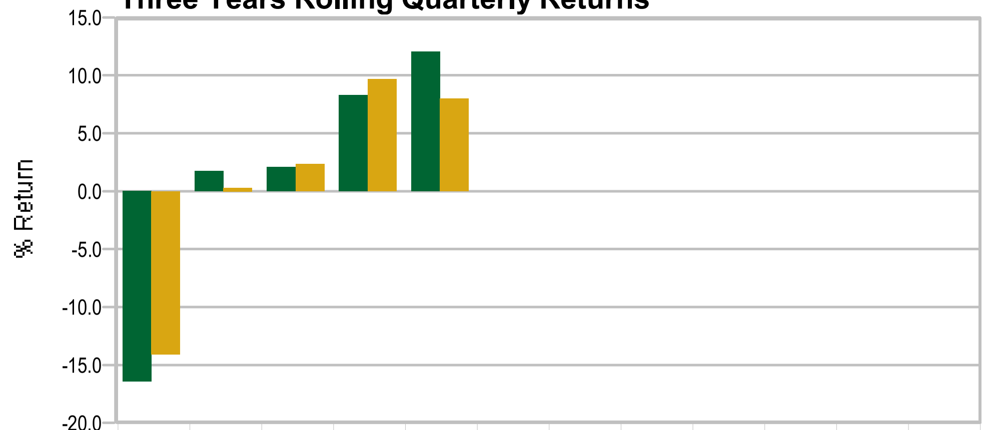


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-16.43	-13.15	-5.96	-	-	1.79
Benchmark	-14.06	-11.76	-3.24	-	-	0.88

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	8.9	
Inception Date	Jun-2010	
Opening Market Value (£000)	59,809	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-9,824	
Closing Market Value (£000)	49,985	

Three Years Rolling Quarterly Returns



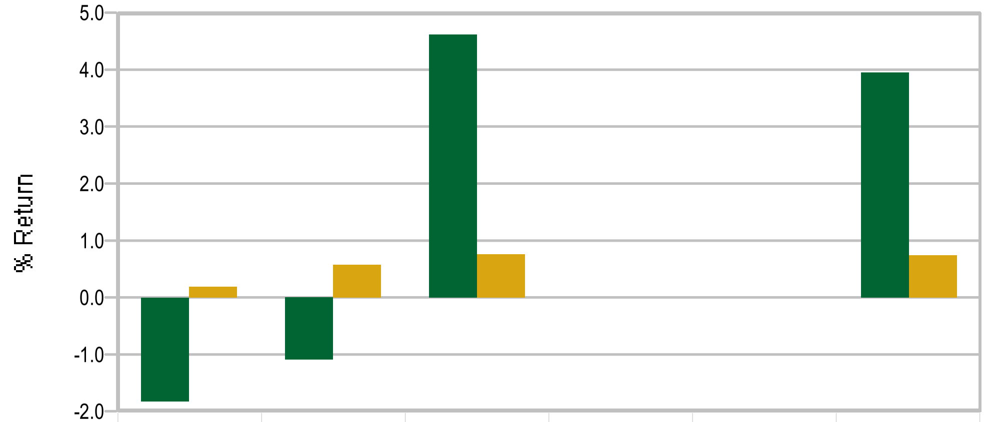
	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-16.43	1.77	2.10	8.28	12.07	-	-	-	-	-	-	-
Benchmark	-14.06	0.31	2.36	9.66	8.02	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-	-	-	-	-	-	-	3.74	-1.26	-0.25	1.46	-2.75
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Ruffer

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.82	-1.09	4.61	-	-	3.95
Benchmark	0.19	0.57	0.75	-	-	0.74

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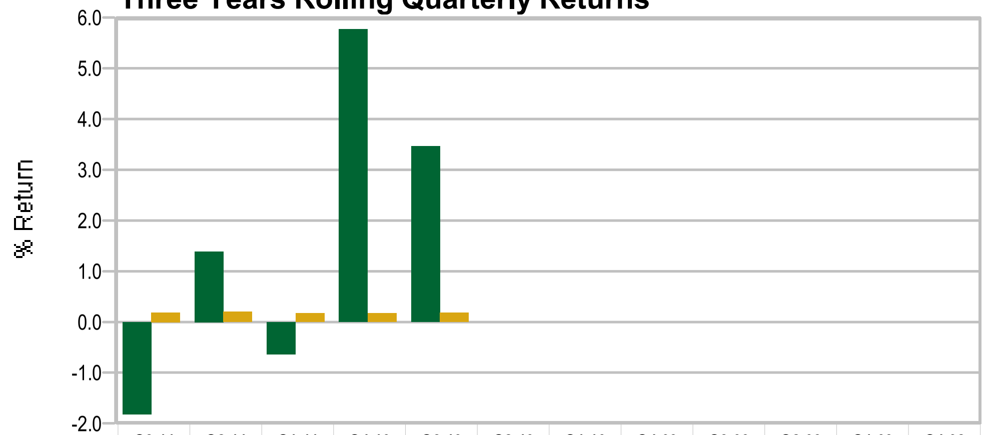
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.9	
Inception Date	May-2010	
Opening Market Value (£000)	114,235	
Net Investment £(000)	0	
Income Received £(000)	586	
Appreciation £(000)	-2,667	
Closing Market Value (£000)	112,154	

Three Years Rolling Quarterly Returns



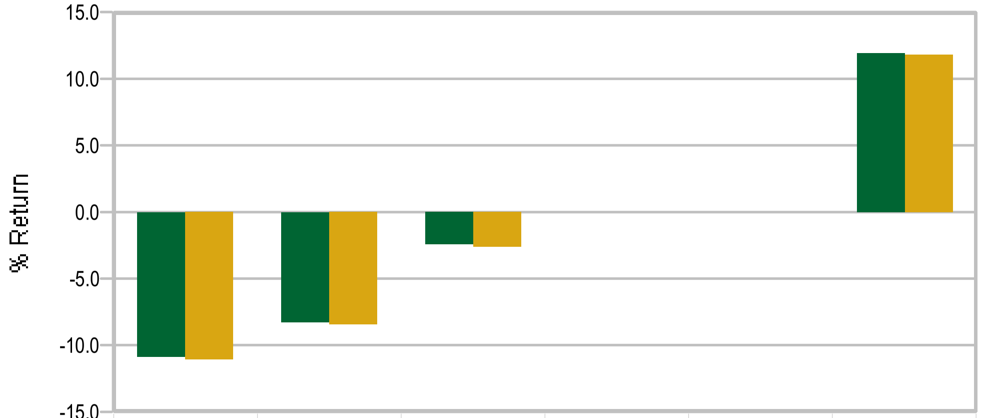
	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-1.82	1.39	-0.64	5.77	3.47	-	-	-	-	-	-	-
Benchmark	0.19	0.20	0.18	0.18	0.18	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-	-	-	-	-	-	-	3.28	5.58	-0.82	1.18	-2.01
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

SSGA

Historical Plan Performance

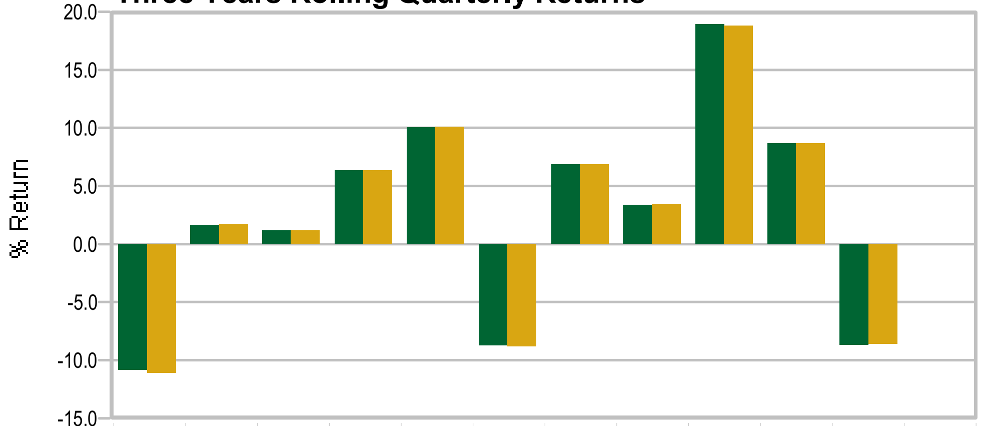


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-10.84	-8.26	-2.42	-	-	11.96
Benchmark	-11.07	-8.44	-2.61	-	-	11.83

Risk Statistics - 3 years

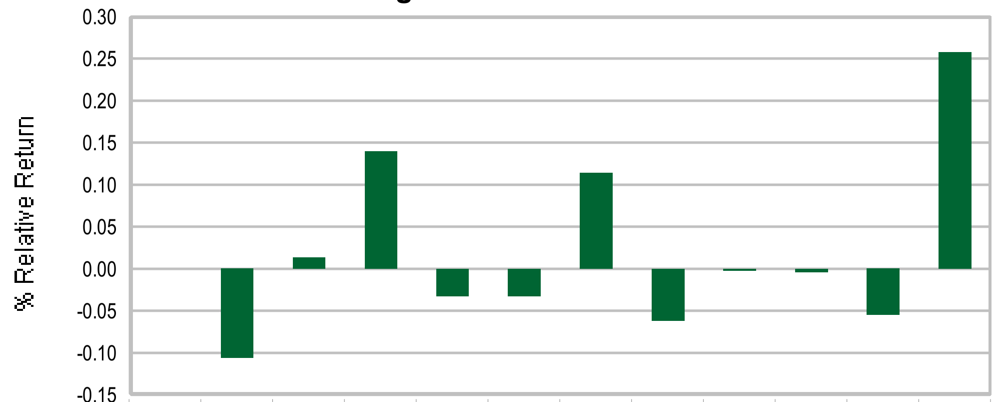
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	18.4	
Inception Date	Nov-2008	
Opening Market Value (£000)	116,381	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-12,619	
Closing Market Value (£000)	103,762	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-10.84	1.69	1.19	6.36	10.06	-8.72	6.85	3.38	18.95	8.68	-8.68	-
Benchmark	-11.07	1.75	1.20	6.36	10.13	-8.82	6.89	3.41	18.78	8.66	-8.59	-

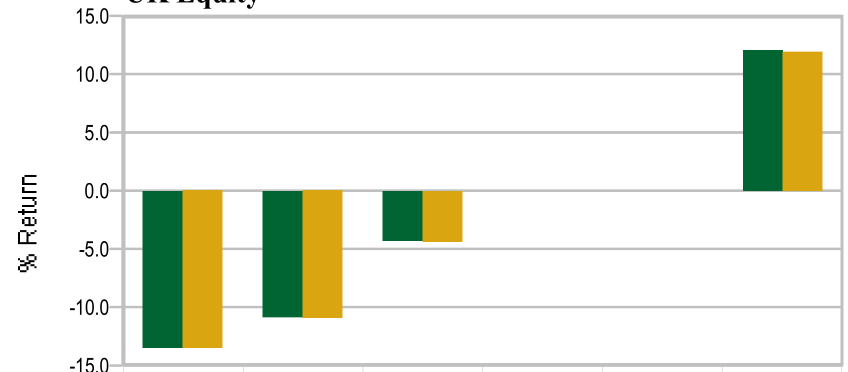
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-	-0.11	0.01	0.14	-0.03	-0.03	0.11	-0.06	-0.00	-0.00	-0.06	0.26
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

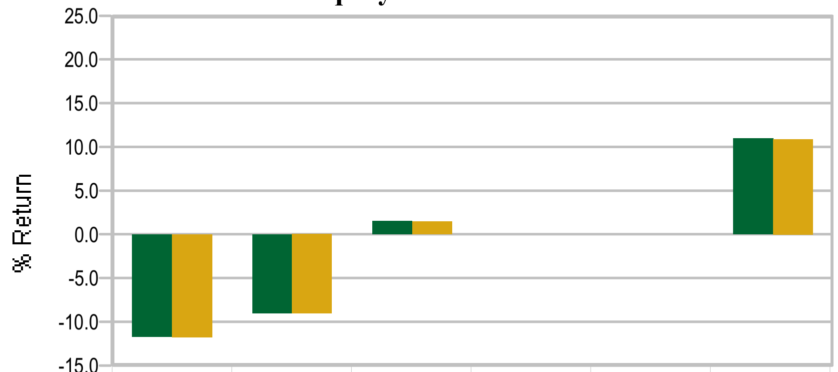
SSGA

UK Equity



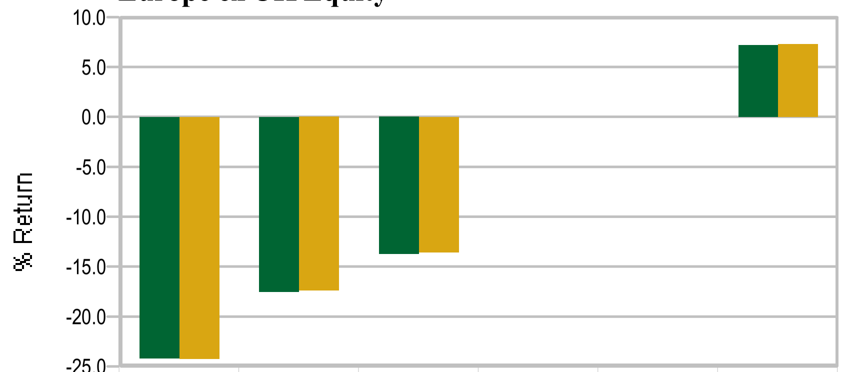
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-13.46	-10.84	-4.27	-	-	12.08
B'Mark	-13.50	-10.93	-4.36	-	-	11.92

North America Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.75	-9.05	1.53	-	-	10.97
B'Mark	-11.76	-9.07	1.47	-	-	10.89

Europe ex UK Equity



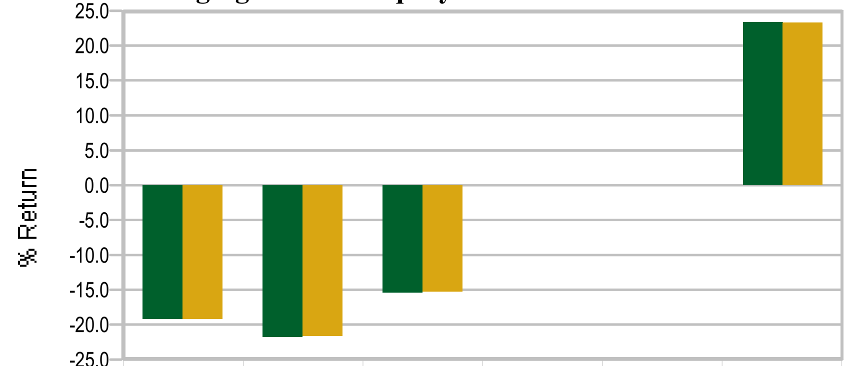
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-24.16	-17.54	-13.75	-	-	7.16
B'Mark	-24.24	-17.41	-13.55	-	-	7.31

Asia Pacific Equity

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.28	-13.55	-4.01	-	-	11.65
B'Mark	-11.32	-13.51	-3.94	-	-	11.71

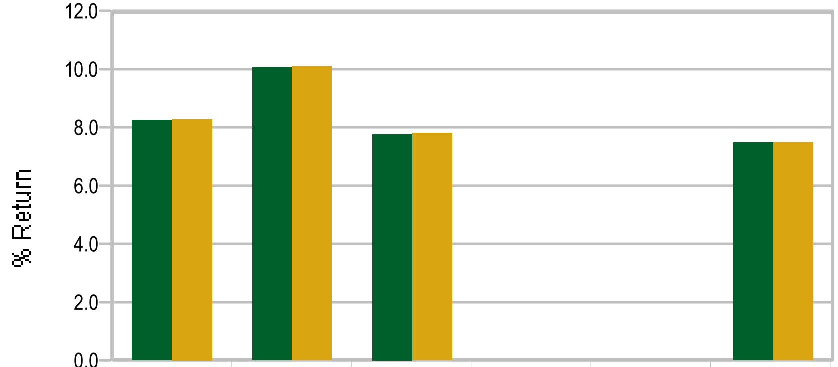
SSGA

Emerging Markets Equity



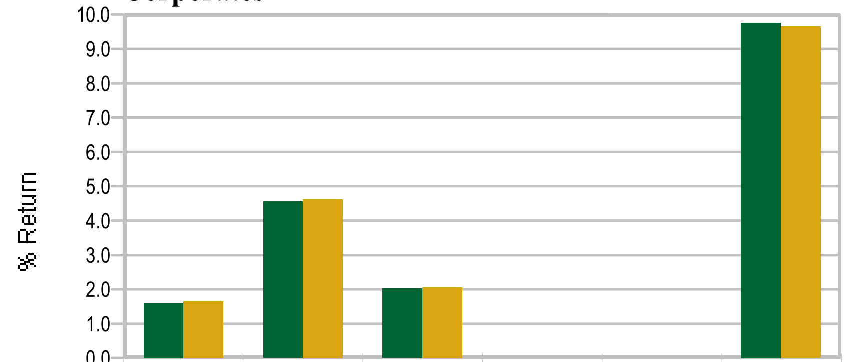
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-19.20	-21.72	-15.40	-	-	23.38
B'Mark	-19.18	-21.62	-15.30	-	-	23.26

Government Bonds



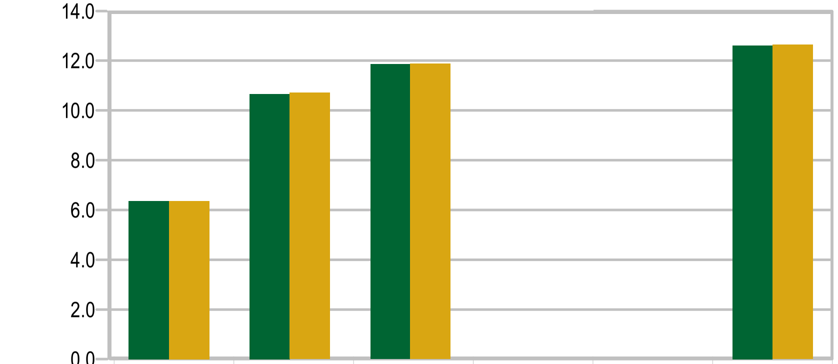
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.28	10.09	7.80	-	-	7.48
B'Mark	8.26	10.05	7.76	-	-	7.48

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.59	4.56	2.02	-	-	9.77
B'Mark	1.65	4.62	2.06	-	-	9.65

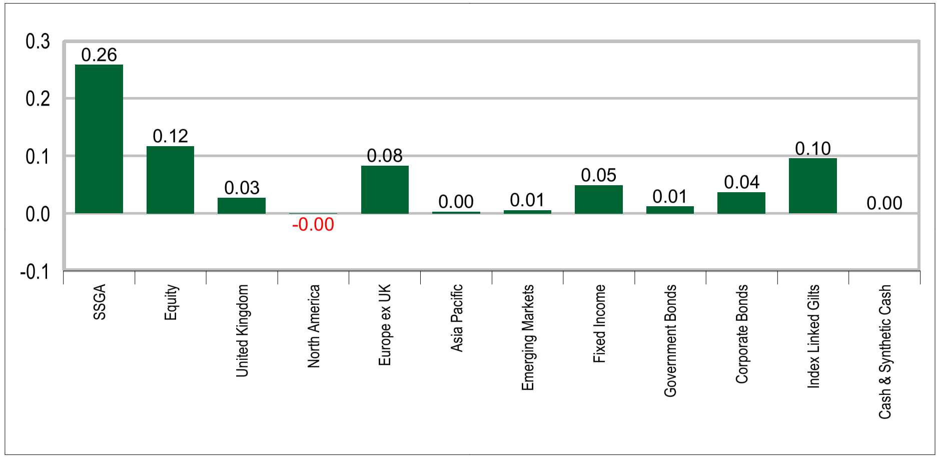
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.37	10.70	11.87	-	-	12.63
B'Mark	6.36	10.67	11.86	-	-	12.61

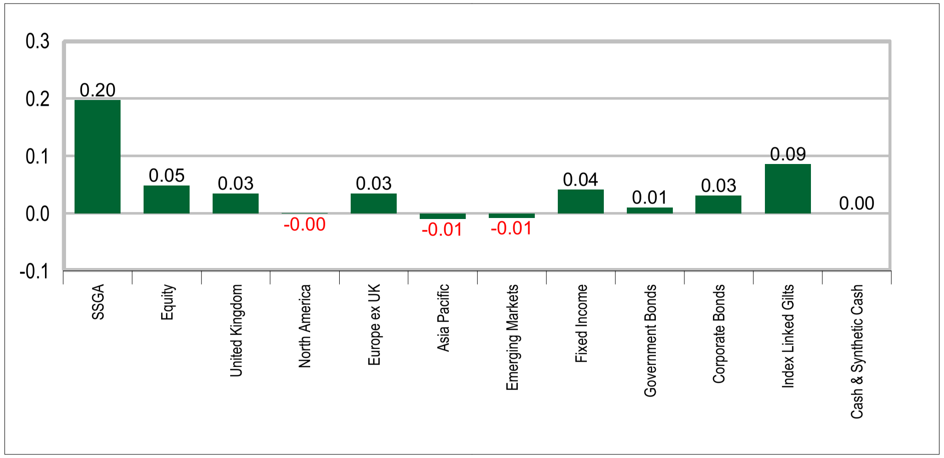
SSGA

Relative Contribution - Three Months



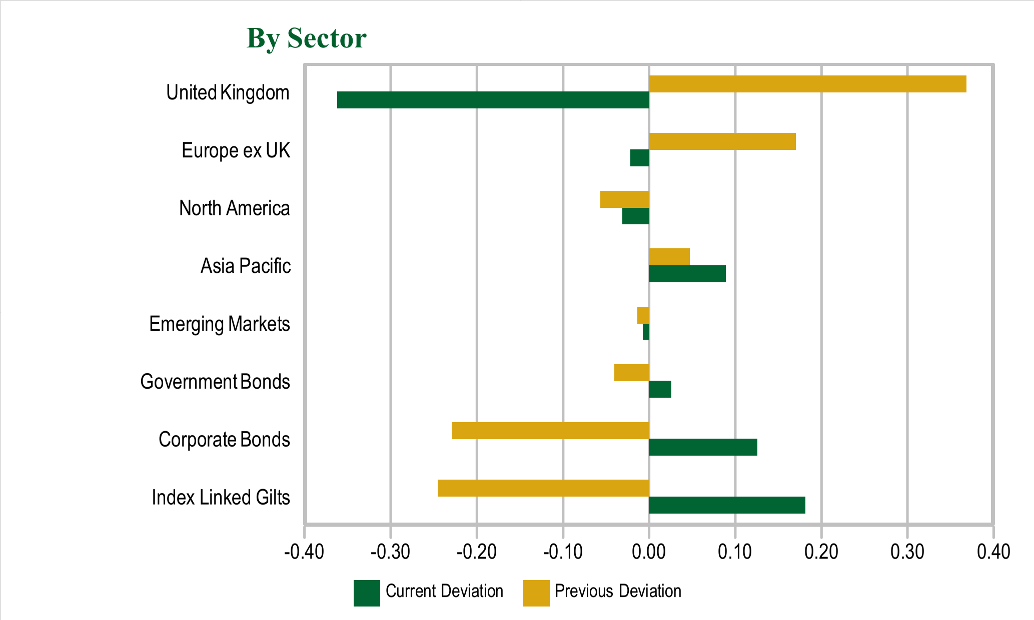
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	-10.84	-11.07	0.26	0.20	-0.84	0.91	0.26
Equity	-14.62	-	-14.62	0.05	-0.83	0.91	0.12
United Kingdom	-13.46	-13.50	0.05	0.01	0.02	0.00	0.03
North America	-11.75	-11.76	0.01	0.00	-0.07	0.07	-0.00
Europe ex UK	-24.16	-24.24	0.11	0.04	0.02	0.03	0.08
Asia Pacific	-11.28	-11.32	0.04	-0.00	-0.63	0.65	0.00
Emerging Markets	-19.20	-19.18	-0.03	0.00	-0.17	0.17	0.01
Fixed Income	2.58	-	2.58	0.05	-0.00	-0.00	0.05
Government Bonds	8.28	8.26	0.02	0.01	0.00	-0.00	0.01
Corporate Bonds	1.59	1.65	-0.05	0.04	-0.00	-0.00	0.04
Index Linked Gilts	6.37	6.36	0.00	0.10	0.00	-0.00	0.10
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	-2.42	-2.61	0.20	0.17	-0.33	0.34	0.20
Equity	-5.10	-	-5.10	0.03	-0.35	0.37	0.05
United Kingdom	-4.27	-4.36	0.10	-0.01	0.04	-0.00	0.03
North America	1.49	1.47	0.02	0.01	-0.00	-0.01	-0.00
Europe ex UK	-13.70	-13.55	-0.18	0.03	0.16	-0.15	0.03
Asia Pacific	-4.01	-3.94	-0.07	0.00	-0.44	0.43	-0.01
Emerging Markets	-15.36	-15.30	-0.08	-0.00	-0.12	0.11	-0.01
Fixed Income	3.00	-	3.00	0.05	0.01	-0.01	0.04
Government Bonds	7.80	7.76	0.04	0.01	0.00	-0.00	0.01
Corporate Bonds	2.02	2.06	-0.03	0.04	0.01	-0.01	0.03
Index Linked Gilts	11.87	11.86	0.00	0.09	0.01	-0.01	0.09
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

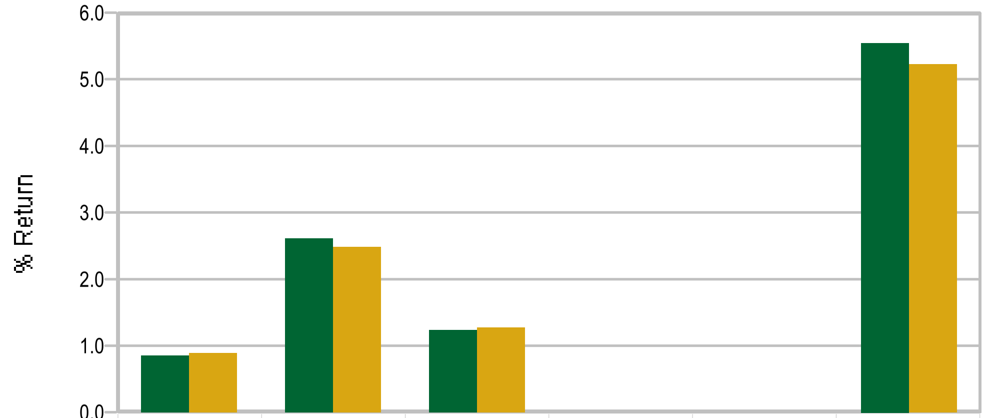
SSGA



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	79.67	80.52		79.67		80.52
United Kingdom	43.64	44.37	44.00	-0.36	44.00	0.37
Europe ex UK	10.98	11.17	11.00	-0.02	11.00	0.17
North America	10.97	10.94	11.00	-0.03	11.00	-0.06
Asia Pacific	11.09	11.05	11.00	0.09	11.00	0.05
Emerging Markets	2.99	2.99	3.00	-0.01	3.00	-0.01
Fixed Income	10.15	9.73		10.15		9.73
Government Bonds	1.53	1.46	1.50	0.03	1.50	-0.04
Corporate Bonds	8.63	8.27	8.50	0.13	8.50	-0.23
Index Linked Gilts	10.18	9.75	10.00	0.18	10.00	-0.25

SSGA Drawdown

Historical Plan Performance

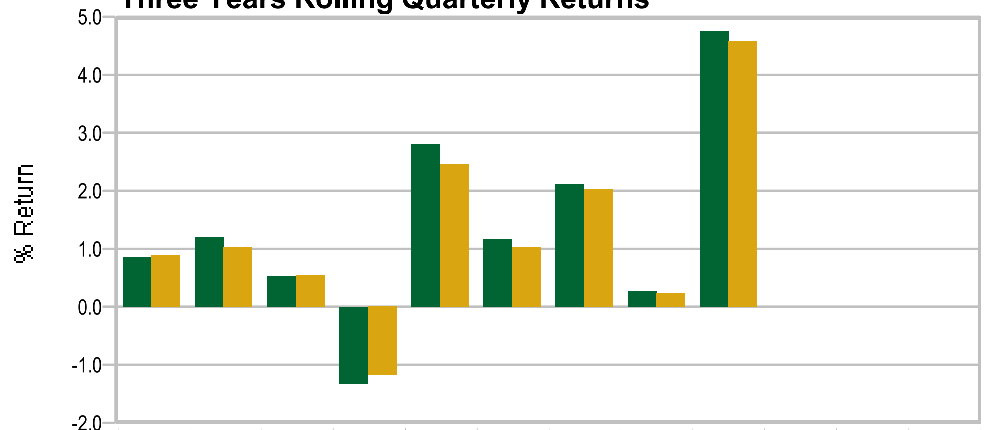


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.85	2.61	1.24	-	-	5.55
Benchmark	0.89	2.48	1.28	-	-	5.23

Risk Statistics - 3 years

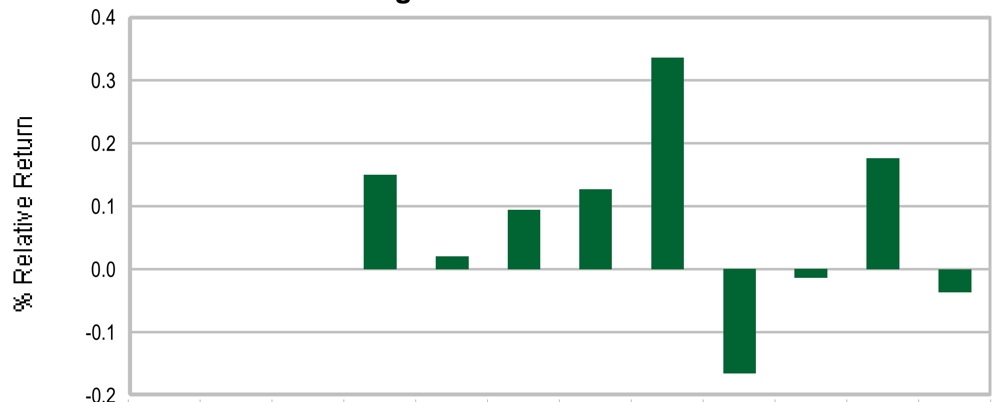
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	1.8	
Inception Date	Jun-2009	
Opening Market Value (£000)	10,254	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	88	
Closing Market Value (£000)	10,341	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	0.85	1.20	0.53	-1.34	2.81	1.16	2.12	0.26	4.75	-	-	-
Benchmark	0.89	1.02	0.55	-1.17	2.47	1.03	2.02	0.24	4.59	-	-	-

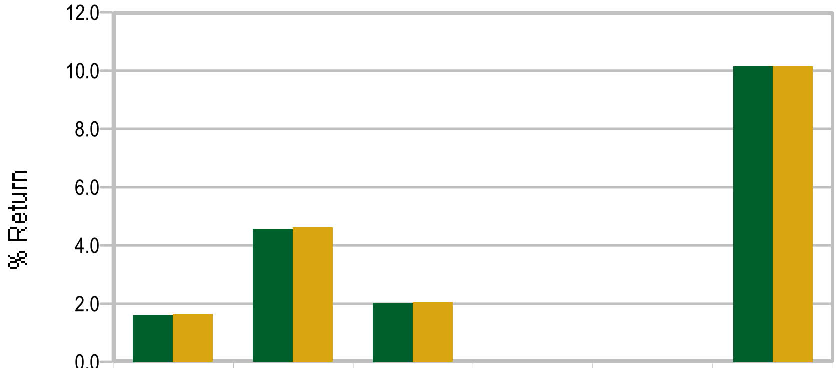
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-	-	-	0.15	0.02	0.09	0.13	0.34	-0.17	-0.01	0.18	-0.04
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

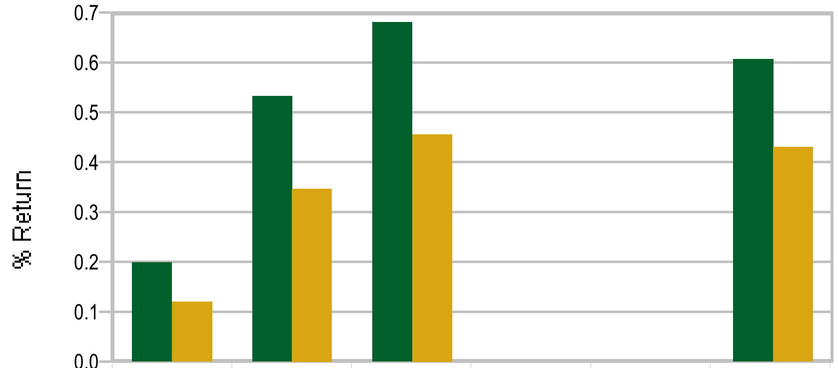
SSGA Drawdown

UK Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.60	4.56	2.03	-	-	10.16
B'Mark	1.65	4.62	2.06	-	-	10.15

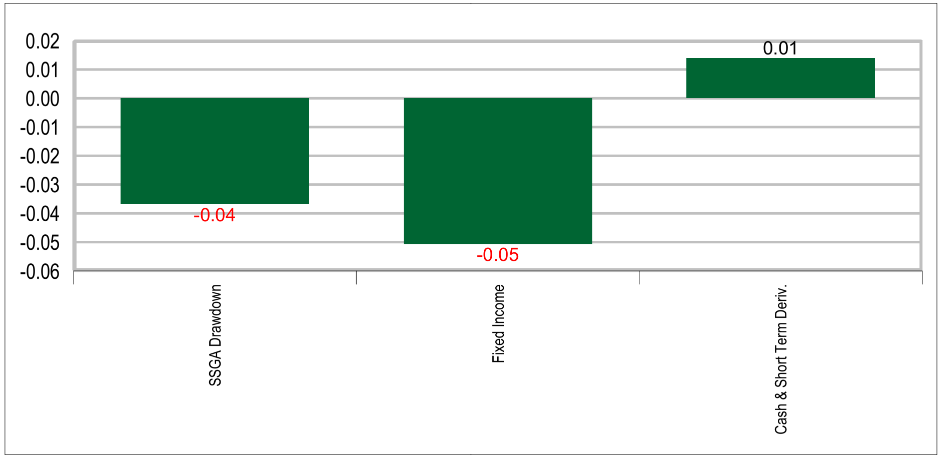
UK Cash



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.20	0.53	0.68	-	-	0.61
B'Mark	0.12	0.35	0.46	-	-	0.43

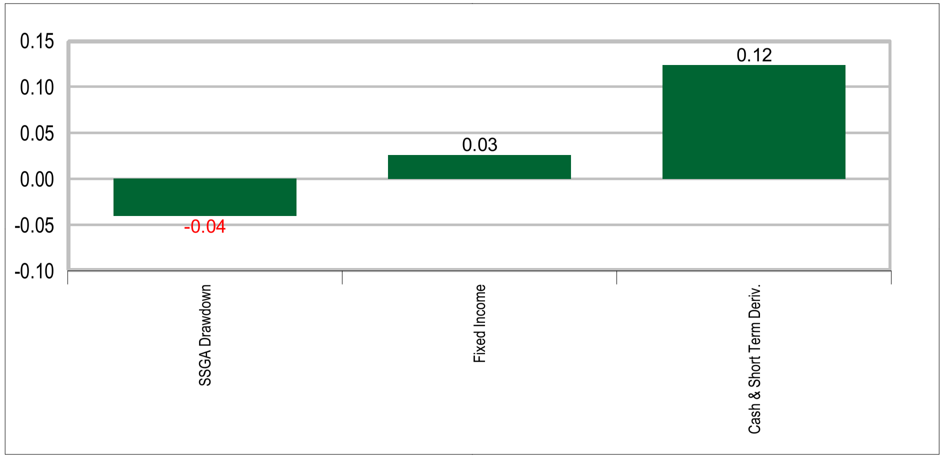
SSGA Drawdown

Relative Contribution - Three Months



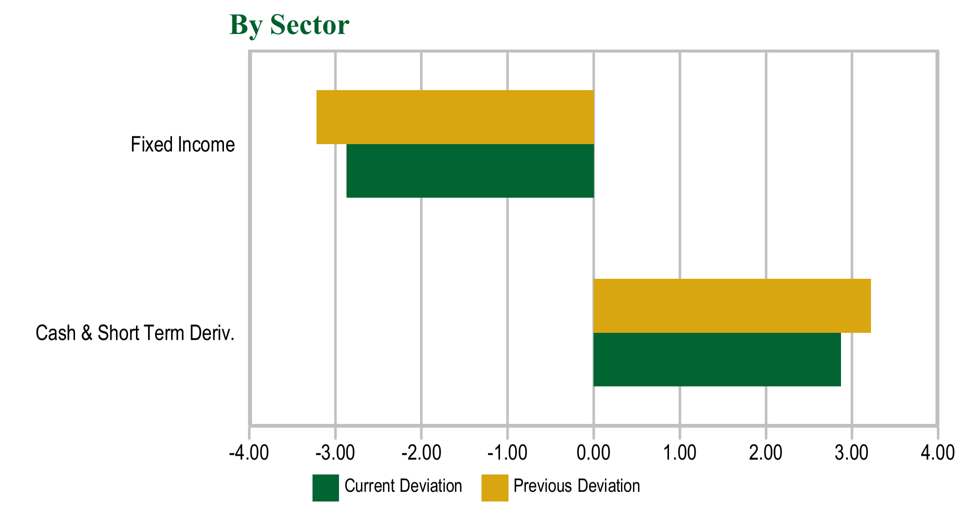
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	0.85	0.89	-0.04	-0.06	0.02	-0.04
Fixed Income	1.60	1.65	-0.05	-0.03	-0.02	-0.05
Cash & Short Term Deriv.	0.20	0.12	0.08	-0.03	0.04	0.01

Relative Contribution - One Year



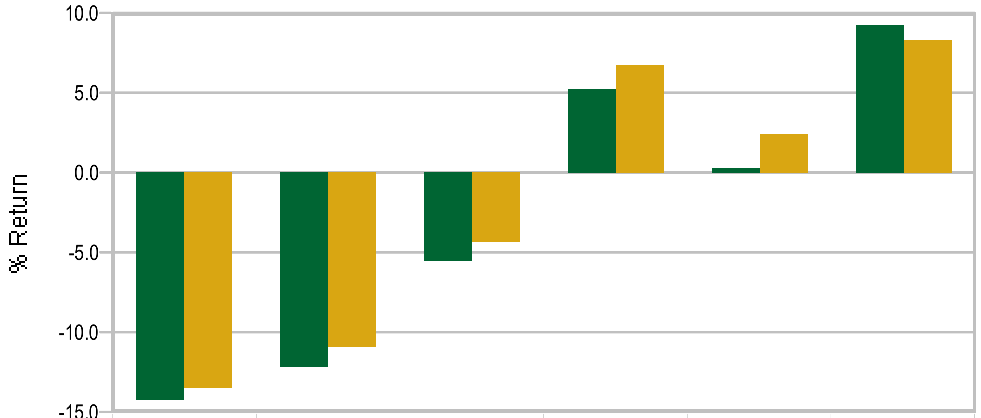
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	1.24	1.28	-0.04	0.03	0.12	-0.04
Fixed Income	2.03	2.06	-0.03	0.02	0.01	0.03
Cash & Short Term Deriv.	0.68	0.46	0.22	0.02	0.11	0.12

SSGA Drawdown



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	47.13	46.78	50.00	-2.87	50.00	-3.22
Cash & Short Term Deriv.	52.87	53.22	50.00	2.87	50.00	3.22

Historical Plan Performance

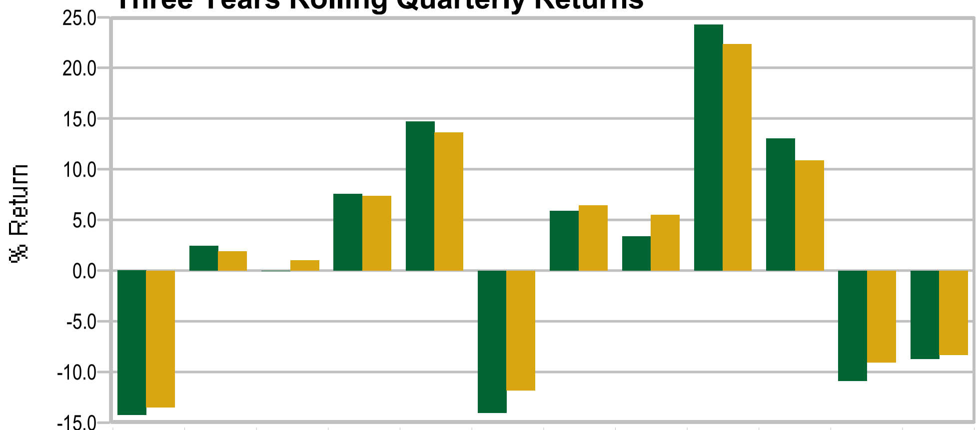


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.25	-12.18	-5.55	5.24	0.29	9.25
Benchmark	-13.50	-10.93	-4.36	6.76	2.41	8.31

Risk Statistics - 3 years

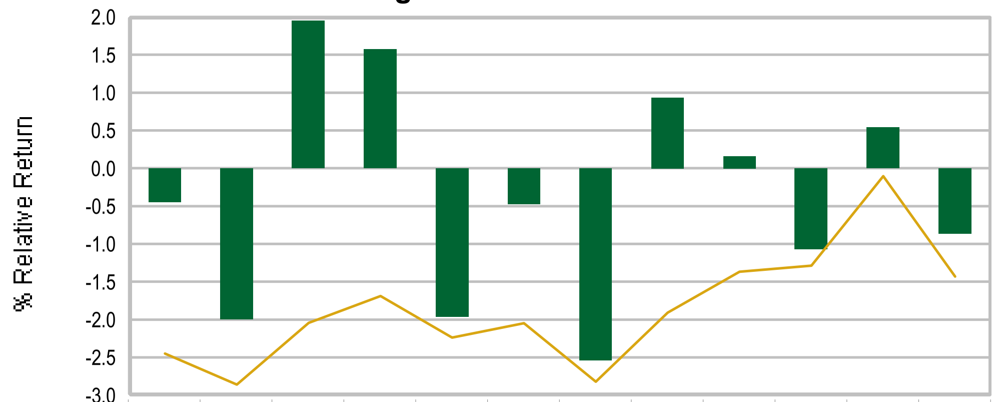
	Fund	B'mark
Performance Return	5.24	6.76
Standard Deviation	19.52	17.23
Relative Return	-1.43	
Tracking Error	4.41	
Information Ratio	-0.35	
Beta	1.11	
Alpha	-1.67	
R Squared	0.96	
Sharpe Ratio	0.16	0.27
Percentage of Total Fund	17.2	
Inception Date	Dec-1988	
Opening Market Value (£000)	113,453	
Net Investment £(000)	0	
Income Received £(000)	937	
Appreciation £(000)	-17,100	
Closing Market Value (£000)	97,290	

Three Years Rolling Quarterly Returns



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-14.25	2.46	-0.05	7.55	14.69	-14.05	5.91	3.41	24.30	13.04	-10.90	-8.71
Benchmark	-13.50	1.91	1.03	7.38	13.63	-11.80	6.42	5.47	22.38	10.88	-9.08	-8.30

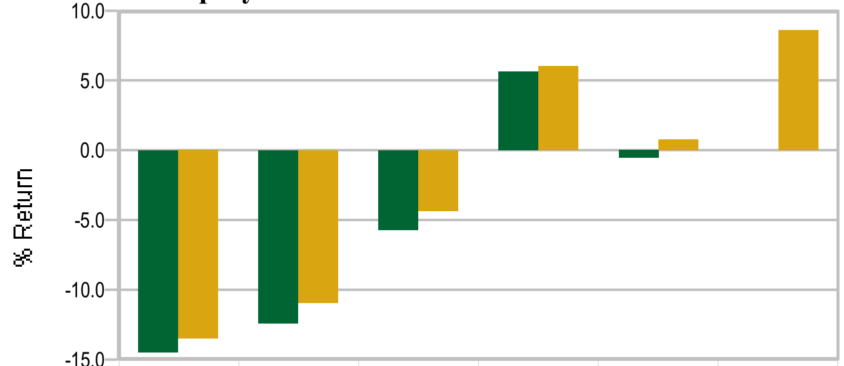
Three Years Rolling Relative Returns



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	-0.45	-1.99	1.95	1.57	-1.96	-0.48	-2.54	0.93	0.16	-1.07	0.54	-0.87
3Y Relative	-2.45	-2.86	-2.04	-1.69	-2.24	-2.05	-2.82	-1.91	-1.37	-1.29	-0.11	-1.43

UBS

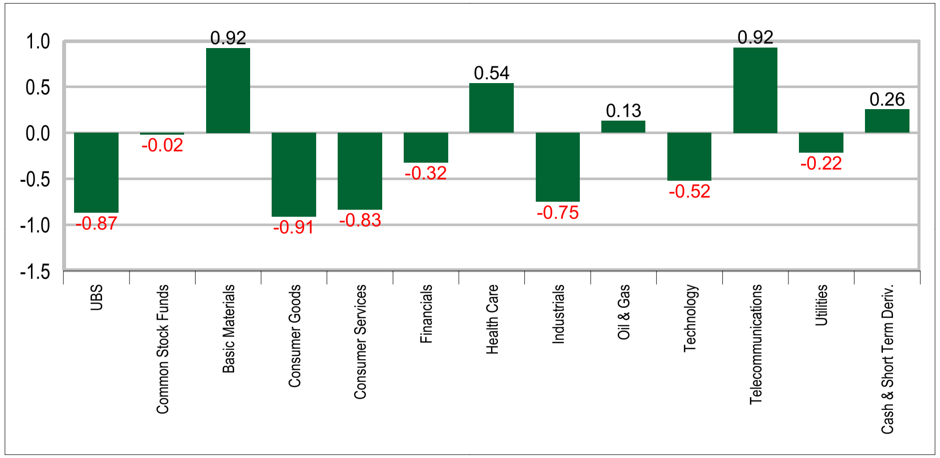
UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.48	-12.40	-5.73	5.62	-0.55	-
B'Mark	-13.50	-10.93	-4.36	6.03	0.78	8.61

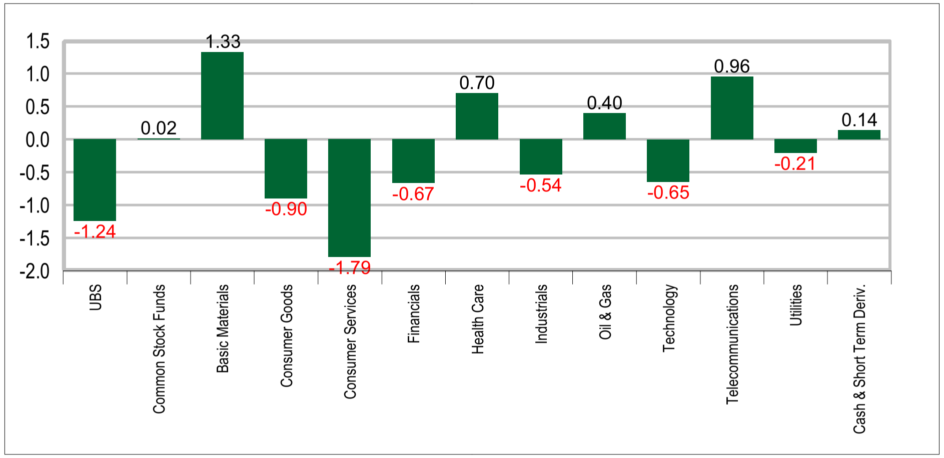
UBS

Relative Contribution - Three Months



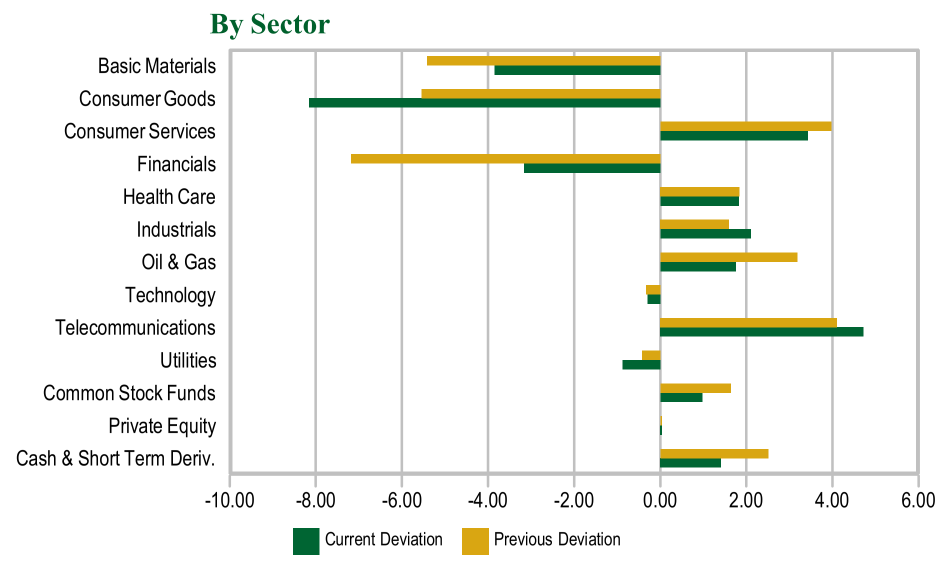
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-14.25	-13.50	-0.87	1.59	-2.39	-0.87
Common Stock Funds	-14.77	-	-14.77	-0.02	0.00	-0.02
Basic Materials	-30.08	-29.81	-0.38	0.96	-0.04	0.92
Consumer Goods	-2.03	-1.68	-0.36	-0.88	-0.03	-0.91
Consumer Services	-18.28	-12.67	-6.43	0.03	-0.87	-0.83
Financials	-25.20	-20.63	-5.76	0.51	-0.83	-0.32
Health Care	1.05	-1.89	3.00	0.25	0.29	0.54
Industrials	-21.57	-15.19	-7.53	-0.04	-0.71	-0.75
Oil & Gas	-11.49	-11.80	0.35	0.06	0.07	0.13
Technology	-35.50	-7.28	-30.44	-0.02	-0.51	-0.52
Telecommunications	1.32	-2.12	3.51	0.56	0.36	0.92
Utilities	-4.45	-0.37	-4.09	-0.07	-0.15	-0.22
Cash & Short Term Deriv.	0.10	-	0.10	0.26	0.00	0.26

Relative Contribution - One Year



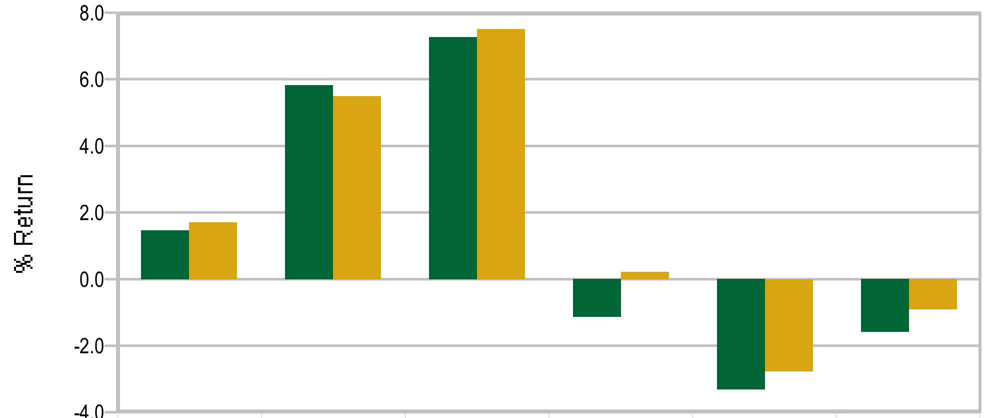
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-5.55	-4.36	-1.24	2.00	-3.18	-1.24
Common Stock Funds	-4.53	-	-4.53	0.02	0.00	0.02
Basic Materials	-11.89	-18.15	7.65	0.73	0.60	1.33
Consumer Goods	14.79	12.34	2.18	-1.05	0.16	-0.90
Consumer Services	-19.06	-7.51	-12.49	-0.13	-1.67	-1.79
Financials	-29.49	-19.63	-12.28	1.20	-1.85	-0.67
Health Care	11.70	6.86	4.53	0.24	0.46	0.70
Industrials	-8.36	-1.87	-6.61	0.08	-0.62	-0.54
Oil & Gas	3.39	2.39	0.97	0.21	0.19	0.40
Technology	-31.37	7.35	-36.07	-0.02	-0.63	-0.65
Telecommunications	13.77	10.52	2.94	0.66	0.30	0.96
Utilities	11.51	15.44	-3.41	-0.08	-0.13	-0.21
Cash & Short Term Deriv.	0.90	-	0.90	0.14	0.00	0.14

UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	6.86	7.83	10.72	-3.85	13.25	-5.42
Consumer Goods	5.19	6.22	13.34	-8.15	11.76	-5.55
Consumer Services	13.14	13.56	9.71	3.43	9.59	3.97
Financials	17.17	14.96	20.33	-3.16	22.14	-7.18
Health Care	9.89	9.11	8.06	1.83	7.27	1.85
Industrials	9.53	9.16	7.43	2.10	7.57	1.60
Oil & Gas	19.23	20.23	17.48	1.76	17.05	3.18
Technology	1.60	1.41	1.89	-0.30	1.75	-0.34
Telecommunications	11.39	9.96	6.67	4.72	5.85	4.11
Utilities	3.50	3.36	4.37	-0.88	3.78	-0.42
Common Stock Funds	0.98	1.63		0.98		1.63
Private Equity	0.04	0.04		0.04		0.04
Cash & Short Term Deriv.	1.42	2.51		1.42		2.51

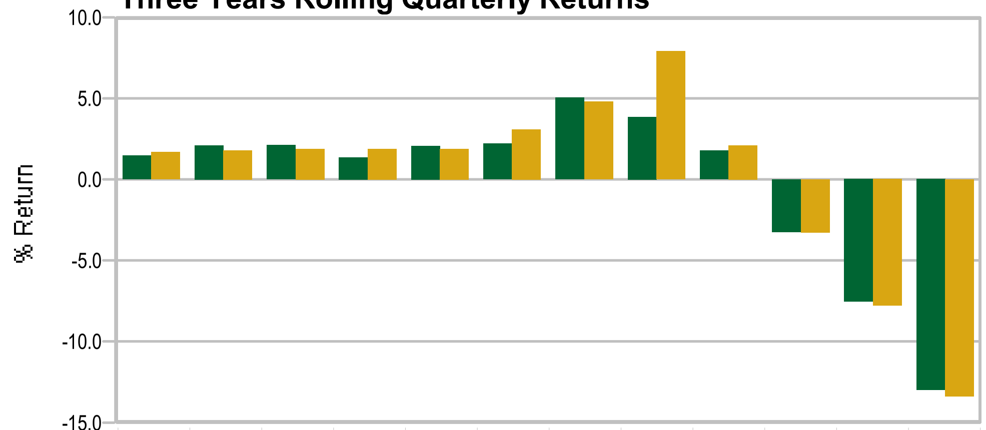
UBS Property



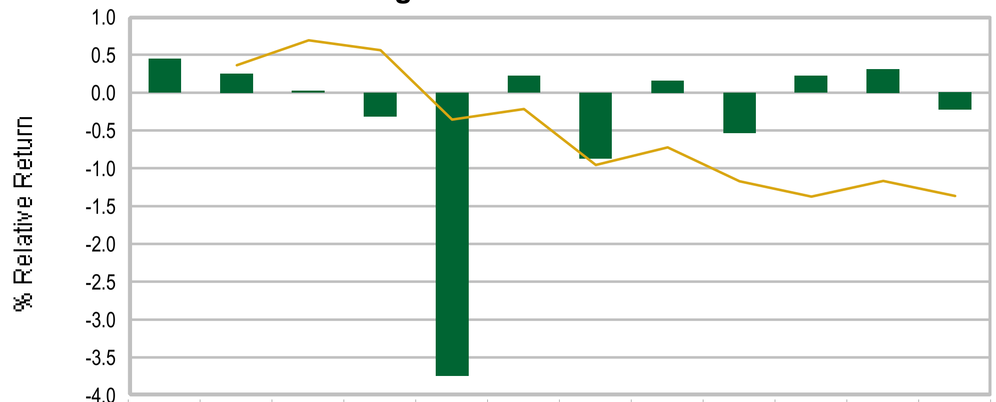
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.47	5.82	7.26	-1.14	-3.32	-1.58
Benchmark	1.70	5.50	7.50	0.22	-2.77	-0.91

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-1.14	0.22
Standard Deviation	6.33	6.58
Relative Return	-1.36	
Tracking Error	2.44	
Information Ratio	-0.56	
Beta	0.91	
Alpha	-1.52	
R Squared	0.88	
Sharpe Ratio	-0.51	-0.28
Percentage of Total Fund	8.5	
Inception Date	Mar-2006	
Opening Market Value (£000)	47,524	
Net Investment £(000)	-11	
Income Received £(000)	618	
Appreciation £(000)	79	
Closing Market Value (£000)	48,211	



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	1.47	2.12	2.13	1.36	2.06	2.20	5.03	3.86	1.77	-3.28	-7.57	-13.01
Benchmark	1.70	1.80	1.90	1.90	1.90	3.10	4.80	7.90	2.10	-3.30	-7.80	-13.40



	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11
3M Relative	0.45	0.25	0.03	-0.32	-3.74	0.23	-0.87	0.16	-0.53	0.23	0.31	-0.23
3Y Relative	-	0.36	0.69	0.56	-0.35	-0.22	-0.96	-0.72	-1.17	-1.38	-1.17	-1.36

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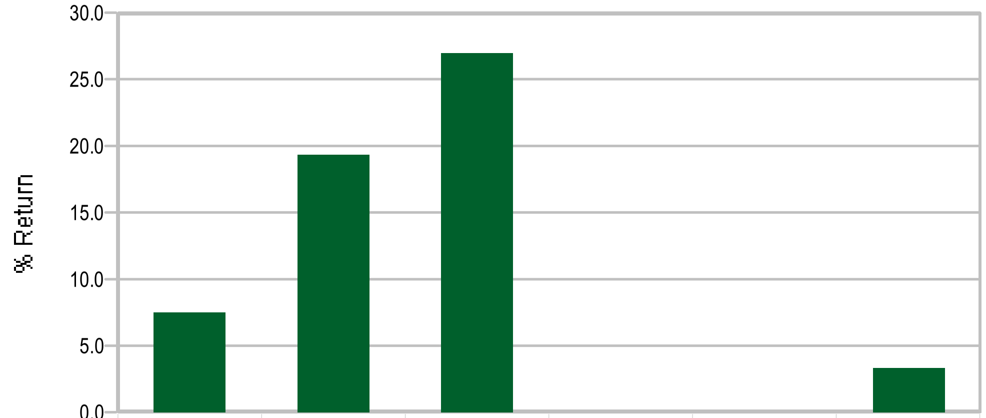
Adam Street

Historical Plan Performance

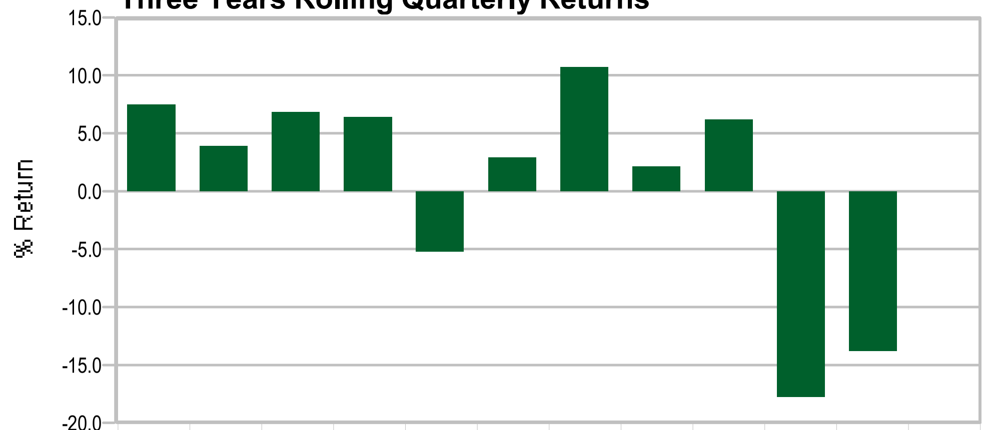


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.48	19.30	26.96	-	-	3.34

Risk Statistics - 3 years

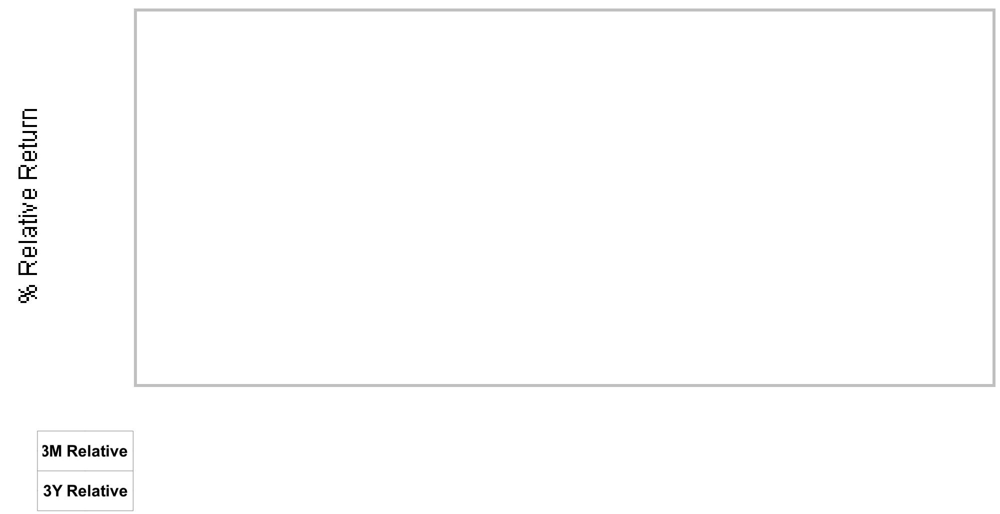
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	3.7	
Inception Date	Oct-2008	
Opening Market Value (£000)	19,428	
Net Investment £(000)	85	
Income Received £(000)	0	
Appreciation £(000)	1,458	
Closing Market Value (£000)	20,972	

Three Years Rolling Quarterly Returns



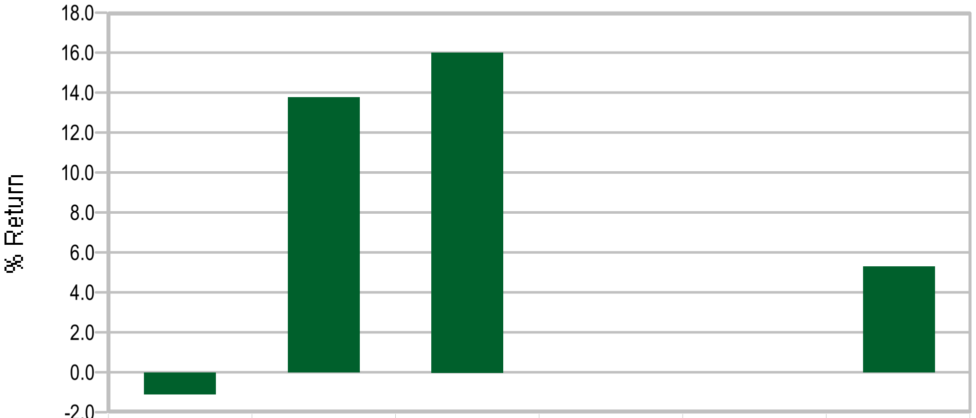
	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	7.48	3.89	6.83	6.42	-5.19	2.90	10.72	2.15	6.16	-17.76	-13.79	-

Three Years Rolling Relative Returns



LGT

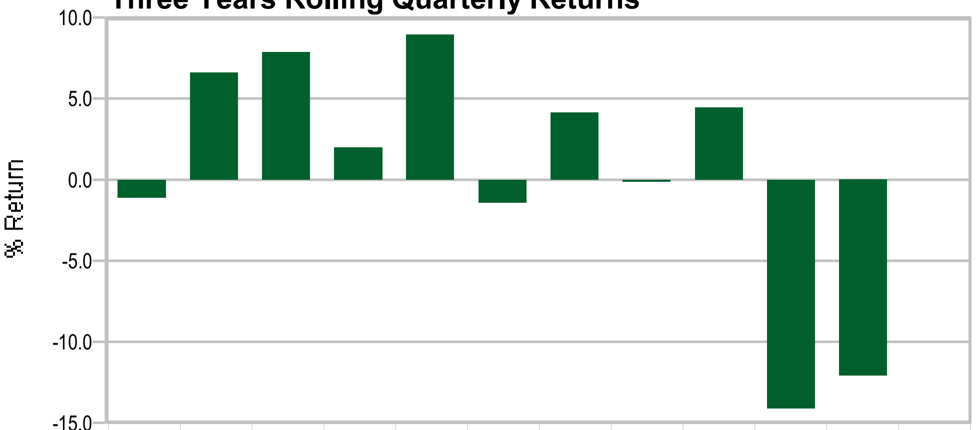
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.10	13.75	16.01	-	-	5.31

Risk Statistics - 3 years	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	3.0	
Inception Date	Oct-2008	
Opening Market Value (£000)	17,121	
Net Investment £(000)	91	
Income Received £(000)	0	
Appreciation £(000)	-186	
Closing Market Value (£000)	17,026	

Three Years Rolling Quarterly Returns

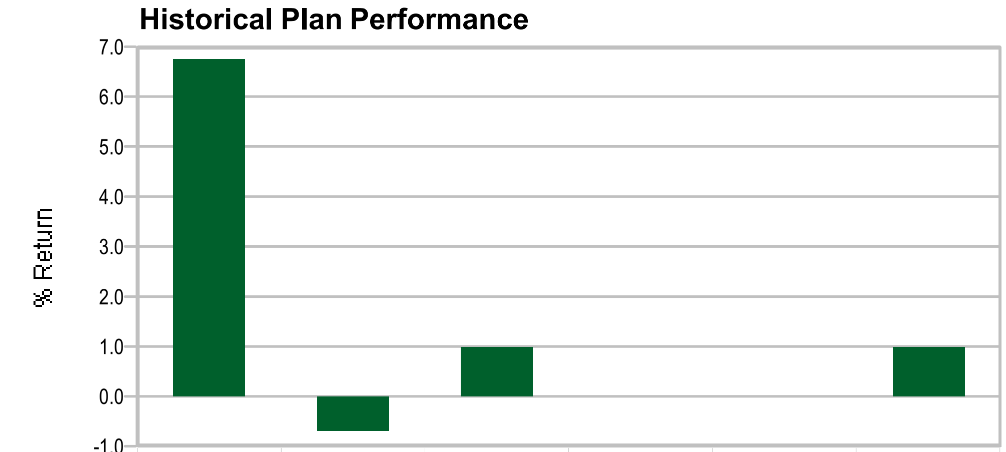


	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	-1.10	6.61	7.88	1.99	8.95	-1.42	4.13	-0.11	4.46	-14.08	-12.09	-

Three Years Rolling Relative Returns

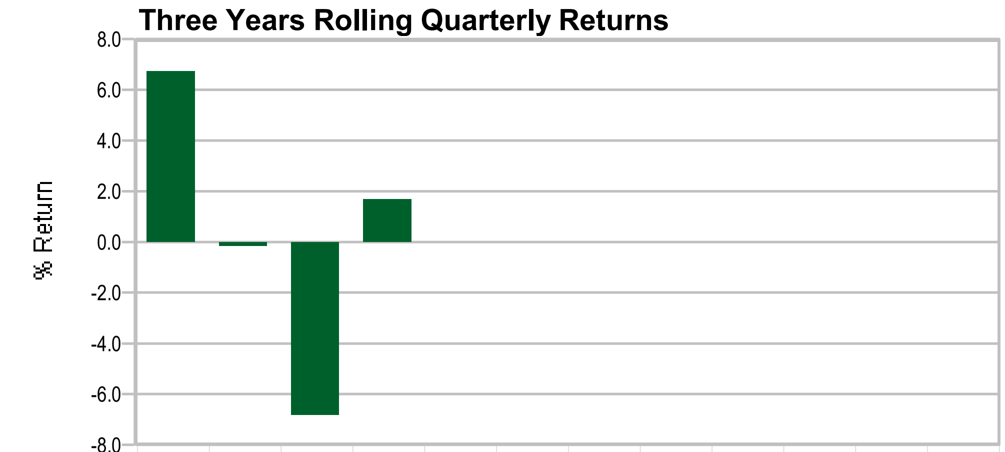
3M Relative
3Y Relative

Macquarie

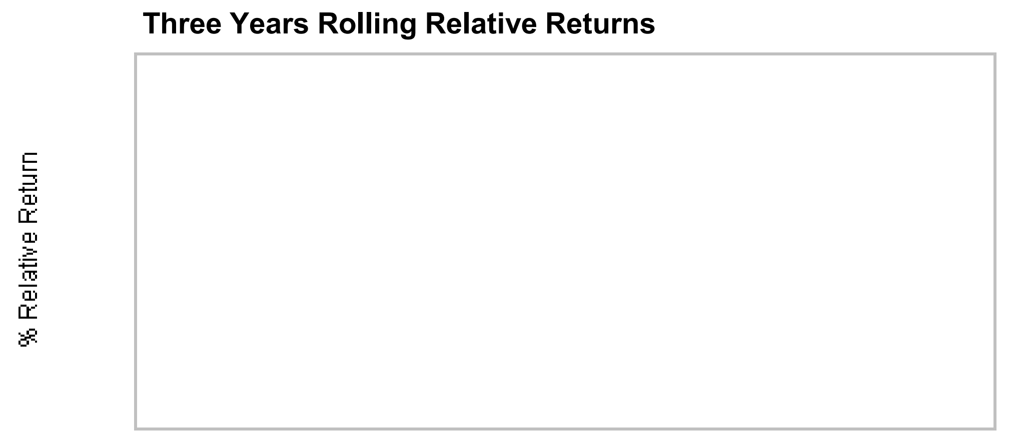


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.74	-0.69	0.99	-	-	0.99

Risk Statistics - 3 years	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	0.3	
Inception Date	Sep-2010	
Opening Market Value (£000)	1,275	
Net Investment £(000)	67	
Income Received £(000)	-0	
Appreciation £(000)	90	
Closing Market Value (£000)	1,432	



	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08
Fund	6.74	-0.16	-6.81	1.68	-	-	-	-	-	-	-	-



Total Plan Benchmark

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

Fauchier

100.0 LIBOR 3 Month + 5%

Goldman Sachs

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

Marathon

100.0 MSCI World

M&G Investments

100.0 LIBOR 3 Month + 4%

Ruffer

100.0 LIBOR 3 Month GBP

SSGA

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

SSGA Drawdown

50.0 ML Sterling Non-Gilts
50.0 FT 7 Day LIBID

UBS

100.0 FTSE All Share

UBS Property

100.0 IPD UK PPFI All Balanced Funds Index

Tracking Error

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

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

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

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

Information Ratio

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

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

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

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

Alpha

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

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

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

Beta

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

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

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

R-Squared

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

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

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

Sharpe Ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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WM LOCAL AUTHORITY

QUARTER 3 2011

The following summary is based on 60 funds with a total Market Value of £92,436m.

Update 1 - 09/11/2011

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Fiscal Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	66.6	62.8	-14.9	-15.0	-13.9	-14.7	-5.1	-4.8
GLOBAL POOLED INC UK	3.3	3.1	-15.0	-15.0	-14.3	-14.7	-4.2	-4.8
UK EQUITIES	29.3	27.7	-13.6	-13.5	-11.7	-11.8	-4.0	-4.4
OVERSEAS EQUITIES	34.0	32.0	-16.1	-15.1	-15.7	-15.0	-6.2	-4.9
North America	10.2	10.2	-12.6	-11.8	-13.0	-12.1	0.5	1.5
Europe	9.1	8.0	-22.6	-24.3	-20.4	-21.9	-11.1	-13.6
Japan	3.7	3.9	-4.1	-3.1	-3.3	-3.0	5.8	1.9
Pacific (ex Japan)	4.0	3.7	-17.7	-18.0	-17.1	-17.7	-9.7	-8.6
Emerging Markets	5.3	4.8	-19.0	-19.2	-20.8	-20.7	-15.4	-15.3
Global ex UK	1.6	1.6	-15.0	-15.1	-14.8	-15.0	-3.5	-4.9
TOTAL BONDS	17.7	19.4	4.1	-	7.0	-	6.3	-
U.K. BONDS	10.8	11.6	3.5	8.3	5.6	10.9	4.0	7.8
OVERSEAS BONDS	2.0	2.3	2.4	3.9	5.5	9.4	5.1	6.2
INDEX LINKED	4.4	5.0	6.9	6.4	11.8	10.7	12.9	11.9
POOLED BONDS	0.5	0.5	0.3	8.4	1.5	13.6	1.4	13.5
TOTAL CASH	3.2	3.7	0.4	0.1	0.8	0.2	1.3	0.5
ALTERNATIVES	6.3	7.2	-0.4	-	1.5	-	8.0	-
Total Private Equity	3.5	4.1	2.1	-	6.6	-	15.1	-
Total Hedge Funds	1.7	1.9	-3.4	-	-3.3	-	0.5	-
Other Alternatives	1.1	1.3	-3.5	-	-4.7	-	1.6	-
TOTAL EX-PROPERTY	93.9	93.3	-9.9	-9.8	-8.6	-8.6	-1.8	-2.1
TOTAL PROPERTY	6.1	6.7	1.0	1.9	3.1	4.0	7.7	8.7
TOTAL ASSETS	100.0	100.0	-9.3	-9.0	-7.9	-7.7	-1.2	-1.3

WM PERFORMANCE SERVICES
A State Street Business

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 September 2011

LBH PRIVATE EQUITY FUNDS LGT CAPITAL PARTNERS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
	£ 000	%	£ 000	%	£ 000	%	000	%	% Sep 11
Crown private Equity European Buyout Opport.	11,885	2.11	9,342	1.66	6,155	1.09	3,187	0.56	7.99
Crown Global Secondaries Plc (US$)	1,920	0.34	1,642	0.29	1,052	0.19	590	0.10	5.51
Crown Private Equity European Fund	4,350	0.77	3,352	0.59	502	0.09	2,850	0.51	5.29
Crown Private Equity European Buyout Opport. II	8,701	1.54	3,959	0.70	505	0.09	3,454	0.61	2.02
Crown Asia-Pacific Private Equity Plc (US$)	1,920	0.34	1,413	0.25	251	0.04	1,162	0.21	10.09
Crown European Middle Market II plc	3,480	0.62	1,008	0.18	68	0.01	940	0.17	15.18
Crown Global Secondaries II Plc (US$)	1,408	0.25	721	0.13	132	0.02	589	0.10	41.76
TOTAL(S) LGT CAPITAL PARTNERS	**33,664**	**5.97**	**21,437**	**3.80**	**8,665**	**1.54**	**12,772**	**2.26**	
ADAMS STREET PARTNERS	**£**		**£**						June 11
Adam Street Partnership Fund - 2005 US Fund	8,958	1.59	7,005	1.24	1,482	0.26	5,523	0.98	6.19
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,839	0.68	3,112	0.55	487	0.09	2,625	0.47	8.45
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,879	0.51	2,075	0.37	150	0.03	1,925	0.34	7.25
Adam Street Partnership 2006 Direct Fund	960	0.17	881	0.16	123	0.02	758	0.13	0.50
Adam Street Partnership Fund - 2006 US Fund, L.P	5,759	1.02	3,896	0.69	603	0.11	3,293	0.58	6.40
Adams Street Direct Co-Investment Fund, L.P.	1,920	0.34	1,833	0.32	0	0.00	1,833	0.32	N/A
Adams Street Partnership 2007 Direct Fund LP	320	0.06	278	0.05	65	0.01	213	0.04	7.48
Adams Street Partnership - 2007 Non -US Fund	1,120	0.20	549	0.10	0	0.00	549	0.10	9.25

Adams Street Partnership - 2007 US Fund	1,760	0.31	1,007	0.18	215	0.04	792	0.14	13.94
Adams Street Partnership - 2009 US Fund	960	0.17	236	0.04	0	0.00	236	0.04	36.38
Adams Street Partnership - 2009 Direct Fund	192	0.03	79	0.01	3	0.00	76	0.01	25.62
Adams Street Direct Co-Investment Fund II.	1,600	0.28	452	0.08	0	0.00	452	0.08	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	192	0.03	28	0.00	0	0.00	28	0.00	2.91
Adams Street Partnership 2009 Non-US Developed Market	576	0.10	68	0.01	0	0.00	68	0.01	29.74
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**31,035**	**5.50**	**21,499**	**3.81**	**3,128**	**0.55**	**18,371**	**3.26**	

FUND VALUE	**564,300**	
COMMITMENT STRATEGY	49,376	8.75%
TO ACHIVE INVESTMENT	28,215	5.00%
CURRENT INVESTMENT BOOK COST	31,143	5.52%
CURRENT INVESTMENT MARKET VALUE	38,597	6.84%

Fund Value as per NT Report (Excluding PE & Macquarie)	564,300.0
PE Investment (Market Value)	
Macquarie (Market value)	
Nomura/Pasco	
Total Fund Value	**564,300.0**
Mid Market Value	**564,300.00**

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

Industry Update

During the second quarter, public equity benchmarks were flat to modestly positive. Our private equity returns significantly outperformed the public markets during the period due to strong exits and positive valuation adjustments. Beginning in August, global equity markets have experienced widespread volatility. The macro environment, plagued by the resurgence of the eurozone debt crisis, the prospect of a slowing global economy, and the formal downgrade of US government debt created even more uncertainty in a market already struggling. The strong pace of distributions from our underlying GPs continued through the third quarter. Given the recent volatility in the public market, we expect the distribution pace to slow somewhat as we enter the fourth quarter.

Portfolio Statistics as of June 30, 2011

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Private Equity Market	Public Market
Total Hillingdon Portfolio	**02/2005**	**97%**	**68%**	**70%**	**1.12x**	**6.43%**	**N/A**	**2.99%**
2005 Subscription	02/2005	100%	78%	78%	1.15x	6.90%	N/A	3.02%
2006 Subscription	01/2006	100%	70%	70%	1.09x	5.70%	N/A	2.96%
2007 Subscription	01/2007	98%	55%	56%	1.18x	11.39%	N/A	5.22%
2009 Subscription	01/2009	47%	19%	40%	1.14x	31.08%	N/A	17.03%
Direct Co-Investment Fund	09/2006	100%	96%	96%	0.98x	1.04%	N/A	-0.24%
Co-Investment Fund II	01/2009	100%	28%	28%	1.10x	15.90%	N/A	17.79%

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

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. June 30th w as not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flow s to the MSCI World Index.

Main Drivers of Performance

Buyouts
Steady activity continued in the European and US buyout markets amidst increasingly uncertain economic times. We expect new deal activity to remain steady but increase slowly in 2012. New commitments to global buyout managers during the first six months of 2011 exceeded the total for all of 2010. There is still a meaningful amount of uninvested capital so sales to other private equity managers represented a popular exit route for buyouts. In addition, strategic buyers flush with cash and seeking growth are particularly acquisitive. The market volatility has also led to a dramatic shift in the financing environment making it more challenging for acquirers to secure reasonable financing terms. GPs are more cautious with the increased cost of financing. Despite market excitement over increasing IPO activity, only a handful of all completed exits during the first six months of 2011 went through an IPO. We expect limited IPO activity in buyouts.

With demand waning for mega buyouts, we expect fund sizes in this category to decrease from the last fundraising cycle. Demand for smaller buyout funds remains. Overall, we continue to observe a bifurcation between overwhelming demand for the top managers and marginal quality GPs struggling to raise capital. We feel comfortable in most cases that the buyout managers in our portfolios have been properly focused on managing their portfolio companies through this difficult economic environment and are exercising appropriate caution as they seek new opportunities for investment. The market volatility will clearly weigh on valuations for buyout portfolios as we approach the end of the third quarter.

Venture Capital
During the second quarter, venture capital fundraising dropped with the fewest number of funds raising capital since the first quarter of 1995. Interestingly, the fundraising was highly concentrated with two Accel funds accounting for over 50% of the aggregate commitments within the quarter. Thus far this year venture funds have invested more than they raised thereby reducing the capital overhang from prior periods. The investment pace over the first six months increased 12% compared to the first six months of 2010. Software investments attracted the most new capital during the quarter followed by biotech, clean tech and medical

devices. Late-stage investing continued to grow, driven by large financings that often provided partial liquidity for existing shareholders.

Reflective of the healthier exit markets over the past twelve months, performance generally improved across our venture capital portfolios. An active venture capital exit market set a steady pace for the first half of the year. Over 200 venture-backed companies were acquired and another 22 went public during the quarter. However, at the beginning of the third quarter, exit activity noticeably slowed amidst market turmoil. Many high quality venture-backed companies that had filed to go public have delayed entry into the market. IPO filing activity remains robust creating a sizeable backlog of private companies in the IPO pipeline. The US IPO pipeline surpassed the 200 deal mark for the first time in over a decade. The return of venture-backed growth stories and the ongoing need for buyout firms to monetize investments has created a pipeline of over 202 companies, 100 of which have submitted initial filings or amendments within the last month. While facing a headwind dominated by global market unease, we continue to believe that the size and quality of the current backlog will enable the IPO window to open and reward quality companies.

Many of our venture managers have companies of substantial size and growth in their portfolios. The strong operating results of investments made over the last decade are now beginning to positively impact performance. Within the internet and media sector, social media and touch screen mobile devices are driving revolution of business models across multiple sectors and industries. Within our funds, valuations for many companies in these areas continue to rise. Some of our venture funds have taken advantage of attractive private valuations by obtaining partial liquidity though private secondary sales.

Portfolio Outlook

We believe our positioning with regard to the size and growth rates of many companies in our portfolios bodes well for the future. As the exit market begins to improve whether through strategic acquisitions or going public, we expect the impact on our portfolios to be meaningfully positive

As we continue through the latter half of 2011, we are attune to the ever-changing economic landscape. We remain cautious about the future and committed to raising and deploying capital in our disciplined process that has served our investors well for nearly four decades. We are optimistic about our existing portfolios and continue to find exciting investment opportunities around the world.

End Q3 2011 portfolio overview

- The portfolio remained active in the last quarter with both distributions (4% of NAV) and capital calls (3% of subscriptions) maintaining high levels
- Since the last report, net invested capital has increased by Euro 0.3 million as underlying managers invested more capital than they returned
- Nonetheless, distributions as a proportion of paid-in capital rose to 0.40x from 0.39x last quarter
- Total portfolio gains now amount to Euro 5.2 million, being Euro 19.9 million of NAV less Euro 14.7 million of net invested capital
- The USD strengthened by 7.7% against the Euro in the period which had a minor positive effect on portfolio performance
- Given economic uncertainty, private equity activity is expected to slow in the coming months

Q3 2011		Net Performance (in millions of Euros)						Cash Multiple		Drawn	
		LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure		32.7	20.3	-8.3	12.0	16.1	4.1	0.41	1.20	62%	37%
Euro equivalent Dollar Exposure @	1.3387 USD / Euro	6.1	4.4	-1.7	2.7	3.8	1.1	0.38	1.25	72%	45%
Total Exposure (in Euro millions)		38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	64%	38%

Q2 2011	1.4510	38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	1.3384	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q3 figures as of 30th September 2011
D/PI - distriutions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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Retirement Performance Statistics and Cost of Early Retirements Monitor

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

SUMMARY

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

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

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

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

Number of Cases in the second quarter of 2011/12

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

	Redundancy	Efficiency	Ill Health	Voluntary over 60
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
2010/2011	20	0	11	34
Current Year				
Quarter 2 – 2011/12	42	0	10	14

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

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

Note: * gainful employment is defined as paid employment for not less than 30 hours in each week for a period of not less than 12 months.
** reasonable period is defined as 3 years.
*** the term local government employment is used to indicate that the employee a member of the Local Government Pension Scheme, not that they work for a local authority.

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

EARLY RETIREMENT COSTS MONITOR

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

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

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

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

MONITOR

Detail for Valuation Period 01.04.2011 to 31.03.2014

	Capital Cost of early retirement to the fund	Payroll Total	Cost as a % of payroll
2011/12 (2nd Qtr)	£586,191	110,136,000	0.53
Average over previous valuation period			0.59

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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PENSION FUND BUDGET 2011 - 2012

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

SUMMARY

Although not explicit within the Terms of Reference of the Pensions Committee, as part of its role in governance of the pension fund, the Committee has responsibility to oversee the 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.

RECOMMENDATION

1. **It is recommended that Committee note the budget position as at 30 September 2011.**

PENSION FUND BUDGET

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. As explained in the June report, the budget for 2011/12 has been aligned with the actual outturn position for 2010/11, with the figure for employer contributions being increased by the impact of an additional 1% contributions and the final pension payments figure being 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 at budget setting 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

BUDGET MONITORING 2011/12

Member income projected from Month 6 is forecasting a drop from the expected budget with the predicted shortfall being £600k at the half year stage. Both employers and employees contributions are lower as a result of the fall in member numbers through redundancies.

At month 6, projected member's expenditure is significantly higher than budget predominately through lump sum retirement benefits and pension payments, which again can be attributed to redundancies. Whilst the pension payments will continue, the value of lumps sum payment will drop as redundancy numbers fall. The combined impact of lower income and higher expenditure is forecasting a member deficit of £1.7m as at month 6, £2.8m less that the budget.

The current forecast is predicting an overall deficit from operations of £2.5m. The budget will continue to be monitored on a monthly basis and issues will be reported to the next meeting of Committee.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications in this report.

Pension Fund Budget 2011/12

September 2011	2010-11 Actual	2011-12 Budget	2011-12 Actual M6	2011-12 Projection
Member Income				
Employers Contributions	22,688	23,538	10,699	21,398
Employers Lump Sum Contribution			10	850
Employees Contributions	8,357	8,358	4,048	8,096
Transfer Values Receivable	3,968	3,815	2,374	4,748
Net Member Income	**35,013**	**35,711**	**17,131**	**35,092**
Member Expenditure				
Pension Payments	(23,243)	(23,964)	(12,237)	(24,474)
Lump Sum Retirement Benefits	(5,850)	(5,850)	(3,942)	(7,884)
Lump Sum Death Benefits	(991)	(991)	(403)	(806)
Refunds of Contributions	(8)	(8)	(5)	(10)
State Scheme Premiums	(2)	(2)	(4)	(8)
Transfer Values Payable	(3,663)	(3,815)	(1,822)	(3,644)
Net Member Expenditure	**(33,757)**	**(34,630)**	**(18,413)**	**(36,826)**
Net Member Surplus	**1,256**	**1,081**	**(1,282)**	**(1,734)**
Administration Expenditure				
Pensions Administration	(344)	(630)	(244)	(488)
Miscellaneous Costs	(108)	(1)	(2)	(4)
Investment Administration	(286)	(107)	(76)	(152)
Net Administration Expenditure	**(738)**	**(738)**	**(322)**	**(738)**
Surplus/(Deficit) from Operations	**518**	**343**	**(1,604)**	**(2,472)**

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Pensions Administration Performance

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	nil

SUMMARY

This report summarises the key work areas of the pension's administration section for each month during the period 1 July 2011 to 30 September 2011. Performance has previously been reported quarterly, however, to improve transparency and to review trends this has been done monthly for this report. The local targets shown are within the nationally agreed targets for England and Wales. Previous full year performance data is included in the Annual Report for the fund. All data shown is extracted from the Pensions Administration System.

RECOMMENDATIONS

That the contents of the report be noted

Background

From September 2010, Pensions Administration was combined with Payroll under a single manager. The performance report below shows the monthly performance for the second quarter of 2011. The monthly performance indicator reports are sent to officers in HR responsible for the day to day administration of the scheme. The drop in performance, specifically in the areas of Actual Retirement Benefits (66.67%) and Letter notifying Dependants Benefits (50.00%) was mainly attributable to staffing shortages and prioritisation of work. Additional temporary staff have now been appointed which should help to alleviate the position. Indeed performance in October is showing an improvement.

Improving performance in pension's administration is a key priority for officers from Corporate Finance and HR.

PENSIONS ADMINISTRATION PEFORMANCE

WORK AREA	Hillingdon Target	Jul-11 Total Cases	Jul-11 Percentage in target	Aug-11 Total Cases	Aug-11 Percentage in target	Sep-11 Total Cases	Sep-11 Percentage in target
Condolence Letter	2 Days	14	100.00%	13	100.00%	12	100.00%
Actual Retirement Benefits	5 Days	25	92.00%	36	88.89%	45	66.67%
Letter notifying Dependants Bens	5 Days	5	100.00%	1	0.00%	4	50.00%
Process Refund	5 Days	2	50.00%	0	100.00%	5	40.00%
Transfers in Actual	5 Days	10	60.00%	9	88.89%	4	25.00%
Transfers in quote	5 Days	8	100.00%	9	55.56%	10	70.00%
Answer General Letter	7 Days	91	97.80%	73	100.00%	77	100.00%
Calc/Notify Deferred	10 Days	112	68.75%	50	78.00%	28	89.29%
Estimate of Retirement Benefits	10 Days	102	99.02%	65	86.15%	68	86.76%
Transfers Out Quote	5 Days	7	57.14%	2	0.00%	6	50.00%
Transfers Out Actual	9 Days	6	83.33%	5	80.00%	5	40.00%
New Entrants	20 Days	24	100.00%	29	100.00%	3	66.67%
Answer ABS Query	10 Days	1	100.00%	3	100.00%	3	100.00%
Added Years	10 Days	0	100.00%	0	100.00%	0	100.00%
TOTALS		407	87.96%	295	88.81%	270	83.33%
Redundancy Under 50	5 Days	12	75.00%	11	36.36%	5	0.00%

GOVERNANCE ISSUES	

Contact Officers	Ken Chisholm
Papers with this report	None

SUMMARY

This report is to provide an update on Pension Fund Governance issues. Item 1 on member development was held over from the June Committee.

RECOMMENDATIONS

1. **That Members discuss and agree an approach to member development**
2. **Approve the revisions to the Statement of Investment Principles**
3. **Members agree to sign up to the Financial Reporting Council Stewardship Code and include a reference to the code in new mandates**

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 with 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. Statement of Investment Principles (SoIP) Update

The Statement of Investment Principles has been updated to remove Goldman Sachs Asset Management throughout the document following their termination and the subsequent addition of JP Morgan following their appointment. Committee are asked to approve these revisions.

3. Financial Reporting Council – Stewardship Code

One of the outcomes of the financial crisis in 2008 has been to seek to improve the extent and effectiveness of shareholder engagement with companies. One of the recommendations of the Walker Review was that the Financial Reporting Council (FRC) should have responsibility for a new Stewardship Code, setting out best practice in respect of investor engagement and for promoting high quality corporate governance.

The Stewardship Code published in July 2010 aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Engagement includes pursuing purposeful dialogue on strategy, performance and the management of risk, as well as on issues that are the immediate subject of votes at general meetings.

The Code is addressed in the first instance to firms who manage assets on behalf of institutional shareholders such as pension funds, insurance companies, investment trusts and other collective investment vehicles. The FRC expects those firms to disclose on their websites how they have applied the Code, and the FSA has announced that all UK-authorised Asset Managers will need to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model from 6 December 2010.

However the responsibility for monitoring company performance does not rest with fund managers alone. Pension funds can do so either directly or indirectly through the mandates given to fund managers. Their actions can have a significant impact on the quality and quantity of engagement with UK companies. The FRC therefore encourages all institutional investors to report if and how they have complied with the Code.

The Code sets out good practice on engagement with investee companies, to which the FRC believes institutional investors should aspire. It provides an opportunity to build a critical mass of UK and overseas investors committed to the high quality dialogue with companies needed to underpin good governance.

As asset owners the Fund is required undertake a number of obligation which include:

- To prepare and publish a statement on the seven principles included within the code and how it complies with each.
- Include a reference to the code in new mandates
- Hold fund managers to account by asking them to report on their activities in this area.

In terms of these requirements the fund already complies with the majority of the obligations. Firstly in December 2010 a statement was published as part of the Statement of Investment Principles regarding compliance with the principles (see appendix 3). Secondly the fund asks that managers provide information on their engagement activities on a quarterly basis and their feedback is reported committee. Where the fund does not currently comply is in terms of a reference to the code in new mandates.

To allow the fund to add its support to the code and become a signatory the fund will need to agree to include a reference to the code in new mandates going forward.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising directly from the report

LEGAL IMPLICATIONS

The SoIP report complies with regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1st January 2010.

APPENDIX 1

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 (7 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 7 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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Agenda Item 11

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