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HILLINGDON
LONDON

A

Pensions Committee

Councillors in the Cabinet

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

Date:	**WEDNESDAY, 28 MARCH 2012**
Time:	**5.30 PM**
Venue:	**COMMITTEE ROOM 3, CIVIC CENTRE, HIGH STREET, UXBRIDGE, MIDDLESEX UB8 1UW**
Meeting Details:	Members of the Public and Press are welcome to attend this meeting

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

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Agenda

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Minutes

PENSIONS COMMITTEE

14 December 2011

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

HILLINGDON
LONDON

	Committee Members Present: Councillors Philip Corthorne (Chairman) Michael Markham (Vice-Chairman) Paul Harmsworth (Labour Lead) Janet Duncan Richard Lewis **Officers Present**: Paul Whaymand, Central Services, Section 151 Officer Nancy Le Roux, Central Services, Senior Finance Manager James Lake, Central Services, Financial Advisor Ken Chisholm, Central Services, Financial Advisor Natasha Dogra, Central Services, Democratic Services **Others Present:** John Hastings, Advisor, Hymans	
38.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies had been received from Cllr David Simmonds and Andrew Scott.	**Action by**
39.	**DECLARATION OF INTERESTS IN MATTERS COMING BEFORE THE COMMITTEE** *(Agenda Item 2)* Councillors Corthorne, Duncan, Harmsworth and Lewis, and advisory member John Holroyd declared a personal interest in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.	**Action by**
40.	**CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETING** *(Agenda Item 3)* Resolved: The Committee agreed that the minutes were an accurate record of the previous meeting.	**Action by**
41.	**TO CONFIRM THAT ITEMS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND ITEMS MARKED PART 2 WILL BE CONSIDERED IN PRIVATE.** *(Agenda Item 4)* Resolved: The Committee agreed that Agenda Items 6 to 10 were to be considered in public; and Agenda Items 10 to 13 were to be considered in private for the reasons stated on the agenda. Members of the press	**Action by**

	and public would be excluded from the meeting during the consideration of these items.	
42.	**REVIEW OF PERFORMANCE MEASUREMENT OF THE FUND** *(Agenda Item 5)* Officers presented the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending on 30 September 2011. The total value of the fund's investments as at 30 September 2011 was £564.3m. Members discussed the performance of the Fund Managers and noted a pleasing quarterly performance. Members noted that 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%. **Resolved:** **The Committee noted the update.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
43.	**EARLY RETIREMENT MONITOR** *(Agenda Item 6)* The Chairman of the Committee presented the report which summarised the number of Early Retirements in the year 2011/12. Officers informed Members that in quarter 2 of the current year 42 people over the age of 55 had their LGPS benefits put into payment due to redundancy and efficiency. **Resolved:** **The Committee noted the report.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
44.	**PENSION FUND BUDGET** *(Agenda Item 7)* Officers presented the Pension Budget Fund 2011/12 to the Committee. Officers said the combined impact of lower income and higher expenditure is forecasting a member deficit of £1.7m as at month 6, £2.4m less than the budget. Members clarified that the current forecast was predicting as overall deficit from operations of £2.5m. Officers said the budget would continue to be monitored on a monthly basis and issues would be reported to the next meeting of Committee. **Resolved:** **The Committee noted the budget position as at 30 September 2011.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
45.	**ADMINISTRATION PERFORMANCE REPORT** *(Agenda Item 8)* Officers informed the Committee Members that from September 2010, Pensions Administration was combined with Payroll under a single manager. Monthly performance indicator reports were sent to officers in HR responsible for the day to day administration of the scheme. Two temporary members of staff had been introduced to the team due to	**Action by**

	two team members leaving and one member on long term sickness absence. **Resolved:** **The Committee noted the report.**	*Nancy Le Roux, Senior Finance Manager*
46.	**GOVERNANCE ISSUES** *(Agenda Item 9)* Officers presented the Committee with an update on Governance Issues and the Knowledge and Skills framework. Members discussed what approach should be taken to member development. Members said it was imperative that officers continue to keep the Committee updated on changes to legislation and to maintain member knowledge. Members agreed that substitute Members of the Pensions Committee should also be provided with a good working knowledge of current issues. Committee Members said the Corporate Services and Partnerships Policy Overview Committee were currently reviewing Hillingdon's Audit Committee including the training of all substitute members. Members queried whether a minimum term of office could be introduced for committees that required a 'specialist' training programme. The Committee agreed that this was out of the remit for the Pensions Committee but could be investigated through the Party Chief Whips. The Committee agreed that it would be useful to invite substitute members to undertake training relevant to Pensions Committee members and also invite substitute members to a Pensions Committee meeting. Members agreed that points 2 and 3 should be deleted from the Member Development programme. Members noted the revisions to the Statement of Investment Principles, and the Financial Reporting Council Stewardship Code. **Resolved:** **1. Members agreed that all Pensions Committee Members, including substitute members should receiving training and be kept on to date on the current economic climate.** **2. Members approved the revisions to the Statement of Investment Principles** **3. Members agreed to sign up to the Financial Reporting Council Stewardship Code and included a reference to the code in new mandates.**	**Action by** *Nancy Le Roux, Senior Finance Manager*
47.	**REPORT FROM INVESTMENT SUB COMMITTEE AND 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*	**Action by**

	(including the authority holding that information)' (paragraph 3 of the schedule to the Act).	
48.	**PENSIONS ADMINISTRATION REPORT** *(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**
49.	**RISK MANAGEMENT REPORT** *(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**
50.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** *(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**
51.	**CUSTODY TENDER REPORT** *(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**
	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.

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	James Lake, 01895 277562

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

SUMMARY

This report reviews the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 31 December 2011. The total value of the fund's investments as at this date was £583.7m.

RECOMMENDATION

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

INFORMATION

The annual performance of the Fund as at 31 December 2011 showed an underperformance of 0.14, but with a positive return of 0.12%. The three year return figure of 8.79% is also behind the plan benchmark which showed 9.63%.

Performance Attribution Relative to Benchmark

	Q4 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
UBS	(0.59)	(1.87)	(1.64)	(2.18)	0.90
UBS Property	0.04	0.37	(1.59)	(0.34)	(0.63)
SSgA	(0.05)	0.15	0.11	-	0.14
SSgA Drawdown	0.07	0.20	-	-	0.31
Ruffer	2.59	0.89	-	-	4.35
M&G	0.01	(0.54)	-	-	(0.60)
Marathon	(2.58)	(3.74)	-	-	(0.83)
Fauchier	(2.69)	(8.83)	-	-	(7.26)
Total Fund	**(0.98)**	**(0.14)**	**(0.84)**	**(1.16)**	**(0.10)**

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

Market Commentary

Following a poor quarter three, equities bounced back in quarter four delivering healthy returns overall. Most of the gains were achieved during October with November and December only delivering a modest contribution masked by considerable volatility. In aggregate developed markets continued to outperform emerging markets. US equities performed the best and managed to achieve a positive return for the whole year.

Equity markets in October, initially started slowly but then gathered pace on speculation the EU was examining measures to support the banks and help them with the problems associated with peripheral Europe. Risk appetite was further improved following the Bank of England's announcement they would increase their asset purchase program by a further £75b. The first EU summit was a non event but the second was met with a positive reaction by the market and sentiment was bolstered with encouraging US economic data.

The ongoing issues in Europe dominated events during November and December with France's credit rating being called into question, the European Central Bank announcing measures to support bank lending and EU leaders agreeing a fiscal compact aiming to limit government deficits. A further announcement by the EU sounded less decisive, with little talk of fiscal union and no Eurobond. Markets however tended to focus on the strength of the US economy rather than the issues in Europe.

The recovery in equities did not prevent further gains by UK government bonds with conventional and index linked both increasing in value following the announcement of further quantitative easing by the Bank of England. Corporate bonds also performed positively in conjunction with the general improvement in risk appetite.

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

MANAGER PERFORMANCE

Manager: FAUCHIER

Performance Objective: The investment objective of the company was to achieve an absolute return over a market cycle. All monies have now been removed from Fauchier following the decision by Committee to withdraw funding for the time being.

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.

	Q4 2011 %	1 Year %	Since Inception %
Performance	(1.21)	(2.91)	(1.39)
Benchmark	1.48	5.92	5.87
Excess Return	(2.69)	(8.83)	(7.26)

To incorporate an element of risk adjusted return, the benchmark was 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 7.26%. Although not a full market cycle, returns since inception are currently negative at 1.39% and as such their objective of delivering an absolute return has not been achieved.

The challenging environment for hedge funds continued during the fourth quarter. Markets were dominated by a series of high level events with sentiment overwhelming fundamentals and as such the security selection skills of many of Fauchier's managers were unrewarded. Many market moves were driven by political factors rather than macro economic events and therefore outcomes which should have been lucrative for strategies suited to a top down environment were more difficult to predict. Although there was some success for managers of this type, losses outweighed any gains.

Several managers fared well with six of the ten largest allocations delivering an average positive return. However all but three of the next twenty allocations lost money. These results are indicative of the hedge fund industry as a whole which lost 5% according to hedge fund research.

Manager: J P MORGAN

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

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

The portfolio was funded at the start of November 2011 and performance for the two month period showed a return of 0.60%, ahead of their performance objective by 0.02%.

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.

	Q4 2011 %	**1 Year %**	**Since Inception %**
Performance	5.27	(8.58)	4.90
Benchmark	7.85	(4.84)	5.73
Excess Return	(2.58)	(3.74)	(0.83)

Returns since inception are positive at 4.90%, however results over the last two quarters have had a negative impact on relative returns which now show an underperformance of 0.83%. The main impact in the fourth quarter was regional allocation and stock selection. Being underweight in the US and overweight Asia (ex Japan) was the main negative contributor to regional attribution. Stock selection in the US though was the largest overall contribution to underperformance. The regional allocations mentioned above were also a drag on the one year figures whilst being overweight the South African Rand contributed to a negative currency effect. Again as with the quarters results stock selection in the US was the biggest detractor.

Whilst the mandate benchmark is based on developed markets, Marathon has the ability to invest in emerging markets. As such any positive or negative returns from emerging market investments can unduly influence relative performance. A proxy to the mandate benchmark is the MSCI All Countries index which includes both developed and emerging markets. For the twelve month period this index has returned a negative 6.66%, which is closer, albeit still better, than Marathon's returns.

Manager: RUFFER

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

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

	Q4 2011 %	1 Year %	Since Inception %
Performance	2.81	1.69	5.12
Benchmark	0.22	0.80	0.77
Excess Return	2.59	0.89	4.35

Over the last year and since inception Ruffer has returned 1.69% and 5.12% respectively and met their brief by preserving capital and growing the portfolio. For the quarter, performance was also positive at 2.81% outperforming their benchmark by 2.59%. Although equities rallied, returns from UK and US government bonds as well as UK index linked gilts all had a major impact on performance. In particular the equity holding in BP added, following strengthening oil prices and with the settlement with Transocean over the Gulf of Mexico oil spill being seen as positive. Cisco share prices responded positively following the company's improved operating performance. At a currency level better US economic data along with European interest rate cuts aided US dollar performance. Factors which detracted from performance included the "Put Warrants" which gave up some of their gains from the third quarter and gold mining related equities which suffered following a fall in gold bullion prices.

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 gilts and 15% cash, the benchmark performance for one year returns shows 6.46%, meaning Ruffer's defensive allocation has not been able to capture all of the available return potential.

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.

	Q4 2011 %	**1 Year %**	**Since Inception %**
SSgA Main Account			
Performance	6.71	(2.10)	13.30
Benchmark	6.76	(2.25)	13.16
Excess Return	(0.05)	0.15	0.14
SSgA Draw Down Account			
Performance a/c 2	1.30	3.94	5.52
Benchmark a/c 2	1.23	3.74	5.21
Excess Return	0.07	0.20	0.31

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.14%. The Draw Down fund which commenced June 2009 has also outperformed its benchmark and has delivered an excess return of 0.31%. 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.

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.

	Q4 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	7.80	(5.33)	11.24	0.93	9.50
Benchmark	8.39	(3.46)	12.88	3.11	8.60
Excess Return	(0.59)	(1.87)	(1.64)	(2.18)	0.90

Performance for the past year remains behind the benchmark with the same detracting factors as in quarter three; an overweight to General Retailers, an underweighting of Tobacco and the performance of Value as a style.

For the quarter UBS's biggest sector underweight positions were in the Tobacco and Beverage sectors. These sectors had performed well in the recent financial turmoil as investors sought companies with defensive earnings characteristics. In UBS's view however, the 'safety premium' in these sectors was too high. At a stock level Lloyds shares fell due to a number of factors including the requirement for a new CEO and general fears in the Eurozone. Shares in Logica fell after the company brought forward restructuring to counter weakness in Europe and made previsions for several loss making contracts. Kesa also performed poorly despite selling its loss making business Comet, as investors focused on its exposure to the Eurozone. Positive influences on performance came from the portfolios overweight holding in BP which appreciated following the settlement announcement and also because investors began to focus on BP's low valuation rather than their litigation proceedings. Wolseley, a leading supplier of building materials also performed well following excellent annual results proving the recovery programme introduced by new management was working well and was on target. Vodafone shares performed well supporting their high and growing dividend yield and defensive qualities. .

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 is 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 underperformed over the one year time period by 2.2% but have outperformed over three years by 2.5%.

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.

	Q4 2011 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	1.64	7.56	4.12	(3.54)	(1.23)
Benchmark	1.60	7.19	5.71	(3.20)	(0.60)
Excess Return	0.04	0.37	(1.59)	(0.34)	(0.63)

As the fund is based on the benchmark, normally performance should also reflect the benchmark, albeit with a margin of outperformance. However the initial fund set up and the subsequent part dissolution and reinvestment have resulted in transaction costs, which detract from performance. Since inception, many of the underlying funds have outperformed, but not by a margin large enough to outweigh the funds set up costs. No further diversification will take place, however the fund will continue to actively trade and as such any transactions costs should be justified by long term gains.

The quarter four total return was driven primarily by the outperformance of UBS Triton Property Fund, which at quarter-end accounted for 28% of the portfolio size. Other funds contributing to the quarter's outperformance included Unite Student Accommodation Fund and UBS Central London Office Value Added Fund. Over the 12 month period the portfolio outperformed the benchmark and whilst several funds contributed, the performance was driven by the same funds that outperformed in the fourth quarter.

Absolute Returns for the quarter

	Opening Balance £000's	Appreciation £000's	Income Received £000's	Net Investment £000's	Closing Balance £000's	Active Management Contribution £000's
Fauchier	24,584	(298)	-	-	24,286	(661)
JP Morgan	-	414	-	69250	69,664	17
M&G	7,959	115	(1)	1,135	9,208	6
Marathon	49,985	2,634	-	-	52,619	(1,215)
Ruffer	112,154	2,721	432	-	115,307	2,901
SSgA	114,103	7,088	-	(1,135)	120,056	(48)
UBS	97,290	6,462	1,129	-	104,881	(498)
UBS Prop	48,211	319	473	(5)	48,998	19

The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks. The outperformance of JP Morgan, M&G, Ruffer and UBS Property had a positive impact on the appreciation of holdings contributing £2,943k in total. Underperformance from Fauchier, SSgA (overall), Marathon and UBS reduced appreciation by £2,422k.

M&G Update

With the addition of a new holding in November, here are now eight holdings in the fund. Final documentation details are being negotiated on a new deal an M&G hope to close this in early 2012. M&G continue to evaluate new transactions and expect the pipeline to build as the year progresses. The fund has returned 4.26% since inception.

Macquarie Update

Macquarie Everbright Greater China Infrastructure Fund (MEGCIF) has raised total commitments of US$519m and a further US$250m of co-investment capital. MEGCIF is on track for US$1b in total commitments with a further close planned for March 2012 before a final close in May 2012 which will include a number of potential investors that have indicated a strong appetite for MEGCIF. No capital calls have been made as of 31st December 2011. At the time of preparing this update, five transactions are being actively pursued and of these, due diligence is being conducted on three transactions.

The Macquarie State Bank of India Fund (MSIF) has developed a well diversified portfolio of assets across the sectors of thermal power, airports, telecom towers and renewables and is currently evaluating several opportunities, primarily in the roads and power transmission sectors. There were no new investments made in the last quarter. The European fund (MEIF4) is still in its infancy and no capital calls have yet been made.

Other Items

At the end of December 2011, £31.0m (book cost) was invested in private equity, equating to 5.32% of the fund against the target investment of 5.00%, well below the limit of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £1,072k and distributed £886k, whilst LGT called £690k and distributed £996k. Returns for the last twelve month period show Adams Street delivering 14.73% and LGT 10.25%.

The securities lending programme for the quarter resulted in income of £13.2k. Offset against this was £4.6k of expenses leaving a net figure earned of £8.6k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 December 2011 the average value of assets on loan during the quarter totalled £14.4m representing approximately 7.7% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro and 50% 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. The CHF hedge was removed on the 25th November leaving only the Euro hedge running. During the quarter the third roll took place which resulted in income of £816k. The early redemption of the CHF resulted in a final payment of £44k but overall the net cash settlements over the life of the CHF hedge generated cash income of £410k. Since the third roll the Euro hedge has continued to increase in value and at the end of the quarter it showed a positive cash figure of £694k. In terms of performance against the assumed half hedge benchmark results for the quarter were positive with returns of 0.92% against the benchmark of 0.46%. Since inception results also show an outperformance with a return of 1.70% against 0.29%.

For the quarter ending 31 December 2011, Hillingdon returned 3.82%, underperforming against the WM average by 1.38%. However the longer term one year figure shows an outperformance of 1.62%, with positive returns of 0.12% against the average negative return of 1.50%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

London Borough of Hillingdon

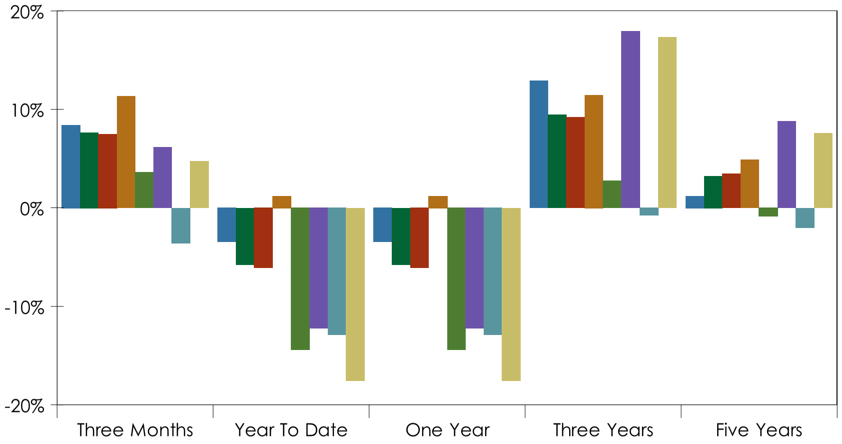
4th Quarter, 2011

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	8.4	-3.5	-3.5	12.9	1.2
FT: World	7.7	-5.8	-5.8	9.4	3.3
FT: World ex UK	7.5	-6.1	-6.1	9.2	3.4
FT AW North America	11.3	1.2	1.2	11.4	4.8
FT: Developed Europe ex UK	3.6	-14.4	-14.4	2.7	-0.9
FT: Developed Asia Pac x Jp	6.2	-12.3	-12.3	17.9	8.8
FT AW: Japan	-3.6	-12.9	-12.9	-0.8	-2.0
MSCI Emerging Markets GD	4.7	-17.6	-17.6	17.3	7.6

The sovereign debt crisis in the Eurozone has been the main news story in town; moving markets across asset classes and dominating headlines over the year. Most commentators are of the opinion that 2012 will not be any easier as the other key problems persist; rising global inflation, the American deficit and stalling growth in the Emerging economies. Political hot potatoes can be found throughout the world as governments seek to keep the populace calm while assuaging the anxieties of foreign investors through public budget cuts. Apart from Japan the major stock markets finished 2011 with a strong quarter of returns in the black but all major markets except the US remain in the red for the calendar year itself. Oil & Gas, Industrials and Consumer Services stocks were the strongest sectors over the quarter, Utilities and Telecoms gained the least. Hedge Funds ended 2011 with their highest cumulative net subscriptions since the collapse of Lehman Brothers. The price of crude oil futures ended the year up from September at $110 per barrel. The FTSE World was up by 7.7% (GBP) over quarter four 2011 but remains behind over one year returning -5.8% (GBP).

The UK vetoed attempts by Germany and France to change EU treaties to impose tighter fiscal rules on the Eurozone and raise more money from taxes on financial transactions. George Osbourne conceded that the deficit position was £33bn worse in the autumn budget than it had been in the spring. Britain's banks reduced their lending exposure to peripheral Eurozone counterparts. Excluding Financials, companies in the FTSE 100 are sitting on roughly £130bn and look likely to keep hoarding. Some has been handed back as dividends or share buy-backs, the latter driving up earnings per share by reducing the number in circulation. Inflation fell to 5% at the start of the quarter driven down by supermarket discounting but is still way above the 2% BoE target rate. The unemployment rate rose to 8.3% at 2.6m, a 17 year high. UK GDP grew by 0.6% in the third quarter of 2011 following an upward revision. Industrials were the leading sector over quarter four, Utilities the weakest. The FTSE All Share was up 8.4% (GBP) over the fourth quarter but remains down by -3.5% (GBP) over the year.

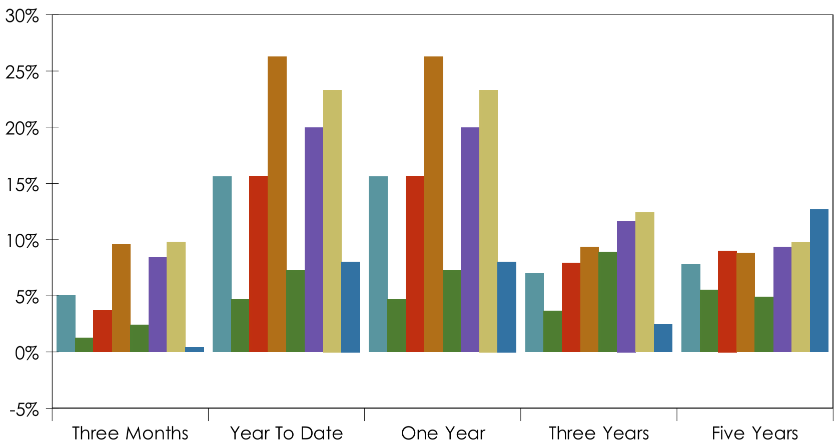
Eurozone inflation fell to 2.8% in December and GDP grew by 0.2% in Q3. Moody's cut Spain's rating to A1 at the start of the quarter. The European Commission argues that credit ratings agencies should have their freedom of speech restricted amid accusations their erratic and subjective decisions have aggravated the sovereign crisis. President Sarkozy intends to introduce the financial transaction tax in France, with agreement from the trade unions, even if it is not adopted by the wider EU. Ms Merkel is more cautious given the divided opinion of the Germans. Germany reported its first unemployment rise since February 2010 to 7% mid quarter. Eurozone unemployment stands at a Euro era high of 16.6m. Mario Monti formed an emergency Italian government of technocrats in Italy to lead the country through the EUR200bn of debt maturing by the end of April. Activity in the Eurozone manufacturing sector fell for a fifth successive month in December. The FTSE World Europe ex UK index returned 3.3% (GBP) over quarter four and -14.7% (GBP) over the year.

All comments coming from the US claim that the world's largest economy is weathering the European debt crisis and well set for growth in 2012. The unemployment rate unexpectedly fell to 8.5%, the lowest since February 2009. 1.6m jobs were added during 2011. Mortgage approvals were not stimulated by Operation Twist as roughly half of households are in negative equity or distress and unable to refinance. Early in the quarter legislators clashed with China over its currency intervention once again by passing a law that would impose higher tariffs on imports considered to be unfairly State subsidised. US exports to Europe have shrunk to 18% while those to the Pacific Rim are at 24% showing the importance of China as a trading partner. US GDP grew by 2% in quarter three following a downward revision. All sectors gained over the final quarter, Oil & Gas leading the way and Utilities gaining the least. The FTSE North America index returned 11.3% (GBP) over the fourth quarter and 1.2% (GBP) for the year.

Japan's economy expanded strongly over quarter three following three consecutive quarters of decline as supply chains disrupted by the March earthquake were fully restored. The Eurozone crisis has impacted on exports from Japan as investors continue to view the yen as a safe haven making Japanese goods less competitive. The FTSE Japan returned -3.6% (GBP) for quarter four; the FTSE Asia Pacific ex Japan returned 5.6% (GBP). China's economy moderated to its slowest pace in 2 years in quarter 3 as GDP slowed to 9.1% with the government seeking to engineer a soft landing. Chinese inflation also slowed to 5.5% in October. India's economic growth also slowed to a 2 year low and Brazil's economy is predicted to expand by 3.1% this year compared to 7.5% last year. Economic slowdown in the US and Europe is undermining export demand for manufactured goods. Following the release of the latest data, only Russia from the BRICs group exhibited increased growth over quarter three. The IMF forecasts economic growth of 5% this year for sub-Saharan Africa rising to 6% next year. Australia could be negatively affected by lower commodity prices given slowing global industrial production. Diamond prices are poised to outpace gold over the next four years due to increased sales in the emerging economies. Gold showed good absolute performance over the year but finally slowed ending the year at $1,570 per ounce. MSCI Emerging Markets index returned 4.7% (GBP) for the fourth quarter and -17.6% (GBP) for 2011.

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	5.0	15.6	15.6	7.0	7.8
FTSE All Stock 0-5 Yr. Gilts	1.2	4.7	4.7	3.7	5.5
FTSE All Stock 5-15 Yr. Gilts	3.7	15.6	15.6	7.9	9.0
FTSE All Stock > 15 Yr. Gilts	9.6	26.3	26.3	9.3	8.8
ML STG N-Gilts All Stocks	2.4	7.2	7.2	8.9	4.9
FTSE Index Linked	8.4	19.9	19.9	11.6	9.4
FTSE Index Linked 5+ yrs	9.8	23.3	23.3	12.4	9.7
JPM GBI Global	0.4	8.0	8.0	2.5	12.7

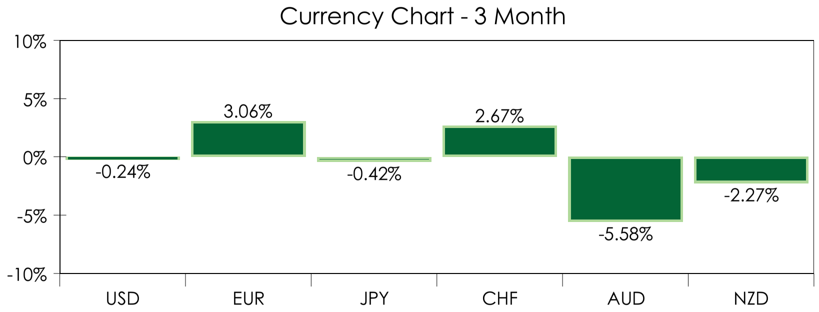
The optimism at the start of 2011 was based on strengthening global economic growth in most countries however a number of economic shocks throughout the year have meant that 2011 was a much more difficult market environment than in 2010. Rising inflation was exacerbated by political unrest in the Middle East and North Africa, the earthquake in Japan with the resultant surge in energy prices and financial market uncertainty in Europe. Emerging economies were hit particularly hard by inflation. The post earthquake reconstruction effort will be the main driver of growth in Japan, but the domestic economy is struggling. With interest rates in the US, UK and Europe at all time lows; central banks have been more focused on liquidity programmes. China has also started monetary easing, reducing bank's reserve requirement ratios. The on-going sovereign debt crisis in Europe deepened in the last quarter of the year shaking investor confidence as markets remain unimpressed by EU leaders' proposals to resolve the crisis. Investor risk aversion continues to see safe haven flows into the investment grade bond markets with bonds outperforming stocks globally. Current yields in sovereign markets like the US and Germany are being held down by low short rates and safe haven flows. The JPM Global Govt Bond index has increased +8.0% (GBP) for the year ending December 2011 while the Barclays Capital Global Aggregate Corporate Bond index delivered +5.1% (GBP).

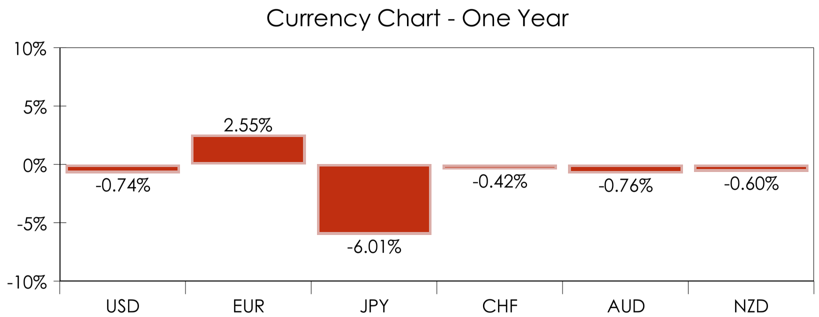
In the UK, the Chancellor's Autumn Statement downgraded the near-term economic outlook substantially pushing borrowing numbers higher. Measures were largely fiscally neutral with deficit reduction still the key driver. Inflation has slowed for the second month in a row down to 4.8% y/y in November from 5.0% in October. The UK unemployment rate remains unchanged at 8.3%. The UK manufacturing sector showed signs of stabilisation in December's Purchasing Managers Index (PMI) rising to 49.6 from 47.7 in November however over Q4 as a whole, output and new orders reflect the largest falls since Q2 2009. Longer term interest rates have dropped and 10-year yields have reached new lows in reaction to market expectations that the Bank rate will hold at 0.5% until Q1 2014, the BoE's purchases re-activated in October and risk aversion caused by the euro area crisis. The benchmark 10-year gilt yield continues to track lower, closing the quarter at 1.98% down from 2.42% at the end of September. The FTSE All Stock Gilts returned +5.0% (GBP) and +15.6% (GBP) for the quarter and year to date respectively while the ML Sterling Non Gilts gained +2.4% (GBP) and +7.2% (GBP).

Focus remained on the euro area in the fourth quarter as market pressures forced the resignations of Greek PM Papandreou and then Italian PM Berlusconi, installing interim governments led by Lucas Papademos and Mario Monti respectively. Economic conditions are continuing to deteriorate with the December composite PMI coming in at 48.3, up from 47.0 in November but still under 50 signalling contraction for the 4th consecutive month. The latest proposals from the December Summit include a larger financial safety net and reforms to foster increased fiscal co-operation in the euro area however markets remain unconvinced with the threat of imminent credit rating downgrades for 'core' countries. Facing the threat of recession, the ECB has cut the interest rate by 0.25% twice in consecutive months back down to 1.0% in December and provided additional liquidity to the banking sector with 3yr long term refinancing operations (LTRO). Improved appetite for Italian and Spanish bonds saw yields fall at the end of the year, as the Treasury in Rome priced 2022 bonds to yield 6.98% in their last auction compared with 7.56% at the end of November. The benchmark German Bund 10-year yield closed the quarter slightly down at 1.83% compared to 1.89% at the end of September. Over the 4th quarter the iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors reflected the volatility in the markets contracting to 150.5 at the end of October, peaking at 208.2 the next month before closing at 173.5. The JPM European Govt Bond index returned +1.7% (EUR) and +7.2% (EUR) for the quarter and year to date while the respective figures for the Barclay Capital Global Aggregate Credit index are +4.0% (EUR) and +8.1% (EUR).

In contrast to the signs of recession in the euro area and the UK, increasingly positive US data over the 4th quarter included a further fall in the unemployment rate in December to a near 3 year low of 8.5%. The Conference Board's consumer confidence index rose to its highest level since April reaching 64.5 up from 55.2 in November. Economic activity in the manufacturing sector expanded in December for the 29th consecutive month, as the Institute for Supply Management (ISM) survey registered 53.9 (over 50 signalling expansion) on the back of improved output, employment and new orders. The Federal Reserve left interest rates unchanged at near 0% at December's FOMC meeting and will continue with its bond buying stimulus programme Operation Twist. The programme shows some signs of success with long yields markedly lower, while yields are also being held down by safe haven flows due to the European sovereign debt crisis. The 10-year benchmark Treasury yield starting the year at 3.37% has dropped to close Q4 at 1.88%. For the quarter and year to date the JPM US Govt Bond index returned +0.9% (USD) and +9.9% (USD) respectively while the Barclay Capital US Aggregate Corporate Bond index returned +1.9% (USD) and +8.1% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-0.24	-0.74	-0.74	2.59	-4.61
European Union euro	3.06	2.55	2.55	4.87	-4.30
Japanese yen	-0.42	-6.01	-6.01	-2.87	-13.35
Swiss franc	2.67	-0.42	-0.42	-1.72	-9.94
Australian dollar	-5.58	-0.76	-0.76	-10.26	-9.86
New Zealand dollar	-2.27	-0.60	-0.60	-7.03	-6.63

The fourth quarter of 2011 has seen a continued trend of the weakening Euro and strengthening of the Dollar. The Euro lost ground against the US Dollar, Sterling, Yen and the Dollar saw gains against Sterling and Euro, but a small weakening against the Yen. The rise in the Renminbi has slowed to a crawl in the recent months as a drop off in demand has hit Chinese exports. China's exports grew 13.8% in November from a year earlier, slowing from a 15.9% increase in October. Imports grew 22.1% year-on-year, less than the 28.7% rise a month earlier, in another sign of weakening in the domestic economy. Mr Hu, China's president, said China would not deliberately pursue a trade surplus. Japan continues to struggle with the Bank of Japan downgrading its assessment of the Japanese economy as sliding exports and expensive energy imports caused the largest November trade deficit on record. Australia's unemployment rate unexpectedly fell to 5.7 per cent in November increasing the likelihood that the Reserve Bank of Australia, the central bank, will continue raising the cash rate throughout next year as the economy gains momentum. Switzerland's triple A credit rating remains undented, government debt is going down, interest rates have dropped to near historic lows and prices are falling. But still, the Swiss are worried. Since the Eurozone crisis, foreign money has flooded into Switzerland, a traditional haven, forcing the Swiss National Bank in September to set a floor of SFr1.20 against the euro in order to rein in the strength of the franc. Even with the floor in place, the SNB admits the franc is still high.

In the UK, signs of a modest improvement in the UK economy have emerged, with the first rise in lending to businesses in months. The construction sector to expand in December, rather than contracting as most economists expected. Lending to private, non-financial companies - the backbone of the economy - rose by £1.8bn in November from October, more than offsetting the declines of the previous two months. Britain's high rate of annual inflation slowed in December for the third month in a row. The 4.2% annual rise in the consumer price index - down from 4.8% in the previous month and a peak of 5.2% in September - was widely expected and reflected heavy discounting on the high street and lower fuel prices. Unemployment rose by 118,000 to another 17-year high of 2.68m in the three months to November, the Office for National Statistics said. The jobless rate increased more rapidly than expected to 8.4 per cent of the workforce, up 0.3 percentage points on the previous quarter and the highest since January 1996. Economists had predicted 8.3 per cent. Youth unemployment continued to rise, with the number of 16 to 24-year-olds out of work up 52,000 to 1.04m. However, that figure includes 313,000 full-time students looking for part-time work. 1.13m workers went on strike in November, virtually all in the November 30 stoppage over public sector pensions. UK house prices have fallen this quarter, ending the year 1.3% below levels at the end of 2010. The average price of a house is the lowest since July 2009 and almost 20% below the pre-financial crisis peak. Sterling closed the quarter down against the USD by 0.2% and the Yen by 0.4%, however it gained against the Euro by 3.1%.

In the US, In the absence of a definitive solution to the Eurozone debt crisis, and alongside the weakening global economy, the dollar is continuing to enjoy its safe haven status throughout Q4 2011. US consumers were optimistic as the outlook for jobs improved. Consumer sentiment rose for a fifth consecutive month to its highest level since May. Stronger than expected job creation in December suggested that economic growth is picking up, and sentiment will probably be boosted by the continued fall in the unemployment rate. Unemployment has seen a surprise drop to 8.5% in December from the 9.1% seen in September 2011. US house prices continue to fall, again dashing expectations that the housing market will stabilise, posing a continued threat to economic growth in 2012. Even with the falling prices, the US housing market finished 2011 on a stronger note with sales of previously owned homes rising the most in December since the beginning of the year. US housing starts reached an 18-month high in November, while permits for new construction were at their best since March 2010, raising hopes that the depressed housing market may be strengthening. The US trade deficit widened 10.4% in November to the highest level since June as companies imported more expensive foreign oil. The trade gap grew to $47.8bn, higher than the $45bn that economists expected. Imports accelerated by the most since May, rising 1.3% to $226bn. Meanwhile,, exports declined 0.9% to $178bn. The Dollar ended the quarter gaining against the Sterling and Euro by 0.2% and 3.3% respectively, however it was down compared to the Yen by 0.2%.

In the Euro area, the Euro weakened further against the Dollar, Yen and Sterling this quarter. Eurozone unemployment surged to a fresh record late last year as economic confidence tumbled to a two-year low and even Germany's robust industrial sector showed signs of weakness, which pointed to a marked contraction in activity in the final months of 2011.The latest gloomy economic news indicated the 17-country monetary union was being buffered badly by worries over its debt crisis as well as fiscal austerity measures and slower global growth - with Italy among its worst hit member states. Eurozone inflation has started its decent as the region's economy heads towards recession. Annual inflation in the 17 country block dropped from 3.0% in November to 2.8% in December. The favourable medium term inflation outlook is a good indicator that the ECB may cut rates in the coming months. The ECB cut its main interest rate by 0.25% in December to 1.0%, its lowest rate ever, but is unlikely to rush into cuts in official borrowing costs. It is waiting to see whether the 489bn EURO it provided in 3 year loans to Eurozone banks in December helps ease fears about banking stability and tensions in government bond markets. The unemployment rate in the Eurozone remains stable at 10.3% of the work force in November, compared to 8.6% in the US calculated on the same basis. In Spain, the unemployed rate is approaching 22.9% of the workforce, more than double the European Union average. The Euro ended the quarter down against the US Dollar, Sterling and Yen by 3.3%, 3.1% and 3.5% respectively.

Scheme Performance

During a quarter which saw most of the main asset class benchmarks recover ground lost in Q3, the London Borough of Hillingdon returned 3.82% versus the Total Plan composite benchmark which returned 4.80%; this resulted in a relative return of -0.94%. In monetary terms this is a growth in assets of £21.5 million increasing the value of the combined scheme to £583.7 million, despite £2.2 million being withdrawn from the scheme during this period. On a 'look through' basis Ruffer's Absolute Return Fund beat its liquidity benchmark and contributed to performance. This was more than offset by the Private Equity assets which, during this short period in terms of the investments longer term aspiration, considerably lagged their global equity comparator. In allocation terms most mandates are in line with the neutral position with the largest impact would be the underweight of the UBS mandate.

Over one year the scheme has earned a meagre 0.12% which was 0.14% behind benchmark. Observing the three year period, replacing the large gain achieved against the benchmark in Q4 2008 results in the plan falling 0.77% behind, with the benchmark returning 9.63% pa and the plan trailing this with 8.79% pa. Since inception the plan and benchmark have earned similar returns of 6.25% pa and 6.35% pa respectively.

Manager Performance

Fauchier

During the latest quarter Fauchier declined 1.21% and relative to the target benchmark, LIBOR 3 month + 5%, which returned 1.48%, this resulted in a relative underperformance of 2.66%. Since funding in June 2010, Fauchier has trailed the benchmark in four out of six quarters, and the last three consecutively. The since inception performance is negative with a loss of 1.39% pa for the assets versus 5.87% for the benchmark, resulting in a relative return of -6.86%.

Goldman Sachs

During the latest quarter the Goldman Sachs mandate was terminated and the funds moved into the new JP Morgan portfolio.

JP Morgan

This new account funded in November with assets reallocated from Goldman Sachs, and appreciated to £69.6 million by the end of the period, accounting for just under 12 per cent of the scheme assets.

Macquarie

The Macquarie portfolio recorded a deficit of 11.35% during the quarter more than offsetting Q3s respectable return. The since inception (September 2010) return is back in negative territory recording an annualised loss of 8.47%.
At present no benchmark has been applied to this mandate.

Marathon

In quarter four the Marathon portfolio partly reversed the significant loss of the previous period posting a return of 5.27%, however this was against the benchmark MSCI World index return of 7.85%. As a result, Marathon now registers underperformance over the one year of -8.58% versus -4.84%. Since inception there have been four periods of underperformance countered with two of outperformance, of which the first quarter incumbent was nearly four per cent ahead relatively. Consequently the since inception result is limited to a relative loss of 79 bps, the portfolio returning 4.90% pa against 5.73% pa.

Manager Performance

M&G Investments
Over the fourth quarter, M&G investments posted a return of 1.25%, in line with the 3 Month LIBOR +4% p.a. target of 1.24%. For one year the account earns 4.37% versus 4.91% whilst since inception at the end of May 2010, the portfolio registers a 4.26% pa return against the benchmark of 4.86% pa. However, please note that the since inception Internal Rate of Return for this portfolio is 5.05%.

Ruffer
The Ruffer portfolio earned 2.81% during the quarter and against the return of 0.22% for LIBOR 3 Month GBP, delivered a relative outperformance of 2.58%. For one year the account earns 1.69% versus 0.80% whilst since inception at the end of May 2010, the portfolio registers a 5.12% pa return against the benchmark of 0.77% pa.

Private Equity
The private equity assets, consisting of funds with LGT and Adam Street, both posted negative returns during quarter four. The latter incurred a loss of 3.83% whilst the former faired marginally better down 3.07%. Although lagging behind the other managers in Q4, over the one year they are the plans top two components. Adam Street delivered a significant 14.73% and LGT posted 10.25%. Over three years both funds deliver near zero returns; since their respective inceptions in May 2004 and January 2005 LGT returns of 8.42% pa and Adam Street losses 0.08% pa.
At present no benchmark has been applied to these mandates.

SSGA
The SSGA passively managed portfolio rose 6.71% in the quarter but was slightly behind the benchmark with a relative loss of 5bps. With the underlying components largely in line with their respective benchmarks, a selection gain of 16 bps earned locally in the Asia Pacific region was offset by unfavourable currency movement in the region. The growth in asset over the last three months was not enough to place the one year return in positive territory, with the portfolio losing 2.10%, however this was slightly ahead of the benchmark by 15 bps. Reaching the three year milestone, a respectable gain of 10.91% pa was earned against 10.80% pa for the yardstick, whilst since inception the portfolio earned 13.30% pa.

Manager Performance

SSGA Drawdown
The SSGA Drawdown fund was marginally ahead of the custom benchmark in the fourth quarter with a return of 1.30% versus 1.23%. Longer-term, the fund is 19bps above the benchmark over one year and 30bps ahead from inception. For the latest period, the account is split in line with the benchmark 50/50, the slight outperformance of the cash fund is the main driver of the small outperformance, which continues into the one year result which is coupled with a slight over weight to the better performing Corporate Bond Fund.

UBS
UBS UK Equity increased 7.80% over the quarter and, in relative terms, was 54 bps behind the FTSE All Share which returned 8.39%. The portfolio has lagged the benchmark for seven of the last twelve quarters. Of this quarters loss, the 0.74% stock selection deficit was the most significant detraction to performance from the sectors of Consumer Services (-1.01%) and Financials (-0.58%), although by Oil & Gas (+0.66%) partly counteracted the outcome. Whilst asset allocation enhanced the overall return by 20 basis points the largest contributor being the decision to be underweight Financial (16bps). Over one year a similar picture unfolds. An asset allocation gain of 2.35% was observed. Of that, underweighting Basic Materials (1.37%) and Financials (0.86%) which were laggards was highly beneficial. This was however partly offset by underweighting Consumer Goods (-1.14%) a leading sector over 2011. The portfolio stock selection loss more than offset any advantage; stock picking in Consumer Services (-2.49%) and Financials (-1.83%) did the most damage. This was further exacerbated by almost a one per cent loss from Technology, such that an overall stock selection shortfall of 4.18% was recorded. Apart from the inception to date relative performance, which stands at +0.83% (9.50% pa versus 8.60% pa), UBS exhibits relative underperformance across all longer periods, with -1.46% for three years and -2.12% over five years.

UBS Property
The UBS Property portfolio posted a return of 1.64% during the period slightly ahead of the IPD UK PPFI All Balanced Funds index, which returned 1.60%. Over one year the portfolio achieved a respectable 7.56%, 35 bps ahead of benchmark. Replacing the 13 per cent loss of Q4 2008 improves the three year interval such that the portfolio has earned 4.12% pa, however a relative underperformance of 1.50% is suffered. Since inception, in March 2006, there are losses of 1.23% pa versus 0.60% pa for both mandate and yardstick.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 10/11	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 11/11	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 12/11	Active Contribution 4Q 2011
Adam Street	-3.48	-	-3.48	-	-732,870.37	2.63	-	2.63	-	535,184.08	-2.91	-	-2.91	-	-610,210.56	-807,896.86
Fauchier	-1.72	0.49	-2.20	-2.19	-544,740.65	0.51	0.49	0.02	0.02	5,047.30	0.00	0.50	-0.50	-0.49	-121,401.01	-661,094.35
Goldman Sachs	0.70	-	0.70	-	346,482.17	2.36	-	2.36	-	219.94	1.20	-	1.20	-	114.54	346,816.66
JP Morgan	-	-	-	-	0.00	-1.14	0.24	-1.38	-1.37	-956,664.39	1.75	0.34	1.42	1.41	974,122.15	17,457.77
LGT	0.40	-	0.40	-	66,204.08	-1.29	-	-1.29	-	-215,783.69	-2.19	-	-2.19	-	-363,277.54	-512,857.15
Macquarie	-4.13	-	-4.13	-	-59,591.37	-8.62	-	-8.62	-	-124,411.00	1.20	-	1.20	-	15,843.48	-168,158.90
Marathon	8.61	6.49	2.12	1.99	1,125,547.84	-3.73	0.12	-3.85	-3.84	-2,090,667.30	0.67	1.15	-0.47	-0.47	-250,070.70	-1,215,190.16
M&G Investments	0.00	0.41	-0.41	-0.41	-32,741.99	-0.01	0.41	-0.42	-0.42	-38,191.35	1.26	0.42	0.84	0.84	77,033.87	6,100.52
Nomura	3.34	-	3.34	-	678,066.63	4.14	-	4.14	-	3,813.77	-0.59	-	-0.59	-	-567.97	681,312.43
Ruffer	0.87	0.07	0.80	0.80	893,507.23	1.28	0.07	1.21	1.21	1,374,600.92	0.63	0.08	0.55	0.55	633,233.68	2,901,341.82
SSGA	5.92	5.95	-0.03	-0.03	-32,378.60	-0.24	-0.21	-0.03	-0.03	-37,452.79	1.00	0.98	0.02	0.02	18,020.60	-51,810.79
SSGA Drawdown	0.72	0.91	-0.19	-0.19	-20,235.33	-0.62	-0.79	0.17	0.17	15,322.25	1.21	1.11	0.09	0.09	8,508.70	3,595.62
UBS	8.78	7.89	0.89	0.83	936,023.39	-1.45	-0.37	-1.08	-1.08	-1,135,378.19	0.56	0.84	-0.28	-0.28	-298,297.64	-497,652.44
UBS Property	0.51	0.59	-0.08	-0.08	-37,295.22	0.86	0.53	0.34	0.33	163,300.39	0.26	0.48	-0.22	-0.22	-107,328.51	18,676.66

Total Fund Market Value at Qtr End: £583.7 M

Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	583.7	100.00	3.82	4.80	-0.98	-0.94	0.12	0.26	-0.14	-0.14	0.12	0.26	-0.14	-0.14

By Manager

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
Adam Street	20.4	3.49	-3.83	-	-	-	14.73	-	-	-	14.73	-	-	-
Fauchier	24.3	4.16	-1.21	1.48	-2.70	-2.66	-2.91	5.92	-8.82	-8.33	-2.91	5.92	-8.82	-8.33
JP Morgan	69.7	11.94	-	-	-	-	-	-	-	-	-	-	-	-
LGT	16.2	2.78	-3.07	-	-	-	10.25	-	-	-	10.25	-	-	-
Macquarie	1.3	0.23	-11.35	-	-	-	-11.95	-	-	-	-11.95	-	-	-
Marathon	52.6	9.02	5.27	7.85	-2.58	-2.39	-8.58	-4.84	-3.74	-3.93	-8.58	-4.84	-3.74	-3.93
M&G Investments	9.2	1.58	1.25	1.24	0.01	0.01	4.37	4.91	-0.54	-0.52	4.37	4.91	-0.54	-0.52
Ruffer	115.3	19.76	2.81	0.22	2.59	2.58	1.69	0.80	0.89	0.88	1.69	0.80	0.89	0.88
SSGA	110.7	18.97	6.71	6.76	-0.05	-0.05	-2.10	-2.25	0.15	0.15	-2.10	-2.25	0.15	0.15
SSGA Drawdown	9.3	1.60	1.30	1.23	0.07	0.07	3.94	3.74	0.20	0.19	3.94	3.74	0.20	0.19
UBS	104.9	17.97	7.80	8.39	-0.59	-0.54	-5.33	-3.46	-1.87	-1.94	-5.33	-3.46	-1.87	-1.94
UBS Property	49.0	8.39	1.64	1.60	0.04	0.04	7.56	7.19	0.37	0.35	7.56	7.19	0.37	0.35

Total Fund Market Value at Qtr End: £583.7 M

Scheme Performance

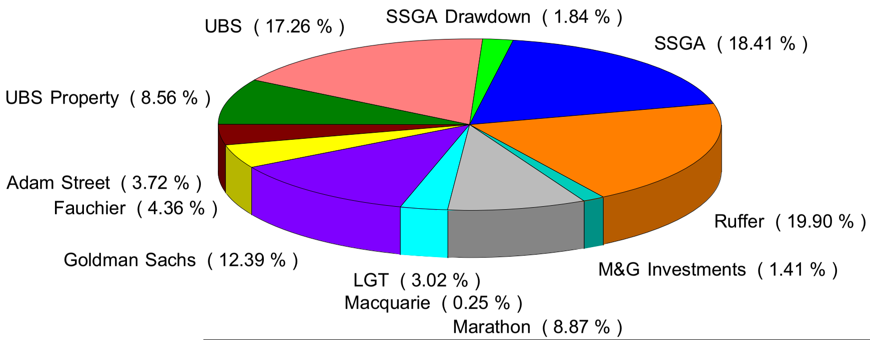
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	8.79	9.63	-0.84	-0.77	1.19	2.35	-1.17	-1.14	30/09/95	6.25	6.35	-0.10	-0.09

By Manager

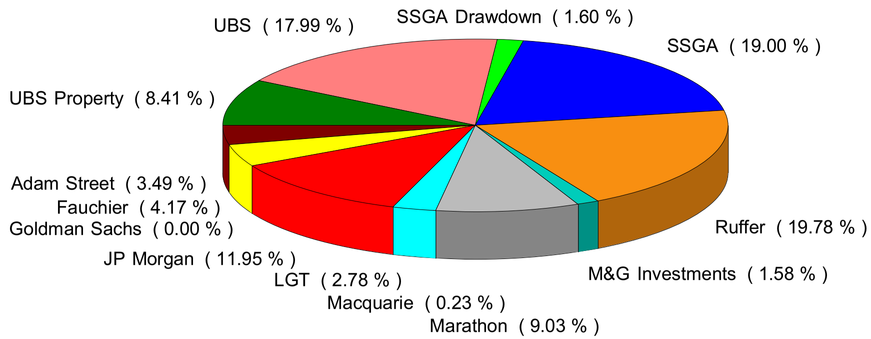
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	0.47	-	-	-	5.48	-	-	-	31/01/05	-0.08	-	-	-
Fauchier	-	-	-	-	-	-	-	-	30/06/10	-1.39	5.87	-7.26	-6.86
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	0.60	0.58	0.02	0.02
LGT	-0.30	-	-	-	9.28	-	-	-	31/05/04	8.42	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	-8.47	-	-	-
Marathon	-	-	-	-	-	-	-	-	09/06/10	4.90	5.73	-0.83	-0.79
M&G Investments	-	-	-	-	-	-	-	-	31/05/10	4.26	4.86	-0.59	-0.57
Ruffer	-	-	-	-	-	-	-	-	28/05/10	5.12	0.77	4.36	4.32
SSGA	10.91	10.80	0.11	0.10	-	-	-	-	30/11/08	13.30	13.16	0.13	0.12
SSGA Drawdown	-	-	-	-	-	-	-	-	30/06/09	5.52	5.21	0.32	0.30
UBS	11.24	12.88	-1.65	-1.46	0.93	3.11	-2.18	-2.12	31/12/88	9.50	8.60	0.90	0.83
UBS Property	4.12	5.71	-1.58	-1.50	-3.54	-3.20	-0.34	-0.35	31/03/06	-1.23	-0.60	-0.64	-0.64

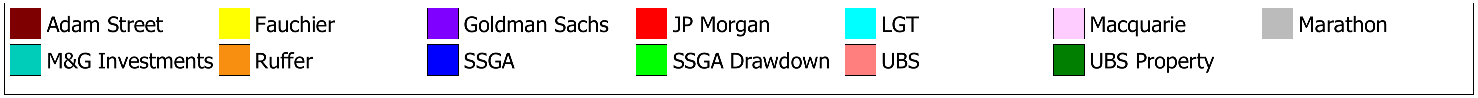
Total Fund Market Value at Qtr End: £583.7 M

Weighting at Beginning of Period



Weighting at End of Period

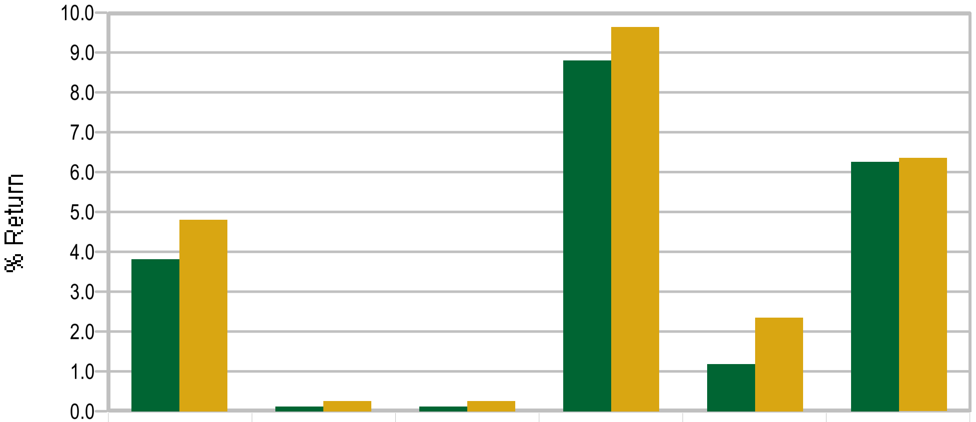




	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	564,347	100.00	-2,223	19,484	2,059	583,667	100.00
Adam Street	20,972	3.72	186	-806	0	20,352	3.49
Alliance Bernstein	-0	-0.00	0		0		0.00
Fauchier	24,584	4.36	0	-298	0	24,286	4.16
Goldman Sachs	69,826	12.37	-70,576	823	-64	10	0.00
JP Morgan	-		69,250	414	0	69,664	11.94
LGT	17,026	3.02	-306	-511	0	16,208	2.78
M&G Investments	7,959	1.41	1,135	115	-1	9,208	1.58
Macquarie	1,432	0.25	68	-165	0	1,334	0.23
Marathon	49,985	8.86	0	2,634	0	52,619	9.02
Nomura	206	0.04	-913	714	88	95	0.02
Ruffer	112,154	19.87	0	2,721	432	115,307	19.76
SSGA	103,762	18.39	0	6,967	0	110,728	18.97
SSGA Drawdown	10,341	1.83	-1,135	121	0	9,328	1.60
UBS	97,290	17.24	0	6,462	1,130	104,881	17.97
UBS Property	48,211	8.54	-5	319	473	48,998	8.39

London Borough of Hillingdon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.82	0.12	0.12	8.79	1.19	6.25
Benchmark	4.80	0.26	0.26	9.63	2.35	6.35

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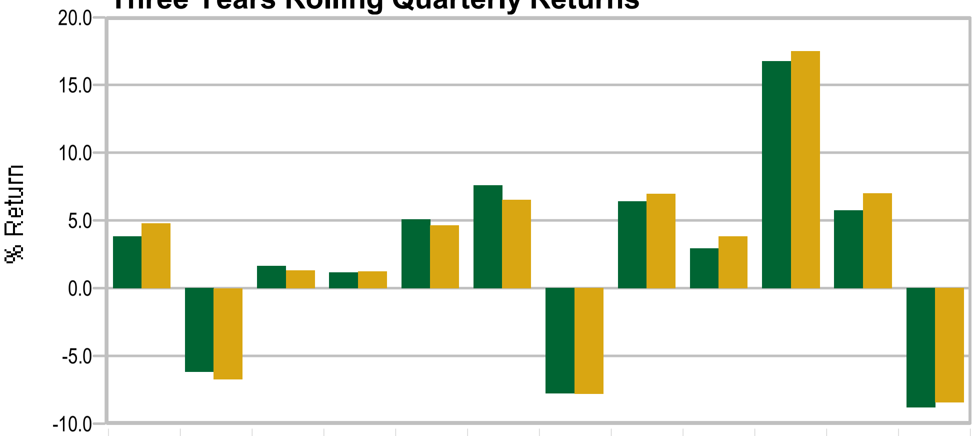
Risk Statistics - 3 years

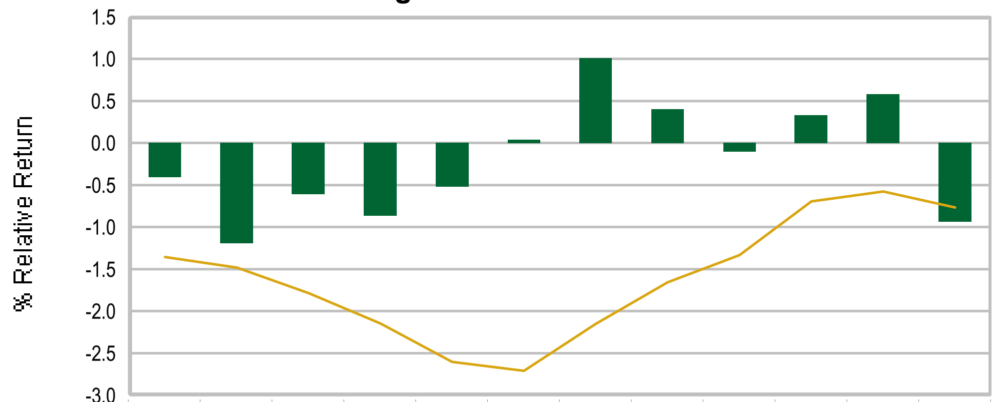
Risk Statistics - 3 years	Fund	B'mark
Performance Return	8.79	9.63
Standard Deviation	11.03	11.43
Relative Return	-0.77	
Tracking Error	1.59	
Information Ratio	-0.53	
Beta	0.96	
Alpha	-0.46	
R Squared	0.98	
Sharpe Ratio	0.66	0.72
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	564,347	
Net Investment £(000)	-2,223	
Income Received £(000)	2,059	
Appreciation £(000)	19,484	
Closing Market Value (£000)	583,667	

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	3.82	-6.20	1.64	1.15	5.08	7.60	-7.77	6.41	2.93	16.78	5.74	-8.82
Benchmark	4.80	-6.74	1.31	1.26	4.67	6.52	-7.81	6.97	3.83	17.50	7.02	-8.44

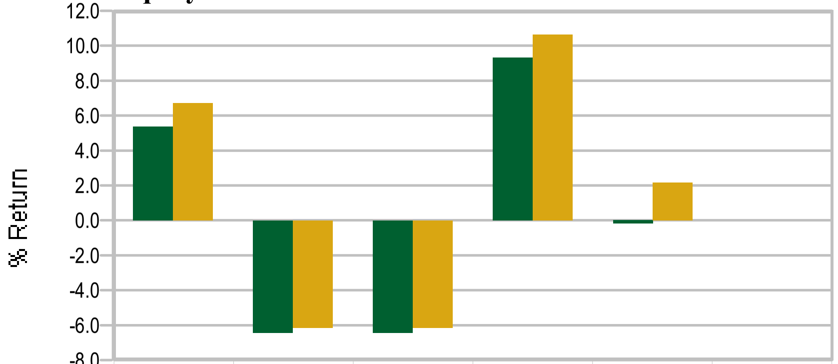
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-0.41	-1.19	-0.61	-0.87	-0.52	0.04	1.01	0.40	-0.11	0.33	0.58	-0.94
3Y Relative	-1.36	-1.48	-1.79	-2.15	-2.60	-2.71	-2.15	-1.66	-1.34	-0.70	-0.58	-0.77

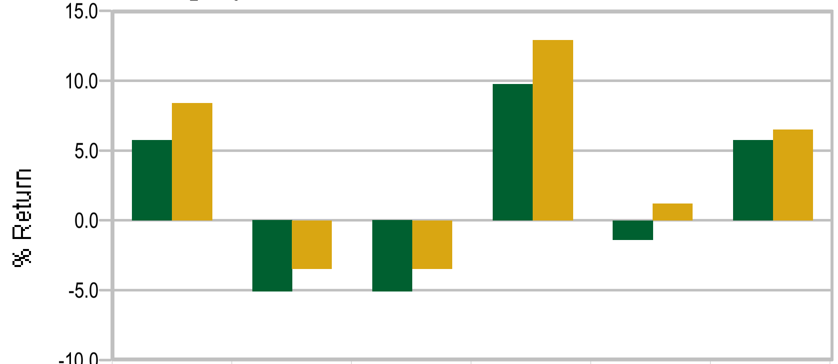
London Borough of Hillingdon

Equity



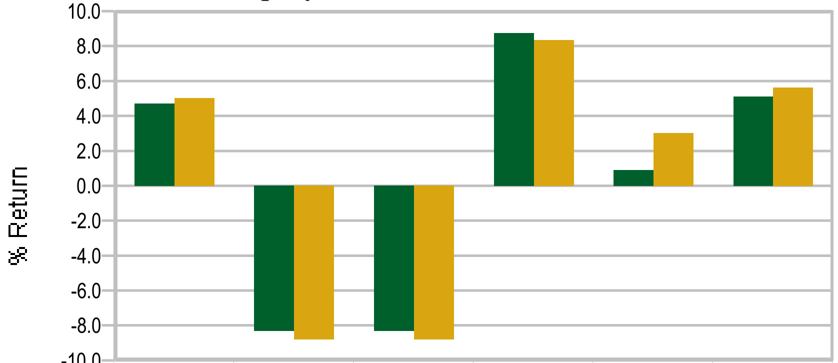
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.37	-6.45	-6.45	9.33	-0.19	-
B'Mark	6.71	-6.14	-6.14	10.65	2.17	-

UK Equity



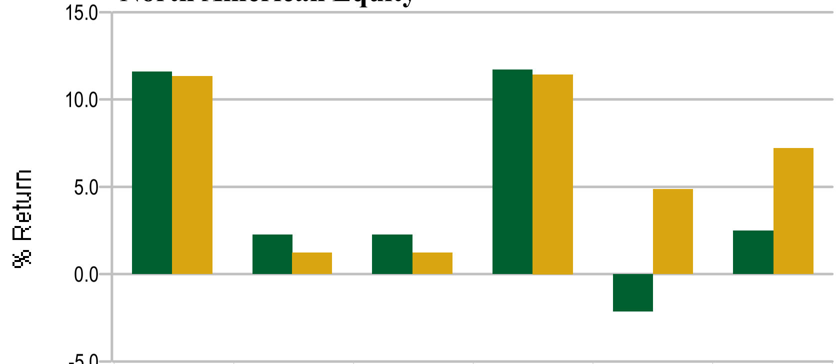
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.75	-5.10	-5.10	9.75	-1.39	5.76
B'Mark	8.39	-3.46	-3.46	12.88	1.20	6.50

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.72	-8.33	-8.33	8.75	0.91	5.10
B'Mark	5.04	-8.81	-8.81	8.35	3.03	5.62

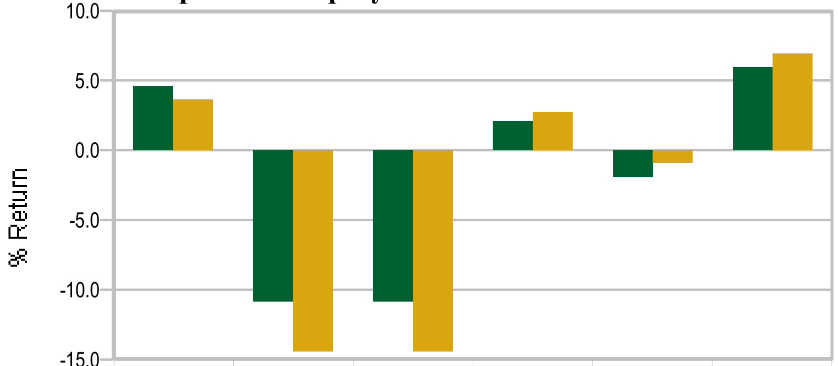
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.57	2.25	2.25	11.71	-2.13	2.47
B'Mark	11.32	1.22	1.22	11.44	4.85	7.20

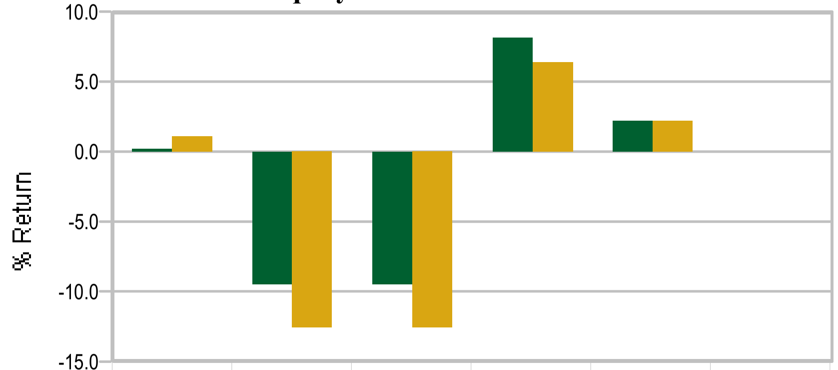
London Borough of Hillingdon

Europe ex UK Equity



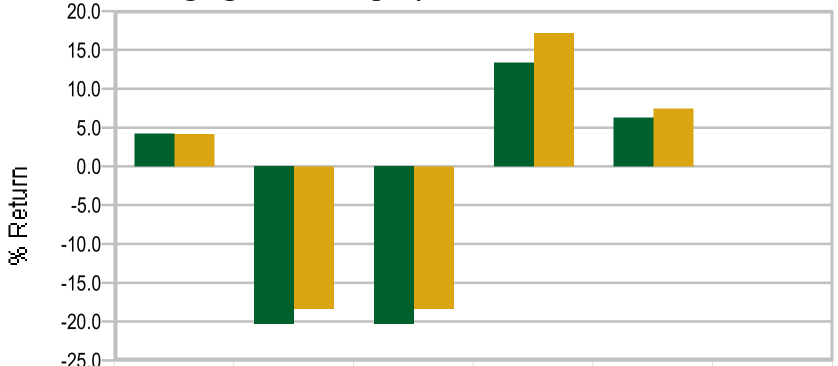
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.61	-10.85	-10.85	2.08	-1.95	5.96
B'Mark	3.63	-14.41	-14.41	2.75	-0.88	6.92

Asia Pacific Equity



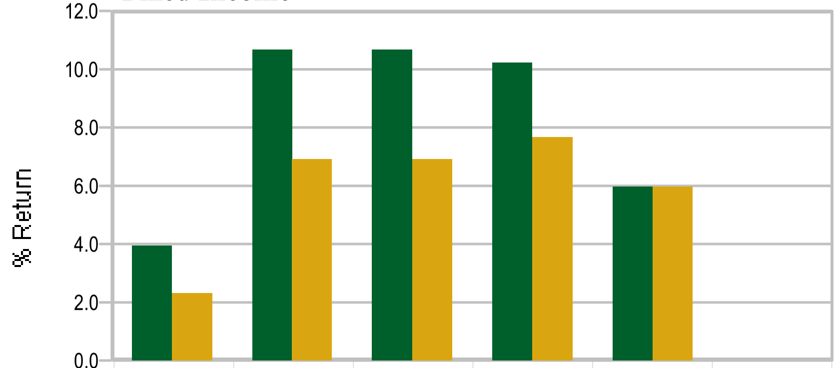
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.21	-9.48	-9.48	8.14	2.21	-
B'Mark	1.08	-12.58	-12.58	6.40	2.20	-

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.21	-20.32	-20.32	13.38	6.29	-
B'Mark	4.17	-18.36	-18.36	17.16	7.46	-

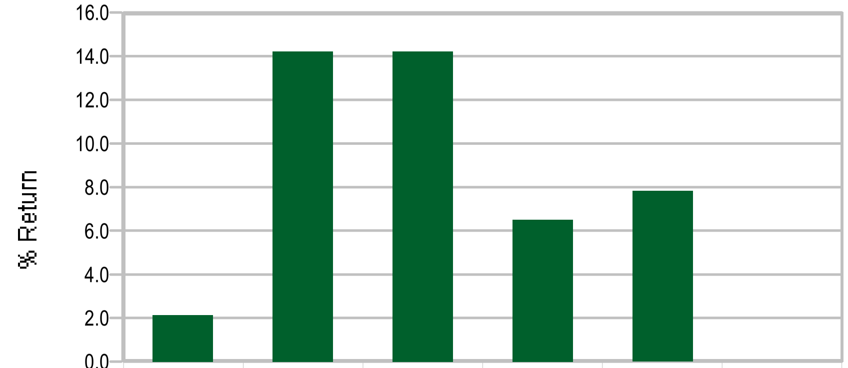
Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.95	10.68	10.68	10.22	5.98	-
B'Mark	2.31	6.92	6.92	7.68	5.98	-

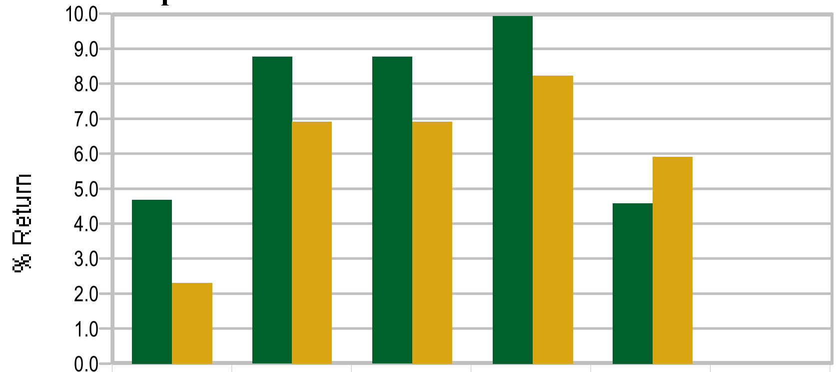
London Borough of Hillingdon

Government Bonds



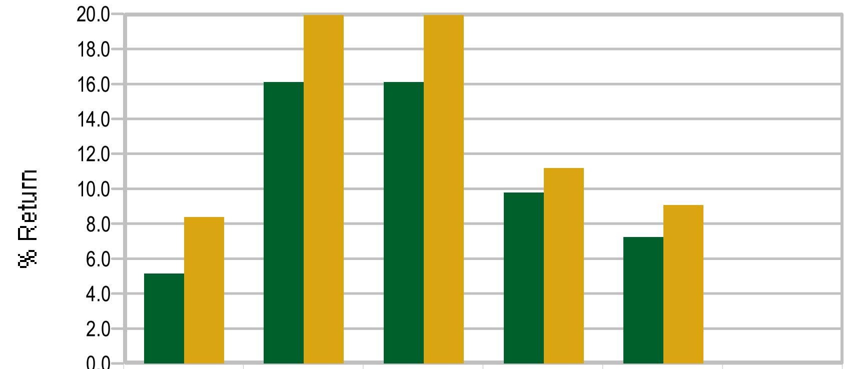
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.13	14.23	14.23	6.50	7.82	-

Corporate Bonds



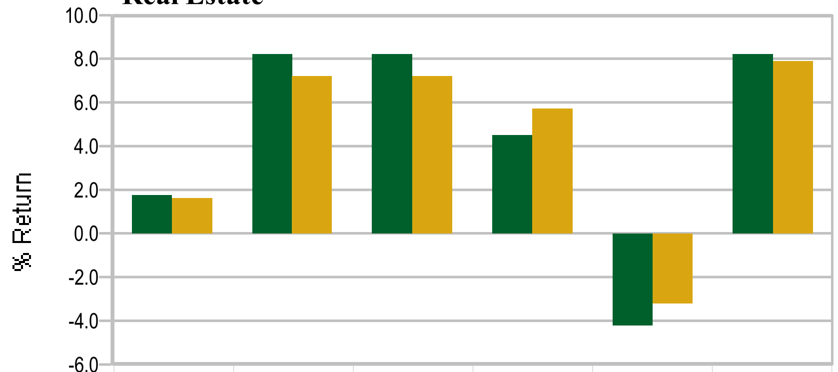
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.69	8.76	8.76	9.94	4.59	-
B'Mark	2.31	6.92	6.92	8.23	5.91	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.14	16.11	16.11	9.78	7.23	-
B'Mark	8.38	19.94	19.94	11.18	9.04	-

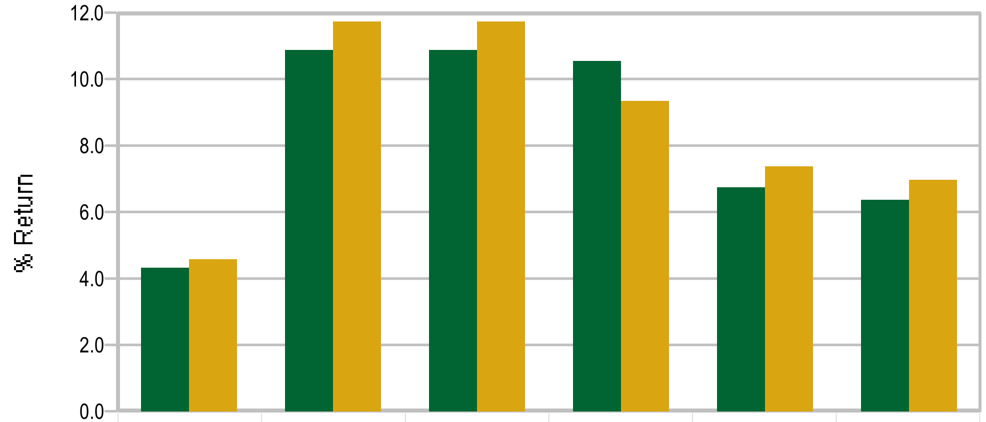
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.75	8.22	8.22	4.50	-4.21	8.23
B'Mark	1.60	7.19	7.19	5.71	-3.20	7.89

Goldman Sachs

Historical Plan Performance

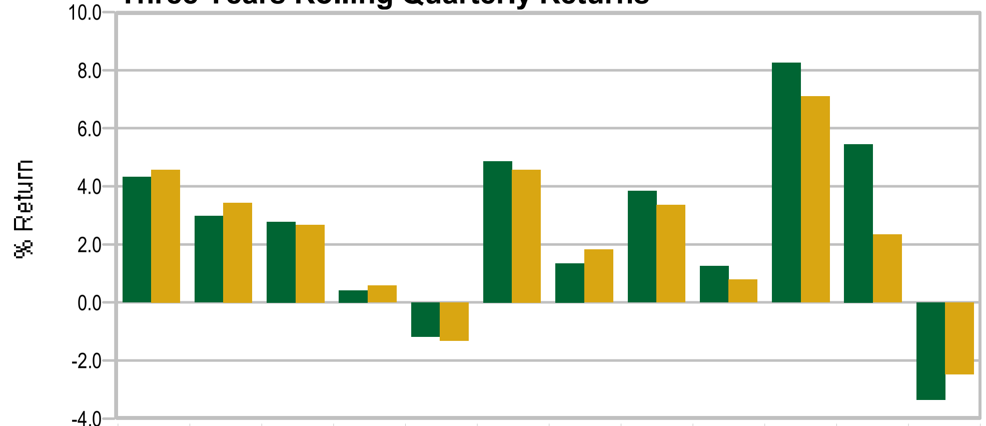


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.31	10.87	10.87	10.55	6.74	6.36
Benchmark	4.58	11.72	11.72	9.34	7.37	6.97

Risk Statistics - 3 years

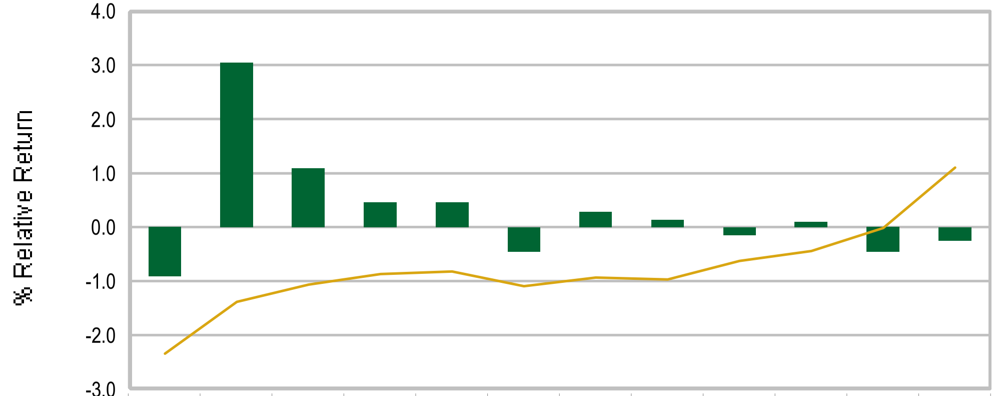
Risk Statistics - 3 years	Fund	B'mark
Performance Return	10.55	9.34
Standard Deviation	5.69	5.50
Relative Return	1.10	
Tracking Error	1.82	
Information Ratio	0.66	
Beta	0.98	
Alpha	1.28	
R Squared	0.90	
Sharpe Ratio	1.60	1.43
Percentage of Total Fund	0.0	
Inception Date	Dec-2001	
Opening Market Value (£000)	69,826	
Net Investment £(000)	-70,576	
Income Received £(000)	-64	
Appreciation £(000)	823	
Closing Market Value (£000)	10	

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	4.31	2.97	2.78	0.42	-1.18	4.88	1.35	3.84	1.25	8.26	5.46	-3.37
Benchmark	4.58	3.45	2.68	0.57	-1.32	4.59	1.81	3.36	0.79	7.09	2.34	-2.48

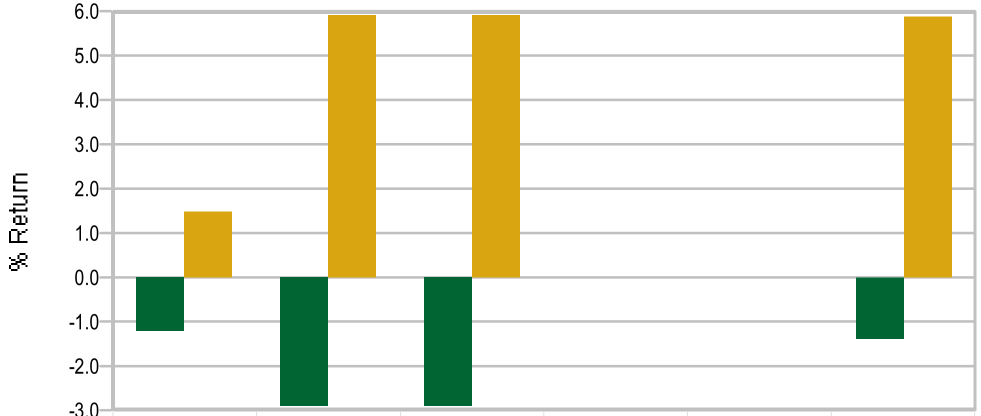
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-0.91	3.05	1.09	0.46	0.46	-0.45	0.28	0.14	-0.15	0.10	-0.46	-0.25
3Y Relative	-2.34	-1.38	-1.06	-0.87	-0.82	-1.09	-0.93	-0.97	-0.63	-0.44	-0.02	1.10

Fauchier

Historical Plan Performance

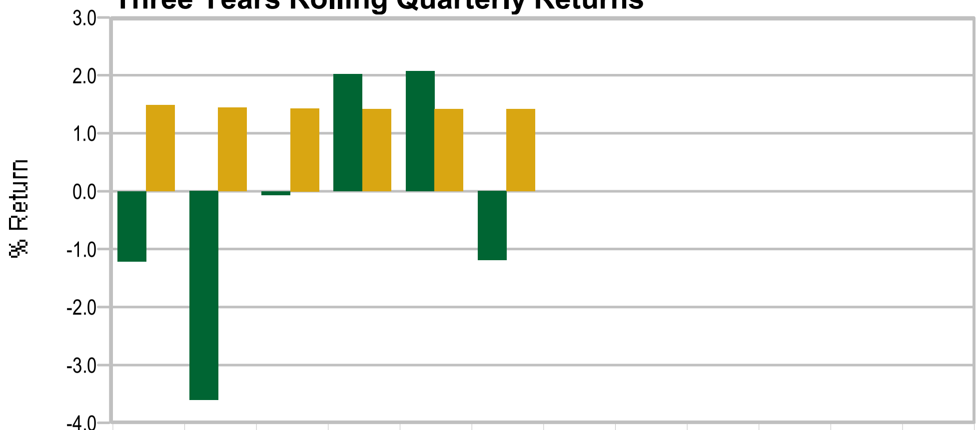


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.21	-2.91	-2.91	-	-	-1.39
Benchmark	1.48	5.92	5.92	-	-	5.87

Risk Statistics - 3 years

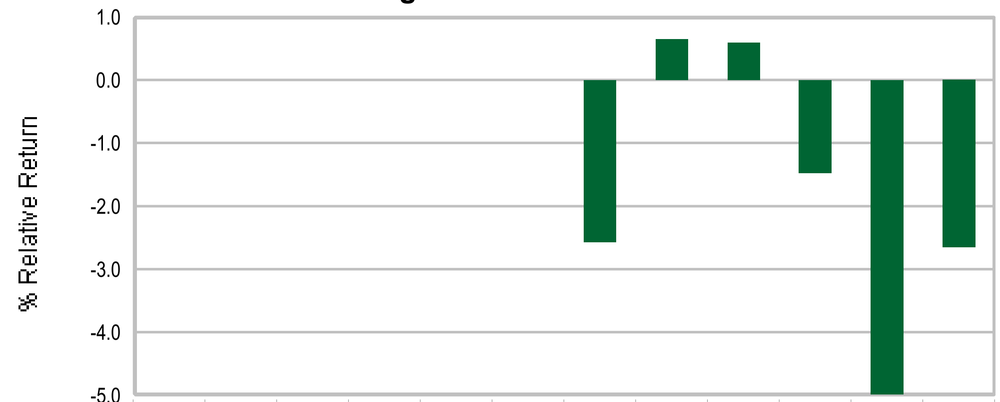
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	4.2	
Inception Date	Jun-2010	
Opening Market Value (£000)	24,584	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-298	
Closing Market Value (£000)	24,286	

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	-1.21	-3.61	-0.06	2.02	2.08	-1.19	-	-	-	-	-	-
Benchmark	1.48	1.45	1.43	1.42	1.42	1.41	-	-	-	-	-	-

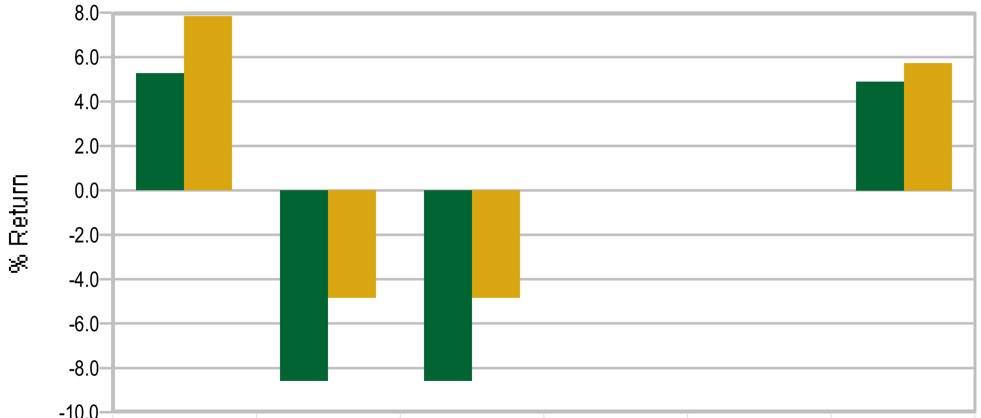
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-	-	-	-	-	-	-2.57	0.65	0.59	-1.48	-4.98	-2.66
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Marathon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.27	-8.58	-8.58	-	-	4.90
Benchmark	7.85	-4.84	-4.84	-	-	5.73

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Risk Statistics - 3 years

Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	9.0	
Inception Date	Jun-2010	
Opening Market Value (£000)	49,985	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	2,634	
Closing Market Value (£000)	52,619	

Three Years Rolling Quarterly Returns

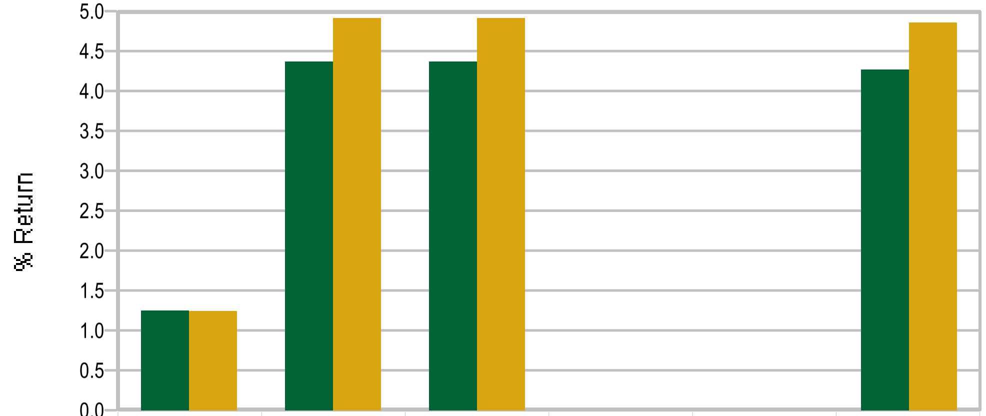
	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	5.27	-16.43	1.77	2.10	8.28	12.07	-	-	-	-	-	-
Benchmark	7.85	-14.06	0.31	2.36	9.66	8.02	-	-	-	-	-	-

Three Years Rolling Relative Returns

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

M&G Investments

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.25	4.37	4.37	-	-	4.26
Benchmark	1.24	4.91	4.91	-	-	4.86

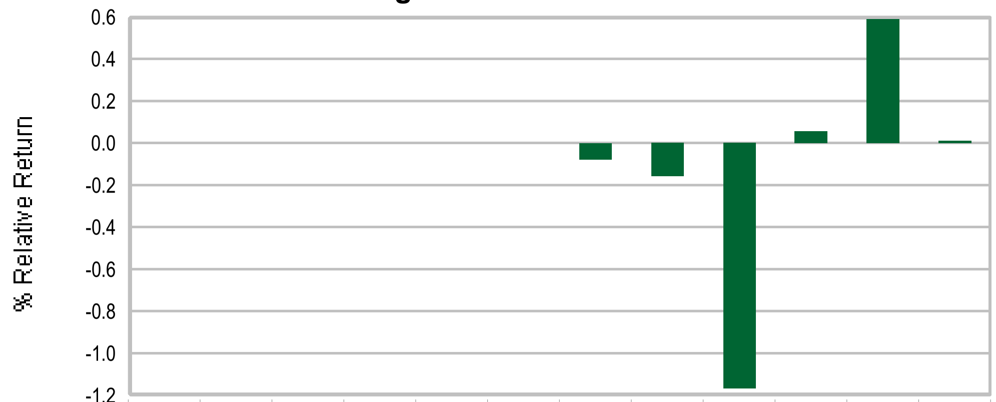
Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	1.6	
Inception Date	May-2010	
Opening Market Value (£000)	7,959	
Net Investment £(000)	1,135	
Income Received £(000)	-1	
Appreciation £(000)	115	
Closing Market Value (£000)	9,208	

Three Years Rolling Quarterly Returns

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

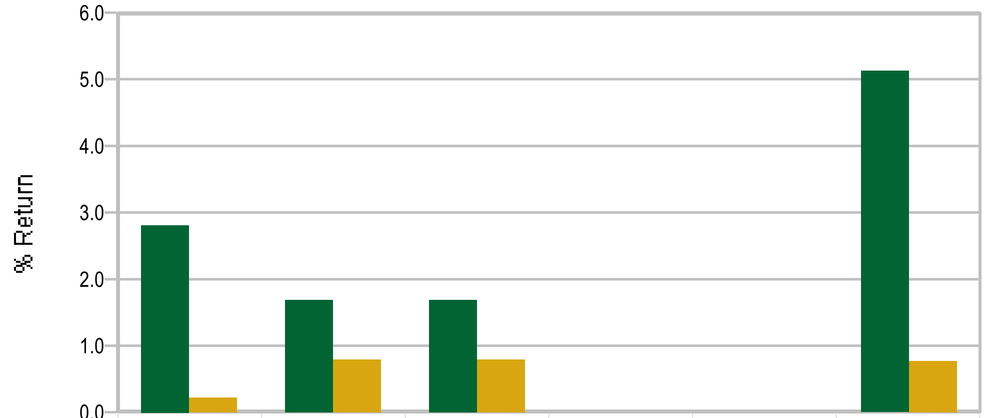
Three Years Rolling Relative Returns



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

Ruffer

Historical Plan Performance

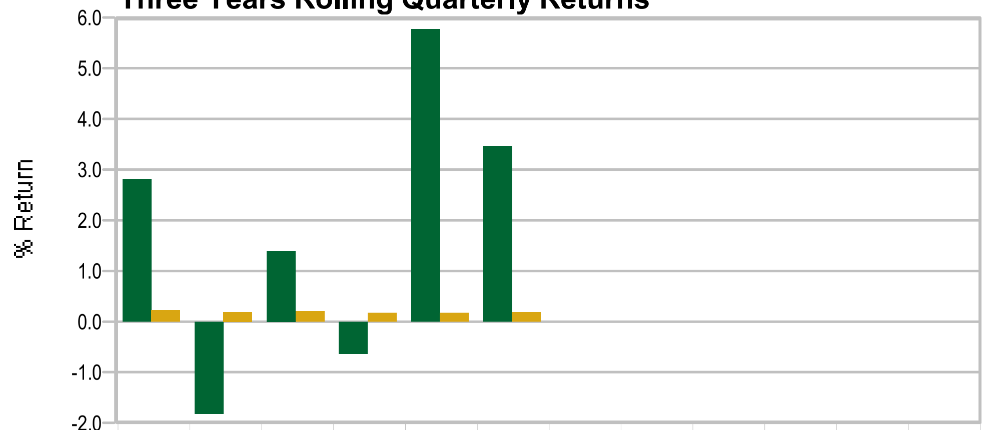


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.81	1.69	1.69	-	-	5.12
Benchmark	0.22	0.80	0.80	-	-	0.77

Risk Statistics - 3 years

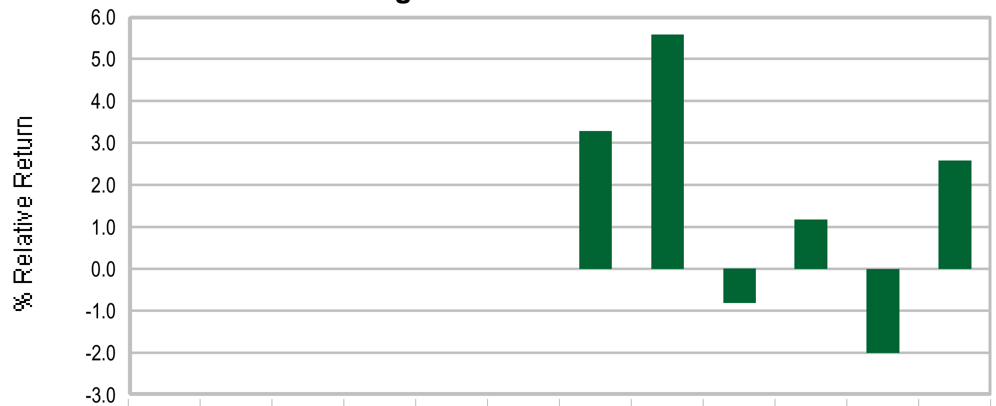
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.8	
Inception Date	May-2010	
Opening Market Value (£000)	112,154	
Net Investment £(000)	0	
Income Received £(000)	432	
Appreciation £(000)	2,721	
Closing Market Value (£000)	115,307	

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	2.81	-1.82	1.39	-0.64	5.77	3.47	-	-	-	-	-	-
Benchmark	0.22	0.19	0.20	0.18	0.18	0.18	-	-	-	-	-	-

Three Years Rolling Relative Returns



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

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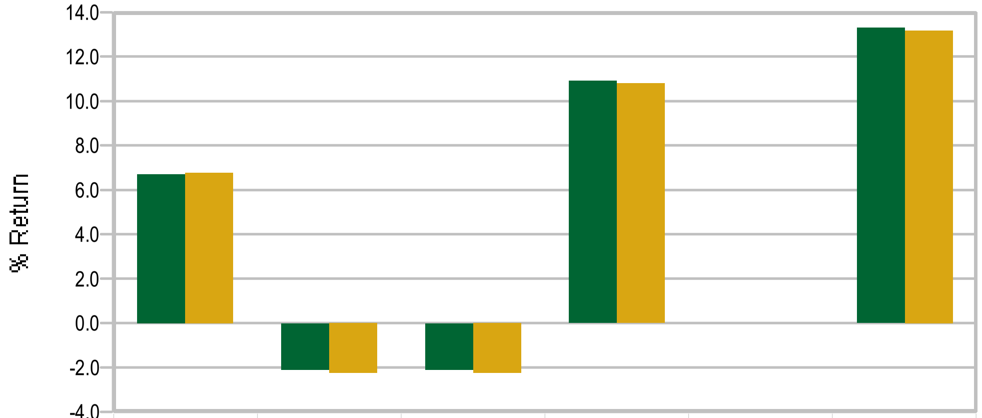
SSGA

Historical Plan Performance

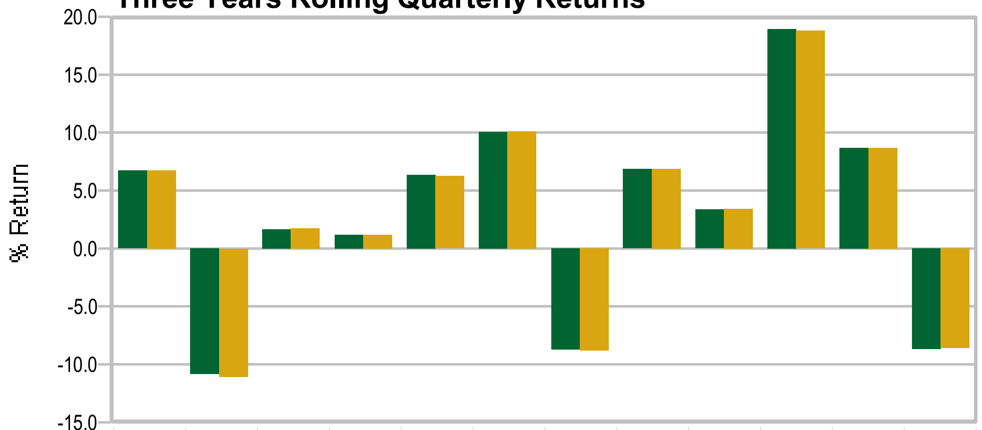


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.71	-2.10	-2.10	10.91	-	13.30
Benchmark	6.76	-2.25	-2.25	10.80	-	13.16

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	10.91	10.80
Standard Deviation	13.42	13.47
Relative Return	0.10	
Tracking Error	0.19	
Information Ratio	0.57	
Beta	1.00	
Alpha	0.13	
R Squared	1.00	
Sharpe Ratio	0.70	0.69
Percentage of Total Fund	19.0	
Inception Date	Nov-2008	
Opening Market Value (£000)	103,762	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	6,967	
Closing Market Value (£000)	110,728	

Three Years Rolling Quarterly Returns



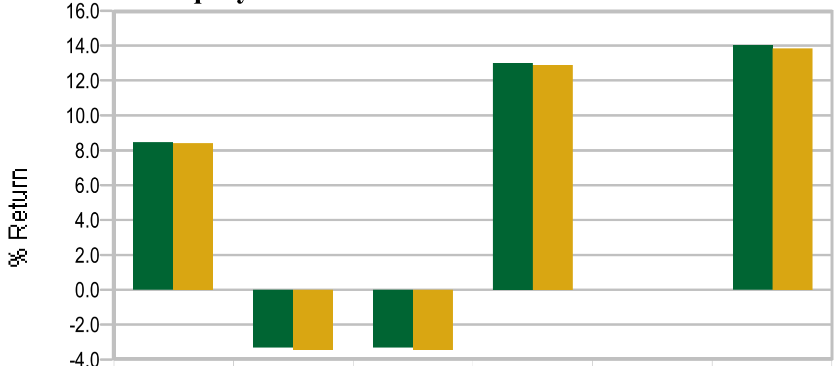
	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	6.71	-10.84	1.69	1.19	6.36	10.06	-8.72	6.85	3.38	18.95	8.68	-8.68
Benchmark	6.76	-11.07	1.75	1.20	6.26	10.13	-8.82	6.89	3.41	18.78	8.66	-8.59

Three Years Rolling Relative Returns

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-0.11	0.01	0.14	-0.03	-0.03	0.11	-0.06	0.10	-0.00	-0.06	0.26	-0.05
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	0.10

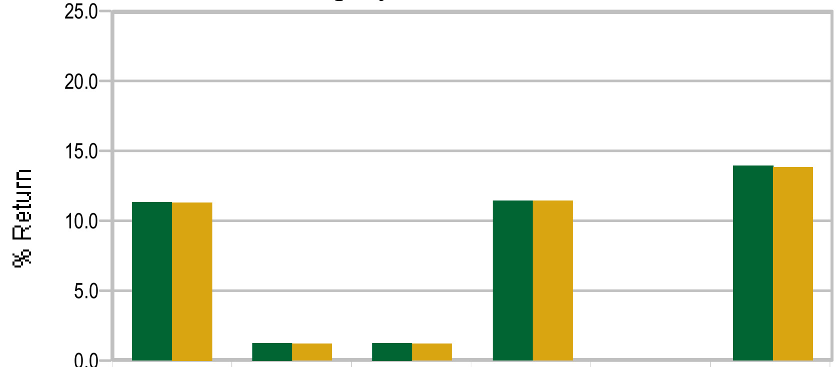
SSGA

UK Equity



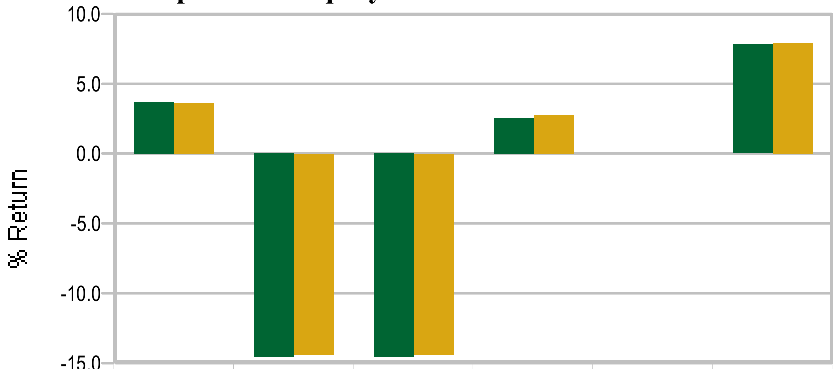
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.45	-3.31	-3.31	13.02	-	14.01
B'Mark	8.39	-3.46	-3.46	12.88	-	13.84

North America Equity



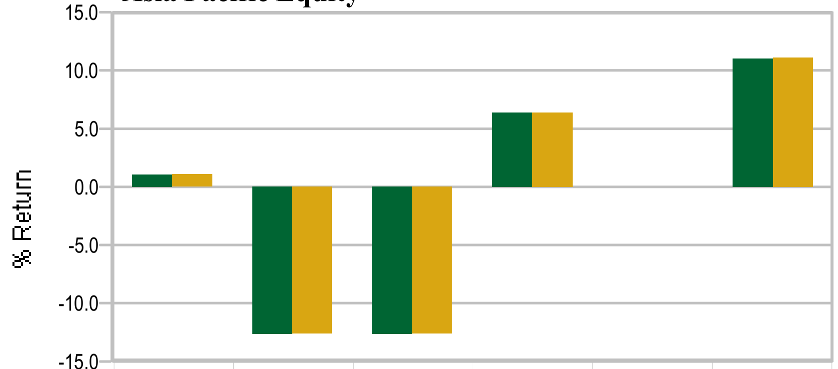
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.33	1.26	1.26	11.45	-	13.94
B'Mark	11.31	1.22	1.22	11.44	-	13.85

Europe ex UK Equity



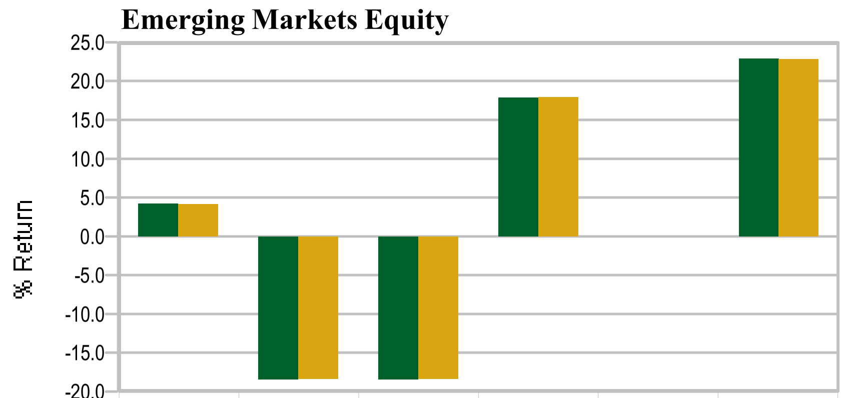
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.65	-14.53	-14.53	2.56	-	7.80
B'Mark	3.63	-14.41	-14.41	2.75	-	7.94

Asia Pacific Equity

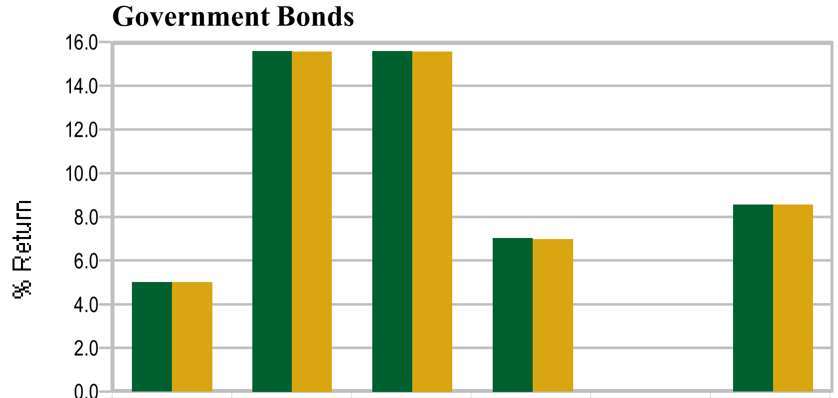


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.05	-12.65	-12.65	6.36	-	11.03
B'Mark	1.08	-12.58	-12.58	6.40	-	11.10

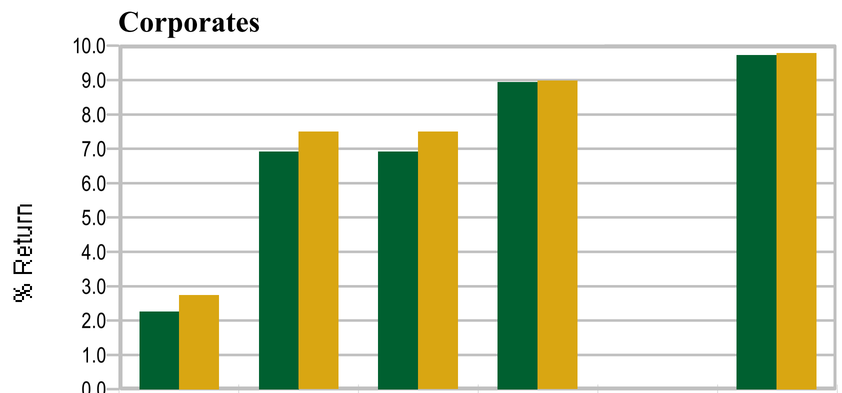
SSGA



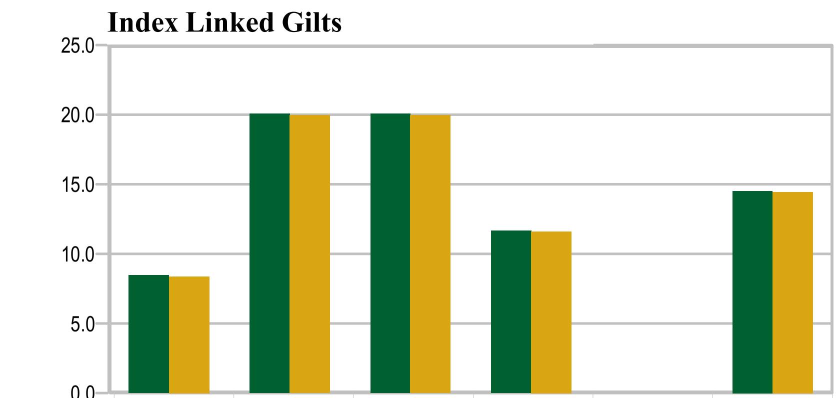
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.23	-18.40	-18.40	17.84	-	22.93
B'Mark	4.17	-18.36	-18.36	17.93	-	22.80



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.01	15.61	15.61	7.03	-	8.56
B'Mark	5.01	15.57	15.57	6.98	-	8.56



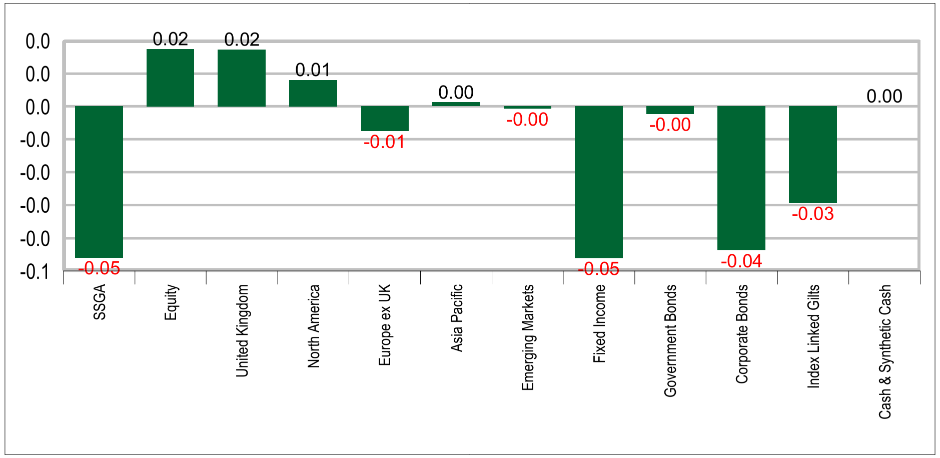
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.26	6.92	6.92	8.95	-	9.73
B'Mark	2.74	7.49	7.49	8.98	-	9.79



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.45	20.06	20.06	11.66	-	14.52
B'Mark	8.38	19.94	19.94	11.60	-	14.47

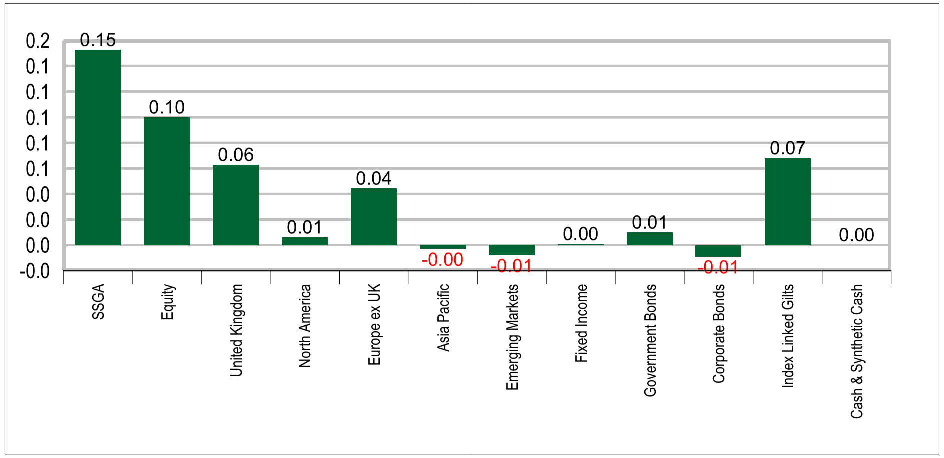
SSGA

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	6.71	6.76	-0.05	-0.05	0.18	-0.19	-0.05
Equity	7.01	-	7.01	0.00	0.24	-0.22	0.02
United Kingdom	8.45	8.39	0.05	-0.00	0.02	-0.00	0.02
North America	11.33	11.31	0.02	-0.00	0.02	-0.01	0.01
Europe ex UK	3.65	3.63	0.02	-0.00	0.06	-0.06	-0.01
Asia Pacific	1.05	1.08	-0.03	0.01	0.16	-0.17	0.00
Emerging Markets	4.23	4.17	0.06	-0.00	-0.02	0.03	-0.00
Fixed Income	2.68	-	2.68	-0.01	-0.07	0.03	-0.05
Government Bonds	5.01	5.01	0.00	-0.00	0.00	0.00	-0.00
Corporate Bonds	2.26	2.74	-0.47	-0.01	-0.07	0.03	-0.04
Index Linked Gilts	8.45	8.38	0.07	-0.04	0.01	0.00	-0.03
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

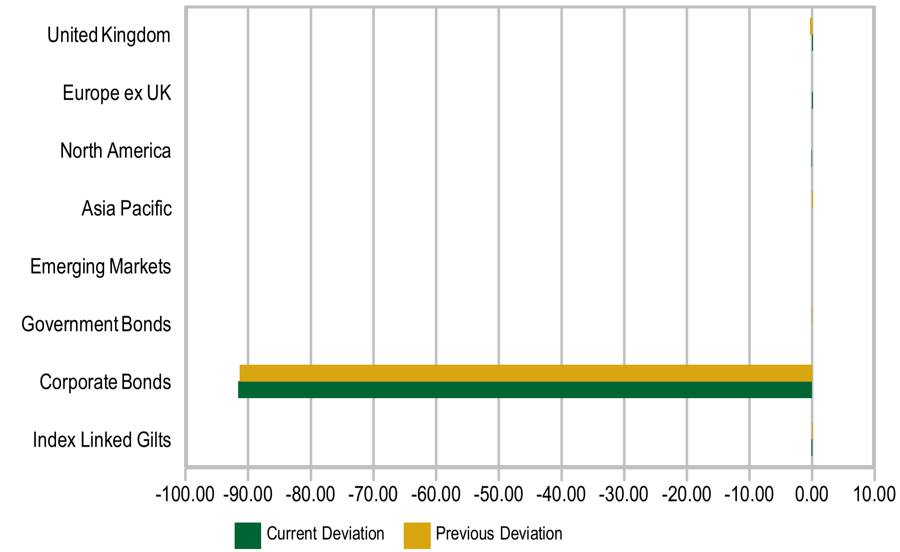
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	-2.10	-2.25	0.15	0.16	-0.43	0.44	0.15
Equity	-6.10	-	-6.10	0.05	-0.36	0.41	0.10
United Kingdom	-3.31	-3.46	0.16	0.00	0.07	-0.01	0.06
North America	1.27	1.22	0.05	0.01	-0.02	0.02	0.01
Europe ex UK	-14.53	-14.41	-0.14	0.02	0.08	-0.06	0.04
Asia Pacific	-12.65	-12.58	-0.08	0.02	-0.28	0.26	-0.00
Emerging Markets	-18.37	-18.36	-0.02	-0.00	-0.21	0.21	-0.01
Fixed Income	8.20	-	8.20	0.04	-0.07	0.03	0.00
Government Bonds	15.61	15.57	0.04	0.01	0.00	0.00	0.01
Corporate Bonds	6.92	7.49	-0.53	0.04	-0.07	0.03	-0.01
Index Linked Gilts	20.06	19.94	0.10	0.06	0.01	0.00	0.07
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

SSGA

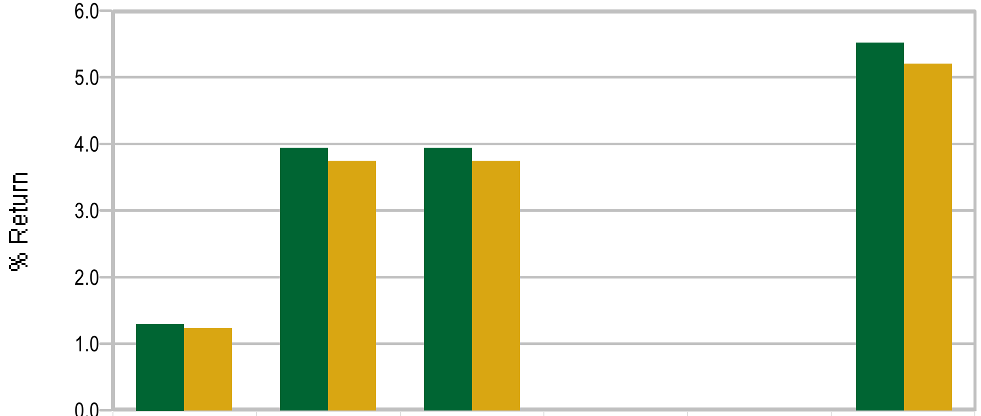
By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	80.16	79.67		80.16		79.67
United Kingdom	44.13	43.64	44.00	0.13	44.00	-0.36
Europe ex UK	11.12	10.98	11.00	0.12	11.00	-0.02
North America	10.95	10.97	11.00	-0.05	11.00	-0.03
Asia Pacific	10.99	11.09	11.00	-0.01	11.00	0.09
Emerging Markets	2.97	2.99	3.00	-0.03	3.00	-0.01
Fixed Income	9.93	10.15		9.93		10.15
Government Bonds	1.49	1.53	1.50	-0.01	1.50	0.03
Corporate Bonds	8.44	8.63	100.00	-91.56	100.00	-91.37
Index Linked Gilts	9.91	10.18	10.00	-0.09	10.00	0.18

SSGA Drawdown

Historical Plan Performance

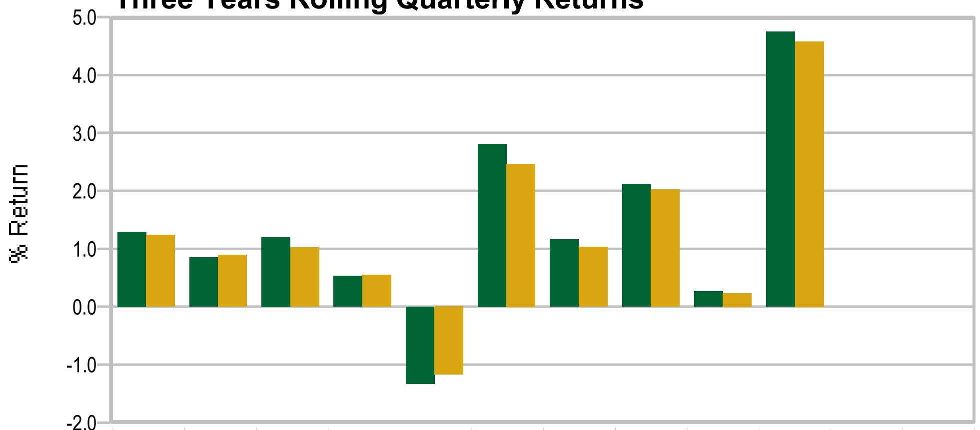


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.30	3.94	3.94	-	-	5.52
Benchmark	1.23	3.74	3.74	-	-	5.21

Risk Statistics - 3 years

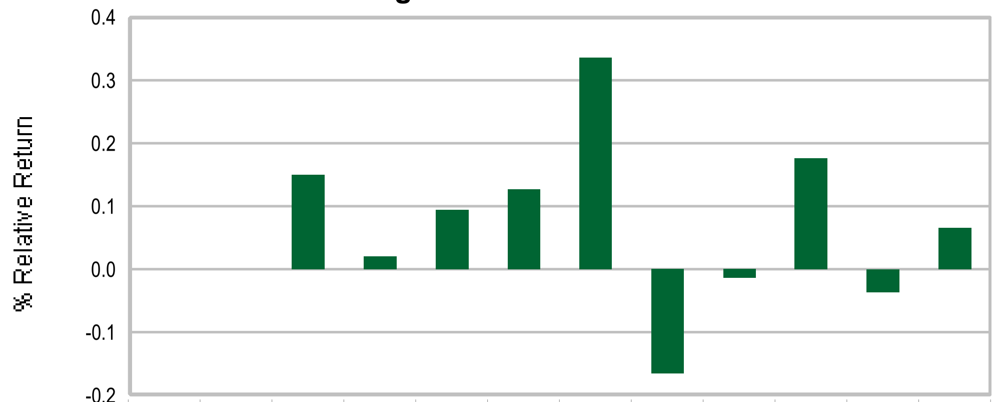
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	1.6	
Inception Date	Jun-2009	
Opening Market Value (£000)	10,341	
Net Investment £(000)	-1,135	
Income Received £(000)	0	
Appreciation £(000)	121	
Closing Market Value (£000)	9,328	

Three Years Rolling Quarterly Returns



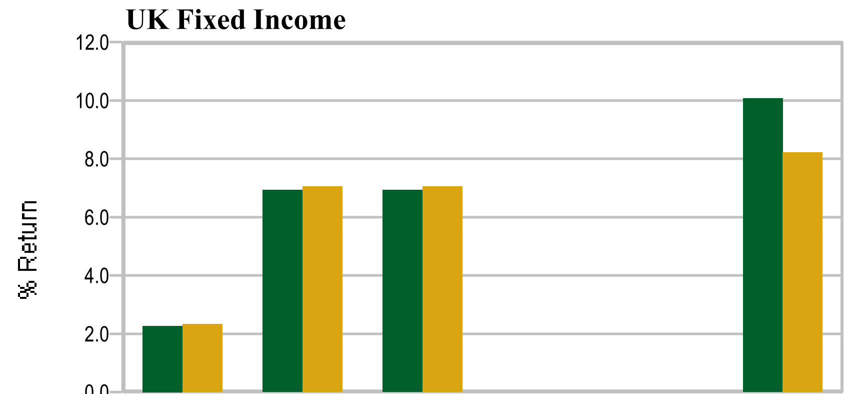
	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	1.30	0.85	1.20	0.53	-1.34	2.81	1.16	2.12	0.26	4.75	-	-
Benchmark	1.23	0.89	1.02	0.55	-1.17	2.47	1.03	2.02	0.24	4.59	-	-

Three Years Rolling Relative Returns

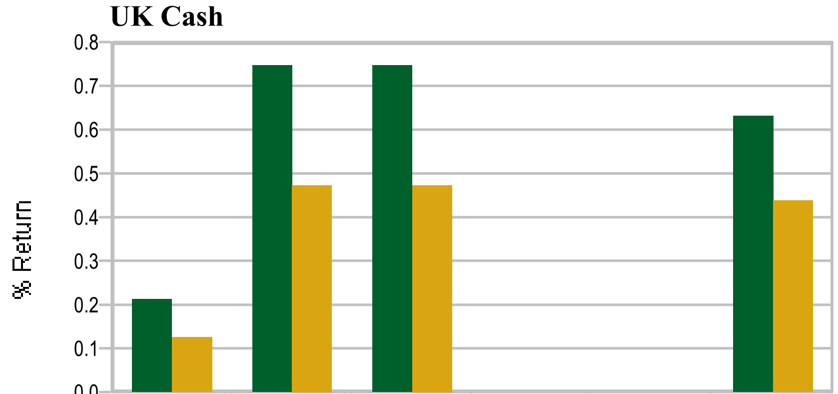


	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-	-	0.15	0.02	0.09	0.13	0.34	-0.17	-0.01	0.18	-0.04	0.07
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

SSGA Drawdown



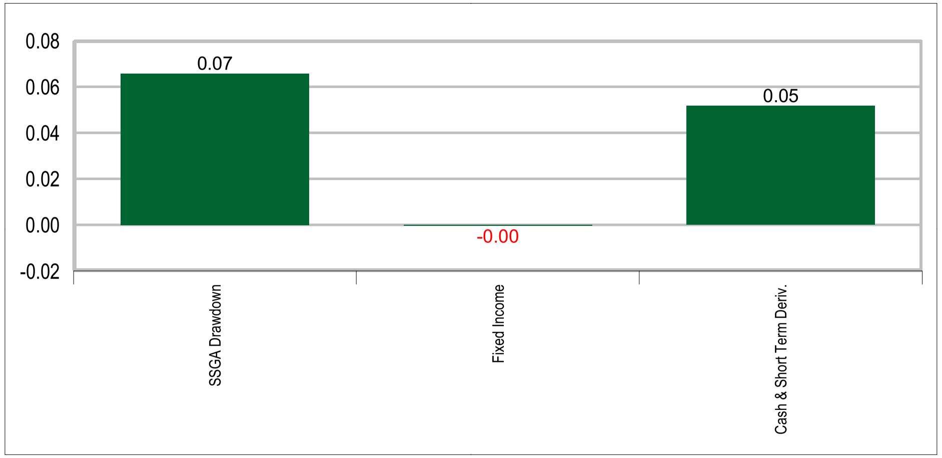
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.27	6.94	6.94	-	-	10.08
B'Mark	2.33	7.05	7.05	-	-	8.22



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.21	0.75	0.75	-	-	0.63
B'Mark	0.13	0.47	0.47	-	-	0.44

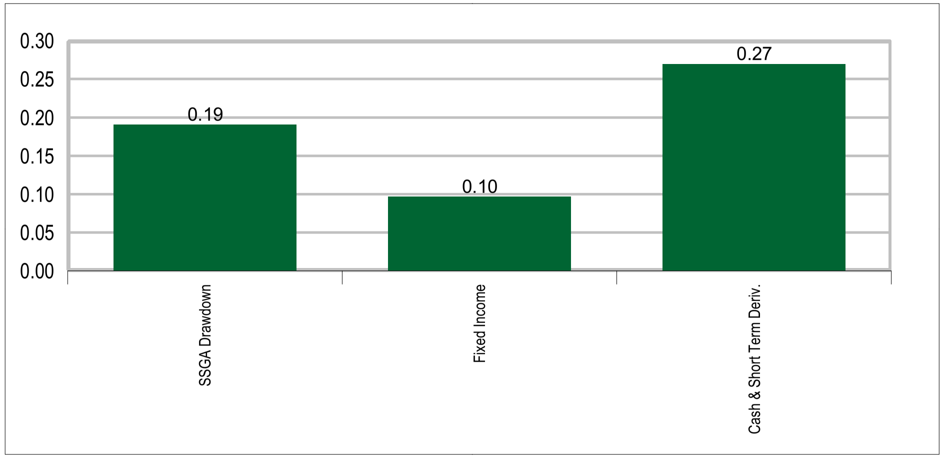
SSGA Drawdown

Relative Contribution - Three Months



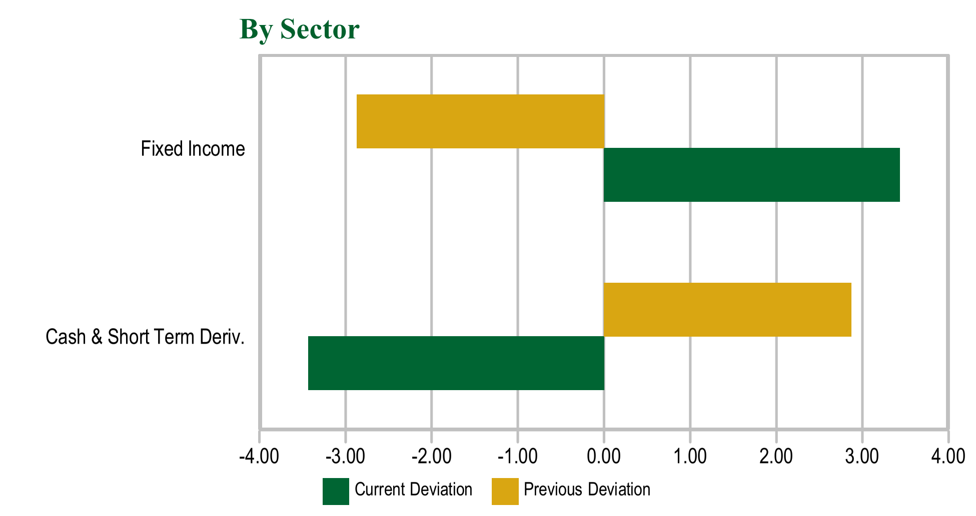
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	1.30	1.23	0.07	0.03	0.02	0.07
Fixed Income	2.27	2.33	-0.05	0.02	-0.02	-0.00
Cash & Short Term Deriv.	0.21	0.13	0.09	0.01	0.04	0.05

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	3.94	3.74	0.19	0.29	0.08	0.19
Fixed Income	6.94	7.05	-0.11	0.15	-0.05	0.10
Cash & Short Term Deriv.	0.75	0.47	0.27	0.14	0.13	0.27

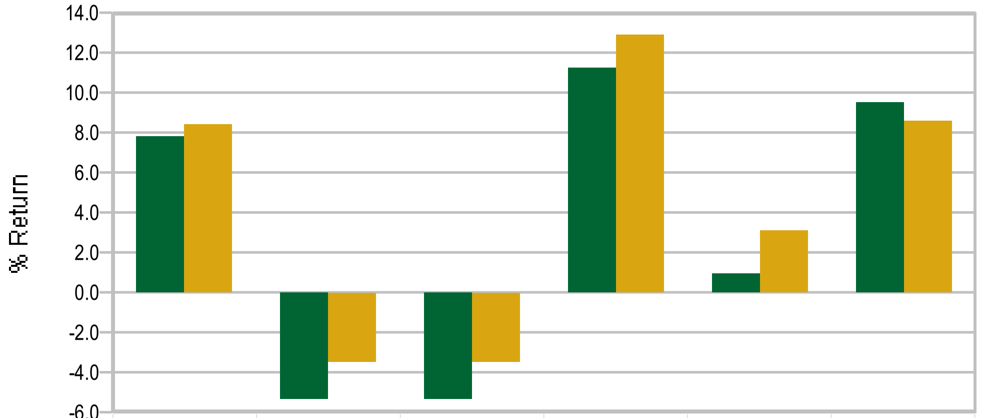
SSGA Drawdown



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	53.44	47.13	50.00	3.44	50.00	-2.87
Cash & Short Term Deriv.	46.56	52.87	50.00	-3.44	50.00	2.87

UBS

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.80	-5.33	-5.33	11.24	0.93	9.50
Benchmark	8.39	-3.46	-3.46	12.88	3.11	8.60

Risk Statistics - 3 years	Fund	B'mark
Performance Return	11.24	12.88
Standard Deviation	18.65	16.28
Relative Return	-1.46	
Tracking Error	4.42	
Information Ratio	-0.37	
Beta	1.12	
Alpha	-2.49	
R Squared	0.95	
Sharpe Ratio	0.52	0.70
Percentage of Total Fund	18.0	
Inception Date	Dec-1988	
Opening Market Value (£000)	97,290	
Net Investment £(000)	0	
Income Received £(000)	1,130	
Appreciation £(000)	6,462	
Closing Market Value (£000)	104,881	

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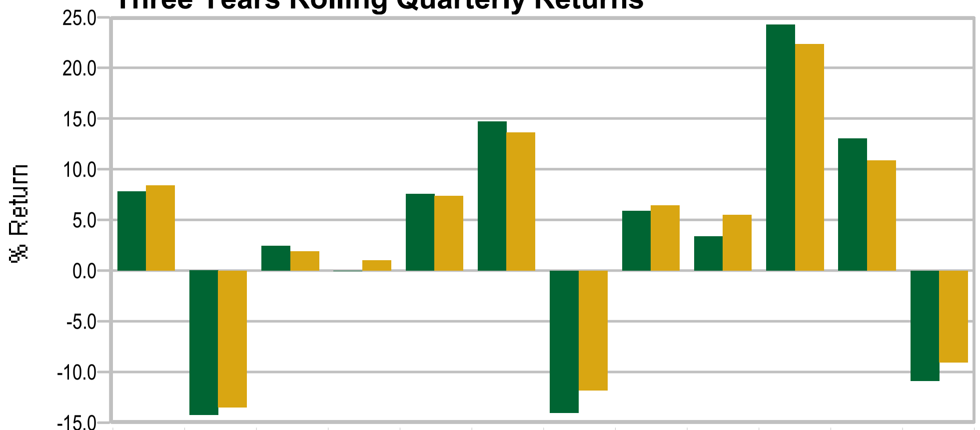
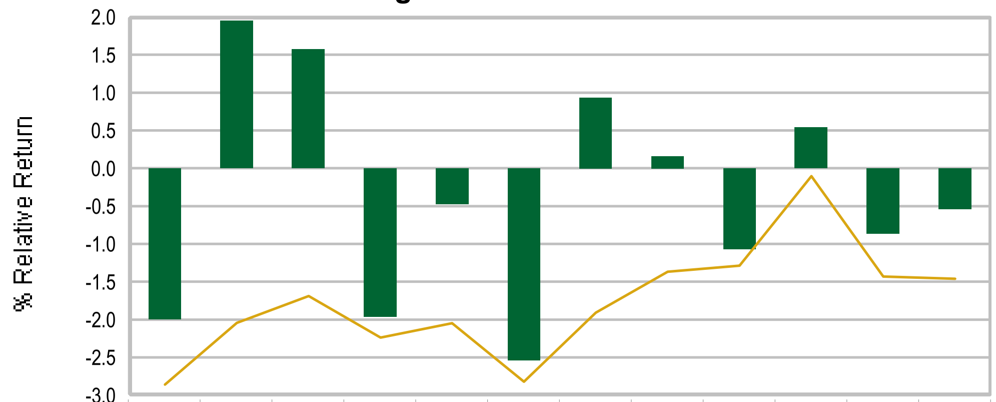
Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	7.80	-14.25	2.46	-0.05	7.55	14.69	-14.05	5.91	3.41	24.30	13.04	-10.90
Benchmark	8.39	-13.50	1.91	1.03	7.38	13.63	-11.80	6.42	5.47	22.38	10.88	-9.08

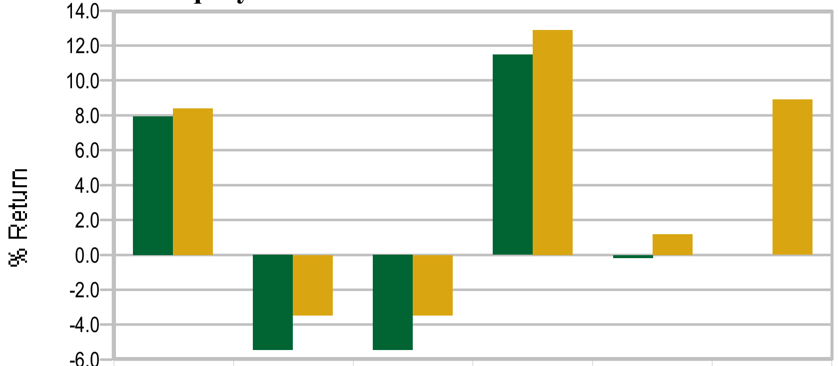
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	-1.99	1.95	1.57	-1.96	-0.48	-2.54	0.93	0.16	-1.07	0.54	-0.87	-0.54
3Y Relative	-2.86	-2.04	-1.69	-2.24	-2.05	-2.82	-1.91	-1.37	-1.29	-0.11	-1.43	-1.46

UBS

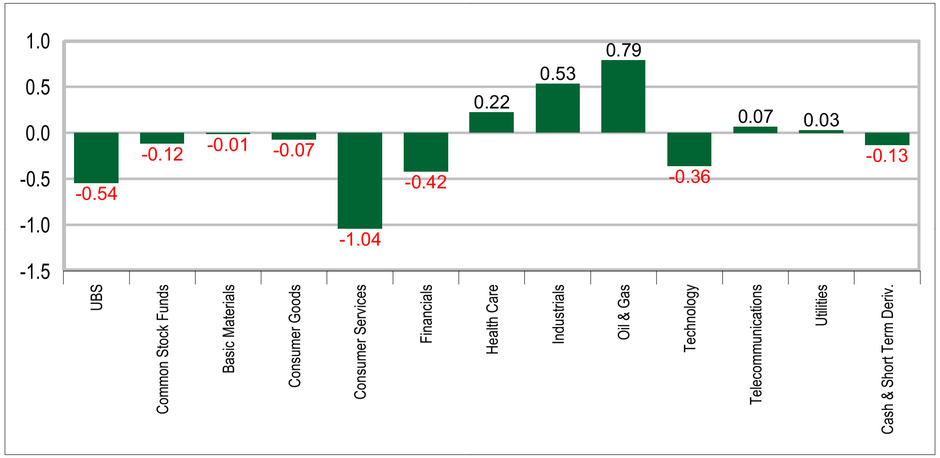
UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.93	-5.45	-5.45	11.47	-0.17	-
B'Mark	8.39	-3.46	-3.46	12.88	1.20	8.89

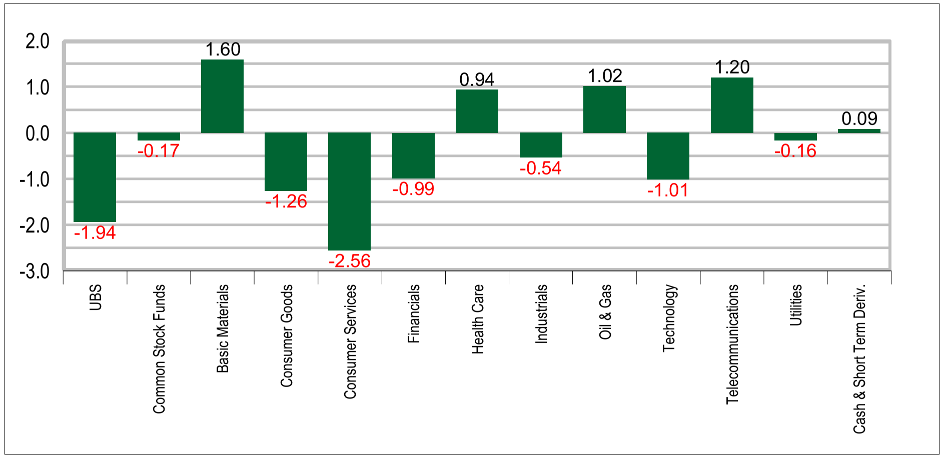
UBS

Relative Contribution - Three Months



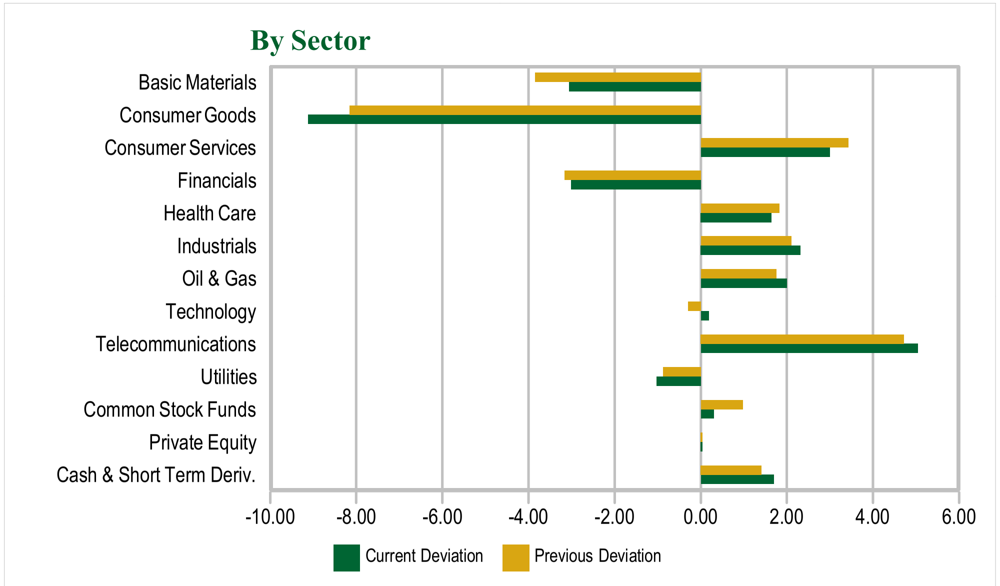
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	7.80	8.39	-0.54	0.20	-0.74	-0.54
Common Stock Funds	-14.61	-	-14.61	-0.12	0.00	-0.12
Basic Materials	8.14	8.35	-0.19	0.00	-0.02	-0.01
Consumer Goods	7.78	8.67	-0.82	-0.04	-0.04	-0.07
Consumer Services	-1.25	7.10	-7.80	-0.04	-1.01	-1.04
Financials	-1.94	1.55	-3.44	0.16	-0.58	-0.42
Health Care	11.54	9.00	2.33	0.01	0.21	0.22
Industrials	15.89	10.34	5.03	0.04	0.49	0.53
Oil & Gas	21.24	17.34	3.33	0.13	0.66	0.79
Technology	-17.18	4.78	-20.96	0.00	-0.36	-0.36
Telecommunications	10.35	10.63	-0.25	0.09	-0.03	0.07
Utilities	-1.52	0.40	-1.91	0.08	-0.06	0.03
Cash & Short Term Deriv.	0.08	-	0.08	-0.13	0.00	-0.13

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-5.33	-3.46	-1.94	2.35	-4.18	-1.94
Common Stock Funds	-26.39	-	-26.39	-0.17	0.00	-0.17
Basic Materials	-25.32	-27.52	3.03	1.37	0.23	1.60
Consumer Goods	12.45	14.80	-2.04	-1.14	-0.12	-1.26
Consumer Services	-22.70	-5.52	-18.19	-0.08	-2.49	-2.56
Financials	-28.66	-19.16	-11.76	0.86	-1.83	-0.99
Health Care	24.44	18.70	4.83	0.45	0.49	0.94
Industrials	-6.98	0.02	-7.00	0.10	-0.63	-0.54
Oil & Gas	11.84	7.49	4.04	0.22	0.79	1.02
Technology	-44.81	8.97	-49.36	-0.03	-0.99	-1.01
Telecommunications	17.70	11.98	5.11	0.68	0.52	1.20
Utilities	4.17	9.18	-4.59	-0.01	-0.15	-0.16
Cash & Short Term Deriv.	0.96	-	0.96	0.09	0.00	0.09

UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	8.13	6.86	11.19	-3.06	10.72	-3.85
Consumer Goods	4.24	5.19	13.37	-9.13	13.34	-8.15
Consumer Services	12.49	13.14	9.49	3.00	9.71	3.43
Financials	16.06	17.17	19.08	-3.01	20.33	-3.16
Health Care	9.66	9.89	8.01	1.64	8.06	1.83
Industrials	10.34	9.53	8.03	2.32	7.43	2.10
Oil & Gas	20.92	19.23	18.92	2.00	17.48	1.76
Technology	1.65	1.60	1.45	0.19	1.89	-0.30
Telecommunications	11.56	11.39	6.52	5.04	6.67	4.72
Utilities	2.90	3.50	3.93	-1.03	4.37	-0.88
Common Stock Funds	0.30	0.98		0.30		0.98
Private Equity	0.04	0.04		0.04		0.04
Cash & Short Term Deriv.	1.69	1.42		1.69		1.42

UBS Property

Historical Plan Performance

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.64	7.56	7.56	4.12	-3.54	-1.23
Benchmark	1.60	7.19	7.19	5.71	-3.20	-0.60

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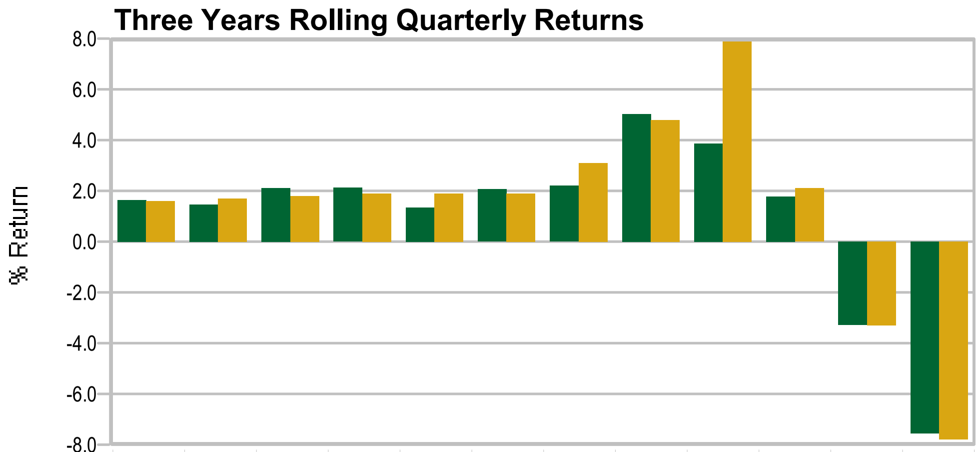
Three Years Rolling Quarterly Returns

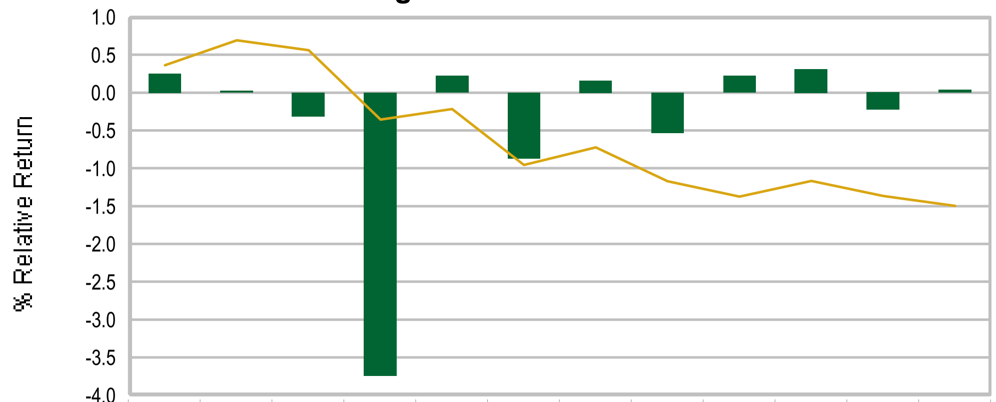


	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	1.64	1.47	2.12	2.13	1.36	2.06	2.20	5.03	3.86	1.77	-3.28	-7.57
Benchmark	1.60	1.70	1.80	1.90	1.90	1.90	3.10	4.80	7.90	2.10	-3.30	-7.80

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	4.12	5.71
Standard Deviation	4.27	4.36
Relative Return	-1.50	
Tracking Error	2.38	
Information Ratio	-0.66	
Beta	0.85	
Alpha	-0.87	
R Squared	0.74	
Sharpe Ratio	0.62	0.98
Percentage of Total Fund	8.4	
Inception Date	Mar-2006	
Opening Market Value (£000)	48,211	
Net Investment £(000)	-5	
Income Received £(000)	473	
Appreciation £(000)	319	
Closing Market Value (£000)	48,998	

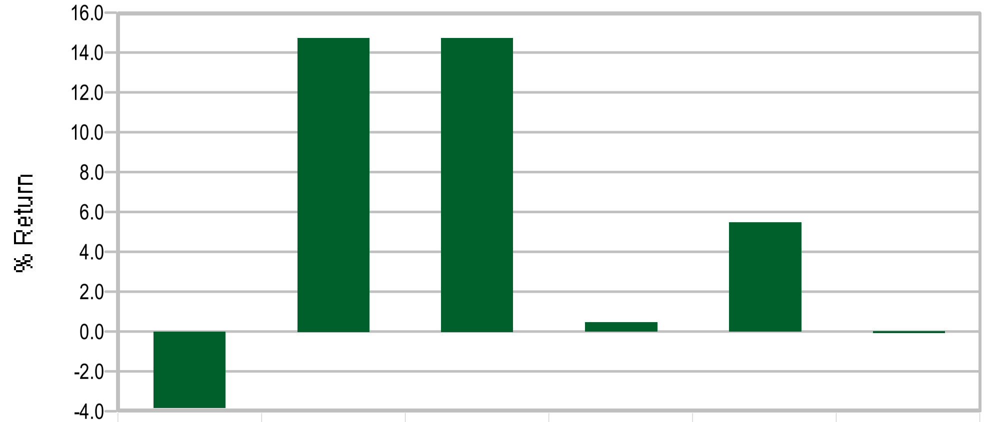
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Relative	0.25	0.03	-0.32	-3.74	0.23	-0.87	0.16	-0.53	0.23	0.31	-0.23	0.04
3Y Relative	0.36	0.69	0.56	-0.35	-0.22	-0.96	-0.72	-1.17	-1.38	-1.17	-1.36	-1.50

Adam Street

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.83	14.73	14.73	0.47	5.48	-0.08

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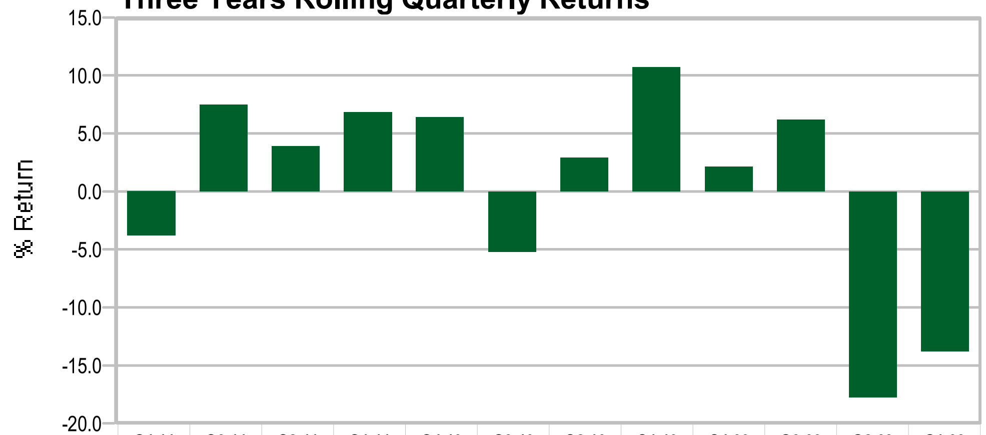
Three Years Rolling Quarterly Returns

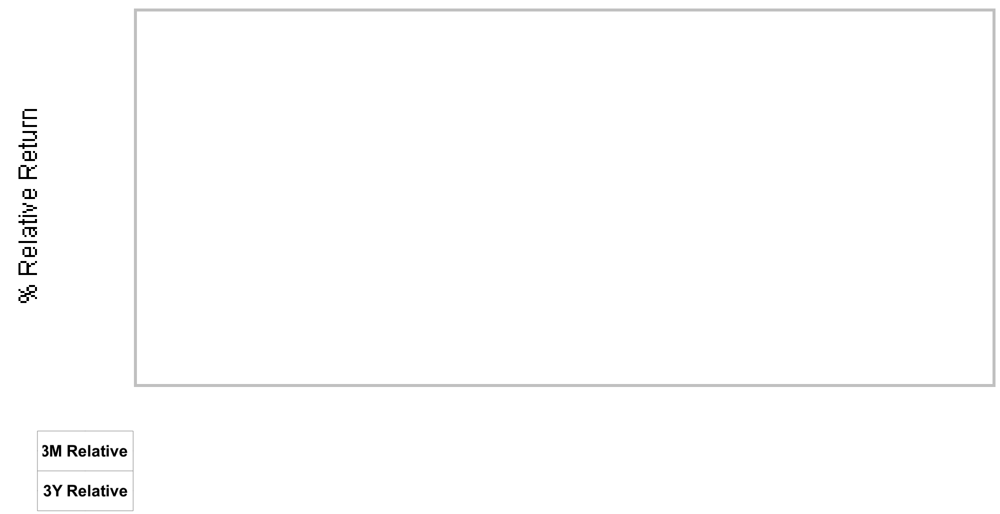


	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	-3.83	7.48	3.89	6.83	6.42	-5.19	2.90	10.72	2.15	6.16	-17.76	-13.79

Risk Statistics - 3 years

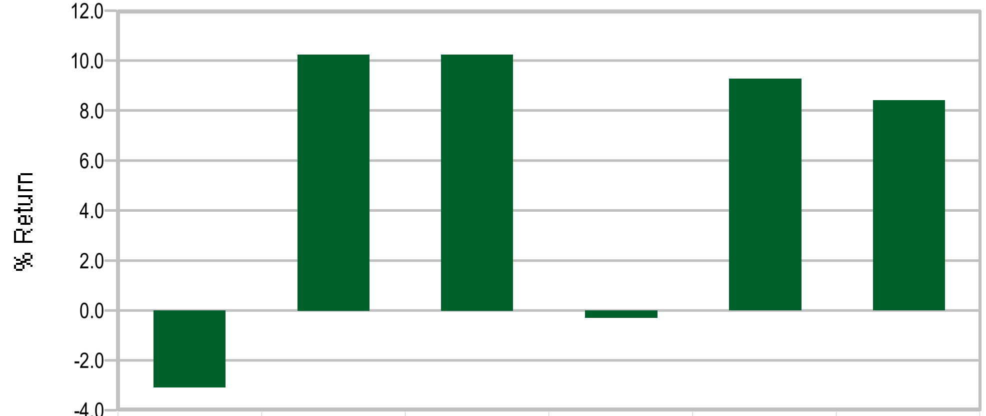
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	3.5	
Inception Date	Jan-2005	
Opening Market Value (£000)	20,972	
Net Investment £(000)	186	
Income Received £(000)	0	
Appreciation £(000)	-806	
Closing Market Value (£000)	20,352	

Three Years Rolling Relative Returns



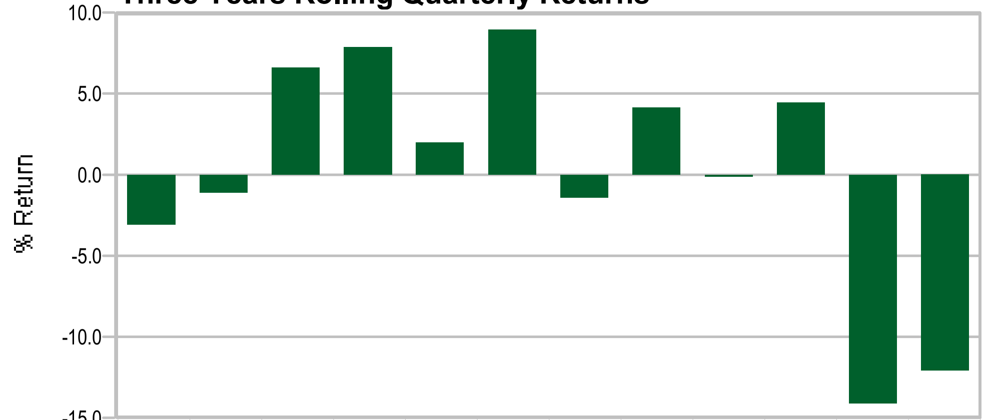
LGT

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.07	10.25	10.25	-0.30	9.28	8.42

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	-3.07	-1.10	6.61	7.88	1.99	8.95	-1.42	4.13	-0.11	4.46	-14.08	-12.09

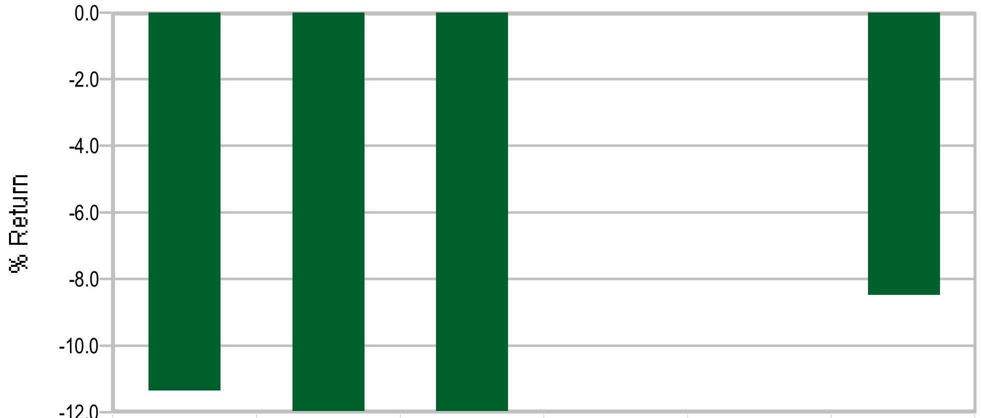
Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.8	
Inception Date	May-2004	
Opening Market Value (£000)	17,026	
Net Investment £(000)	-306	
Income Received £(000)	0	
Appreciation £(000)	-511	
Closing Market Value (£000)	16,208	

Three Years Rolling Relative Returns

Macquarie

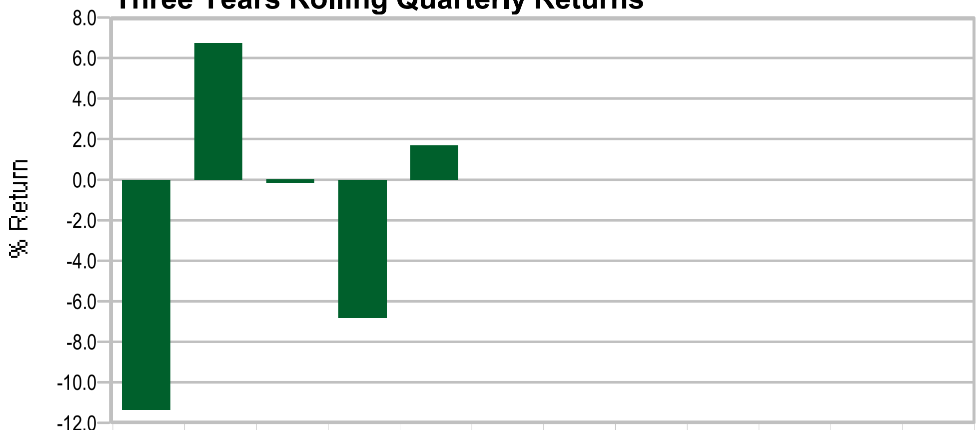
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.35	-11.95	-11.95	-	-	-8.47

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	0.2	
Inception Date	Sep-2010	
Opening Market Value (£000)	1,432	
Net Investment £(000)	68	
Income Received £(000)	0	
Appreciation £(000)	-165	
Closing Market Value (£000)	1,334	

Three Years Rolling Quarterly Returns



	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Fund	-11.35	6.74	-0.16	-6.81	1.68	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

3M Relative
3Y Relative

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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

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

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

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

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

Alpha

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

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.

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

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

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

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

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

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

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 December 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**	**%**	**%** Dec 11
Crown private Equity European Buyout Opport.	11,445	1.96	9,053	1.55	6,270	1.07	2,783	0.48	7.74
Crown Global Secondaries Plc (US$)	1,941	0.33	1,660	0.28	1,102	0.19	558	0.10	5.09
Crown Private Equity European Fund	4,189	0.72	3,291	0.56	739	0.13	2,552	0.44	4.48
Crown Private Equity European Buyout Opport. II	8,378	1.44	3,996	0.68	670	0.11	3,326	0.57	1.89
Crown Asia-Pacific Private Equity Plc (US$)	1,941	0.33	1,487	0.25	322	0.06	1,165	0.20	8.02
Crown European Middle Market II plc	3,351	0.57	1,111	0.19	106	0.02	1,005	0.17	13.33
Crown Global Secondaries II Plc (US$)	1,420	0.24	902	0.15	172	0.03	730	0.13	32.27
TOTAL(S) LGT CAPITAL PARTNERS	**32,665**	**5.60**	**21,500**	**3.68**	**9,381**	**1.61**	**12,119**	**2.08**	
ADAMS STREET PARTNERS	**£**		**£**						Sept 11
Adam Street Partnership Fund - 2005 US Fund	9,058	1.55	7,446	1.28	1,879	0.32	5,567	0.95	5.15
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,882	0.67	3,224	0.55	644	0.11	2,580	0.44	5.75
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,912	0.50	2,156	0.37	225	0.04	1,931	0.33	4.26
Adam Street Partnership 2006 Direct Fund	971	0.17	890	0.15	124	0.02	766	0.13	0.51
Adam Street Partnership Fund - 2006 US Fund, L.P	5,823	1.00	4,213	0.72	823	0.14	3,390	0.58	5.30
Adams Street Direct Co-Investment Fund, L.P.	1,941	0.33	1,854	0.32	0	0.00	1,854	0.32	N/A
Adams Street Partnership 2007 Direct Fund LP	324	0.06	298	0.05	66	0.01	232	0.04	7.05
Adams Street Partnership - 2007 Non -US Fund	1,132	0.19	643	0.11	34	0.01	609	0.10	5.09

Adams Street Partnership - 2007 US Fund	1,779	0.30	1,118	0.19	266	0.05	852	0.15	12.33
Adams Street Partnership - 2009 US Fund	971	0.17	282	0.05	0	0.00	282	0.05	29.75
Adams Street Partnership - 2009 Direct Fund	194	0.03	89	0.02	3	0.00	86	0.01	26.52
Adams Street Direct Co-Investment Fund II.	1,618	0.28	457	0.08	0	0.00	457	0.08	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	194	0.03	37	0.01	0	0.00	37	0.01	-1.37
Adams Street Partnership 2009 Non-US Developed Market	582	0.10	282	0.05	0	0.00	282	0.05	13.70
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**31,381**	**5.38**	**22,989**	**3.94**	**4,064**	**0.70**	**18,925**	**3.24**	

FUND VALUE	**583,667**	
COMMITMENT STRATEGY	51,071	8.75%
TO ACHIVE INVESTMENT	29,183	5.00%
CURRENT INVESTMENT BOOK COST	31,044	5.32%
CURRENT INVESTMENT MARKET VALUE	36,560	6.26%

Portfolio overview – Q4 2011

- Since the last report, net invested capital has decreased by Euro 0.2 million as underlying managers returned more capital than they invested
- Distributions as a proportion of paid-in capital rose to 0.44x from 0.40x last quarter
- Total portfolio gains now amount to Euro 5.1 million, being Euro 19.6 million of NAV less Euro 14.5 million of net invested capital
- The USD weakened by 3.4% against the Euro in the period which had a minor negative effect on portfolio performance

Q4 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	20.8	-9.3	11.5	15.6	4.0	0.45	1.19	64%	35%
Euro equivalent Dollar Exposure @	1.29485 USD / Euro	6.3	4.8	-1.9	2.9	4.0	1.1	0.39	1.22	76%	46%
Total Exposure (in Euro millions)		**39.0**	**25.7**	**-11.2**	**14.5**	**19.6**	**5.1**	**0.44**	**1.20**	**66%**	**37%**

Q3 2011	1.3387	38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	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%

Q4 figures as of 31 December 2011
D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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

Industry Update

Buyouts

In 2011, the global buyout market continued to recover as capital deployment and exit activity improved. Even with the European sovereign debt crisis and a downgrade of the US credit rating, new commitments to global buyout funds rose significantly from 2010 but stalled going into the fourth quarter. Dividend recapitalizations and distributions markedly increased over the past year. Deal activity slowed in the second half of the year as financing for new deals became more expensive. The increased ability of many GPs to realize investments and return capital to LPs benefited the recent performance of our buyout funds. As appetite for mega buyouts dwindles, we expect demand for smaller buyout funds to continue as smaller funds may be in a better economic position to offer lower purchase multiples, higher growth rate potential and the ability to implement impactful operational initiatives. GPs have been exiting investments and returning capital. We are optimistic that this trend will continue especially considering the record amount of capital on company's balance sheets. We feel comfortable that many of our buyout managers have focused on managing their portfolio companies through this challenging economic cycle and will demonstrate the appropriate caution as they seek new opportunities for investment.

Venture Capital

Through the first half of 2011, performance had improved amidst relatively active exit markets. In the third quarter, the IPO market closed with some companies postponing their IPOs as public market volatility made pricing challenging. Many 2011 IPOs ended the third quarter below the initial issue price, infusing additional caution into the minds of investors. The opportunity set for future venture capital investments remains interesting especially for companies with potential breakthrough technology and solid business models. Valuations, although down modestly from prior quarters, remain frothy in consumer internet, mobile, and cloud computing. While there continues to be some interest in life sciences and clean technology, the scarcity of capital and lack of exit opportunities is challenging for GPs.

Overall, 2011 will be a stronger fundraising year than 2010 yet venture fundraising for the third quarter was the lowest quarterly fundraising total since 2003. The flight to quality trend continued as three well-established GPs dominated the fundraising landscape accounting for nearly 60% of all capital raised through the end of September. Despite improving fundraising, this year represents the fourth calendar year in a row where venture firms invested more capital than what they raised thereby reducing some of the capital overhang from earlier periods. We continue to invest with a strong portfolio of venture capital managers that offer compelling and interesting investment opportunities.

The exit pipeline has been mixed in 2011. Acquisition activity has been steady while IPO activity dropped quickly in the third quarter. During the fourth quarter, both Zynga and Groupon went public to a lukewarm reception. As we enter 2012, market excitement is increasing for the Facebook IPO which is anticipated to take place in the second quarter of this year. We expect exit market activity to continue albeit at a slower pace due to persistent economic concerns. Within our Partnership and Direct Funds, valuations for companies, especially those in social media, continue to rise. Though the final realizations have yet to be determined, we believe that the solid operational performance that many of these companies have generated will result in stronger investment performance for our portfolios

Portfolio Statistics as of September 30, 2011

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	3Q11 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**97%**	**69%**	**71%**	**0.77x**	**5.03%**	**-1.77%**	**-3.72%**
2005 Subscription	02/2005	100%	79%	79%	1.10x	5.34%	-1.21%	-4.87%
2006 Subscription	01/2006	100%	71%	71%	1.05x	4.25%	-1.92%	-3.96%
2007 Subscription	01/2007	98%	57%	58%	1.14x	9.35%	-1.21%	-3.14%
2009 Subscription	01/2009	51%	21%	42%	1.12x	25.67%	-1.51%	0.97%
Direct Co-Investment Fund	09/2006	100%	96%	96%	0.97x	0.89%	-4.70%	-0.32%
Co-Investment Fund II	01/2009	100%	28%	28%	1.56x	15.50%	0.20%	3.30%

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

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

Main Drivers of Performance

Non-US Fund performance was weak during the third quarter. Partially offsetting the Non-US Funds was good progress in the Direct and Co-Investment funds.

Portfolio Outlook

As we move into 2012, we remain very optimistic about our existing portfolios and believe that we will continue to find exciting investment opportunities around the world. We are always available to discuss the opportunities and challenges of the private equity industry and their impact on your portfolio.

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WM LOCAL AUTHORITY

QUARTER 4 2011

The following summary is based on 55 funds with a total Market Value of £77,410m.

Update 1 - 03/02/2012

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Fiscal Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	63.1	64.0	6.9	7.4	-8.0	-8.4	-6.7	-6.6
GLOBAL POOLED INC UK	3.6	3.8	7.2	7.4	-8.3	-8.4	-6.5	-6.6
UK EQUITIES	26.6	26.9	8.1	8.4	-4.5	-4.4	-3.5	-3.5
OVERSEAS EQUITIES	32.9	33.3	6.0	7.2	-10.7	-8.9	-9.2	-6.9
North America	10.9	11.4	11.2	11.3	-3.2	-2.2	0.2	1.2
Europe	8.2	8.3	4.1	3.3	-17.3	-19.3	-13.0	-14.7
Japan	4.0	3.7	-3.4	-3.6	-6.6	-6.4	-10.5	-12.9
Pacific (ex Japan)	3.5	3.5	6.7	5.6	-11.4	-13.1	-11.7	-12.9
Emerging Markets	5.2	5.3	4.6	4.2	-17.1	-17.4	-17.9	-18.4
Global ex UK	1.2	1.2	6.6	7.2	-9.2	-8.9	-6.7	-6.9
TOTAL BONDS	18.5	18.2	4.4	-	11.7	-	12.2	-
U.K. BONDS	11.0	10.8	3.6	5.0	9.5	16.5	10.2	15.6
OVERSEAS BONDS	2.2	2.1	0.7	0.7	5.6	9.5	5.5	7.4
INDEX LINKED	4.2	4.3	8.8	8.4	21.7	19.9	21.7	19.9
POOLED BONDS	1.1	1.0	2.9	12.5	4.3	27.8	5.7	25.9
TOTAL CASH	3.8	3.7	0.7	0.1	1.5	0.4	1.6	0.5
ALTERNATIVES	7.3	7.0	-0.9	-	0.3	-	3.2	-
Total Private Equity	4.3	4.1	-2.0	-	4.3	-	9.0	-
Total Hedge Funds	1.5	1.5	0.5	-	-2.1	-	-1.2	-
Other Alternatives	1.5	1.4	0.8	-	-4.7	-	-2.8	-
TOTAL EX-PROPERTY	92.9	93.1	5.6	4.7	-3.3	-4.3	-2.0	-3.2
TOTAL PROPERTY	7.1	6.9	1.0	1.6	4.2	5.7	6.9	8.1
TOTAL ASSETS	100.0	100.0	5.2	4.5	-2.8	-3.6	-1.5	-2.5

WM PERFORMANCE SERVICES
A State Street Business

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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 third 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 3 – 2011/12	59	0	12	21

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 (3rd Qtr)	£978,119	110,136,000	0.89
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 31 December 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 9 is forecasting a drop from the expected budget with the predicted shortfall being £1,264k, which has doubled since the half year projection. Both employers and employees contributions are lower as a result of the fall in

member numbers through redundancies, and the value of inward transfers has also dropped with fewer staff joining the council.
At month 9, 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 £2.3m as at month 9, £3.4m less that the budget. Comparing the position against where we were at this time last year, actual member income is only £300k lower, but actual member expenditure has increased by £1.7m.

The current forecast is predicting an overall deficit from operations of £3.1m. 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 M9	2011-12 Projection
Member Income				
Employers Contributions	22,688	23,538	15,928	21,237
Employers Lump Sum Contribution			10	850
Employees Contributions	8,357	8,358	5,878	7,837
Transfer Values Receivable	3,968	3,815	3,392	4,523
Net Member Income	**35,013**	**35,711**	**25,208**	**34,447**
Member Expenditure				
Pension Payments	(23,243)	(23,964)	(18,499)	(24,665)
Lump Sum Retirement Benefits	(5,850)	(5,850)	(5,470)	(7,293)
Lump Sum Death Benefits	(991)	(991)	(420)	(560)
Refunds of Contributions	(8)	(8)	(8)	(11)
State Scheme Premiums	(2)	(2)	(2)	(3)
Transfer Values Payable	(3,663)	(3,815)	(3,186)	(4,248)
Net Member Expenditure	**(33,757)**	**(34,630)**	**(27,585)**	**(36,780)**
Net Member Surplus	**1,256**	**1,081**	**(2,377)**	**(2,333)**
Administration Expenditure				
Pensions Administration	(344)	(630)	(365)	(487)
Miscellaneous Costs	(108)	(1)	(3)	(4)
Investment Administration	(286)	(107)	(76)	(101)
Net Administration Expenditure	**(738)**	**(738)**	**(444)**	**(738)**
Surplus/(Deficit) from Operations	**518**	**343**	**(2,821)**	**(3,071)**

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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 October 2011 to 31 December 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 third quarter of 2011. The monthly performance indicator reports are sent to officers in HR responsible for the day to day administration of the scheme. Current monthly performance is being closely monitored.

Performance in this format will continue to be monitored over the remainder of this financial year. However, from 1 April 2012 CAPITA Hartshead will be managing the Pensions Administration contract and so this report will be revised to include a report on the management of the whole contract, including performance.

PENSIONS ADMINISTRATION PEFORMANCE

WORK AREA	Hillingdon Target	Oct- 2011 Total Cases	Percentage in target	Nov- 2011 Total Cases	Percentage in target	Dec- 2011 Total Cases	Percentage in target
Condolence Letter	2 Days	9	100.00%	9	100.00%	9	88.89%
Actual Retirement Benefits	5 Days	25	92.00%	18	55.56%	18	94.44%
Letter notifying Dependants Bens	5 Days	1	100.00%	4	50.00%	3	100.00%
Process Refund	5 Days	0	100.00%	0	100.00%	3	66.67%
Transfers in Actual	5 Days	8	50.00%	13	61.54%	4	50.00%
Transfers in quote	5 Days	20	95.00%	12	83.33%	6	66.67%
Answer General Letter	7 Days	72	100.00%	100	100.00%	41	100.00%
Calc/Notify Deferred	10 Days	20	35.00%	8	50.75%	10	30.00%
Estimate of Retirement Benefits	10 Days	71	87.32%	59	84.75%	53	83.02%
Transfers Out Quote	5 Days	8	62.50%	4	75.00%	0	100.00%
Transfers Out Actual	9 Days	10	70.00%	2	100.00%	1	100.00%
New Entrants	20 Days	140	97.86%	82	95.12%	43	97.67%
Answer ABS Query	10 Days	4	100.00%	1	100.00%	0	100.00%
Added Years	10 Days	0	100.00%	3	33.33%	0	100.00%
TOTALS		388	91.21%	315	82.25%	191	87.43%
Redundancy Under 50	5 Days	7	42.86%	9	33.33%	6	33.33%

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GOVERNANCE ISSUES

Contact Officers	Nancy Leroux
Papers with this report	None

SUMMARY

This report is to provide an update on Pension Fund Governance issues. The report covers the future format of Fund Manager Meetings, a progress report on the project to transfer pensions' administration to CAPITA Hartshead from 1 April 2012, and an update on the current position on the funding position of academies.

RECOMMENDATIONS

1. **That Members discuss and agree an approach to Fund Manager Meetings**
2. **That the remaining items are noted.**

INFORMATION

1. Future Format of Fund Manager Meetings

A discussion was held on the appropriateness of fund manager performance meetings prior to quarterly Pension Committee and whether they added value. In most cases manager presentations are retrospective and information on future performance is generally the same at each meeting as it is based on the managers overall investment philosophy. So the question was raised as to whether these meetings served any useful purpose. This raised governance concerns as to whether a change in the meeting structure would satisfy the requirement for quarterly fund manager monitoring. However, the consensus was that the obligation could be achieved through the quarterly reporting process and should this raise issues, then the Investment Sub Committee could arrange specific meetings with relevant fund managers.

The Sub Committee were in agreement that managers could add value through delivering presentations on topical items. These could include current issues affecting the governance of the scheme as whole and educational items as they arose. If such topics presented themselves meetings then sessions could be arranged prior to Pension Committee.

The example of infrastructure was discussed as a topical item. Committee may find it beneficial to be given an insight into the Government's plans in terms of accessing pension funds to contribute towards government infrastructure projects. Infrastructure is gathering pace both inside and outside of Treasury; however to succeed it needs to be a structured investment rather than a raid on pension fund assets.

It was agreed that the views of Pensions Committee would be sought on whether regular Fund Managers should continue prior to Pensions Committees each quarter, of if these slots should be available for education and training as required and that officers should continue to have regular meetings with Managers, inviting Members who could attend when their diaries permitted.

2. Transfer of Pensions Administration to Capita Hartshead

A detailed project plan to transfer the pensions' administration function to CAPITA Hartshead on 1st April 2012 has been developed and the project is progressing in accordance with that plan. Weekly meetings between the company and LBH officers are taking place and there is very good cooperation between the parties. At the time of writing this report all actions are up to date.

All current scheme members have been informed of the transfer and pensioner members will be informed shortly when we write to every pensioner to provide details of their annual pensions increase.

CAPITA Hartshead has recently appointed a Client Manager to serve Authorities that have called off the pan London Framework agreement, who will meet with each Authority on a monthly basis. Additionally, officers from each authority in the agreement will arrange regular meetings to share experiences and issues. Work to allow access to the Capita administration system will be made available to two LBH officers for the purpose of checking calculations and testing against agreed performance indicators.

3. Academies and Funding Position

Within Hillingdon, 14 schools have converted to academy status within the last year, and there is an ongoing question in relation to how they should be treated within the LGPS. In December, the DfE and CLG issued a letter of joint understanding on how they should be treated, in response to certain pension related problems incurred in the set up of an academy. The key issue relates to how an academy is set up as an employer in relation to their pension liabilities - either in their own right, pooled together as one group or pooled together with the authority. Each of these scenarios can make a considerable difference to the level of pension contributions they may have to make. There are strong arguments for each scenario with winners and losers in each case. Officers are currently undertaking some evaluation of the impact of each of these options within Hillingdon and a report for Members will be completed in the next few weeks to seek guidance on the way forward.

4. Scheme Developments

As a result of the review of Public Sector Pension Scheme by Lord Hutton, the LGPS is due to introduce a new scheme from 1st April 2014 and the new scheme is being developed under the banner **LGPS 2014**. The LGPS 2014 project comprises of two workstreams, one to establish a new pension scheme for Local Government and a second stream to deal with the governance requirements contained within the above report.

LGPS Scheme changes 2014 - Scheme Design

The exact changes have not as yet been agreed, but a "Heads of Agreement" was agreed in November 2011 between the Government, Employers and Unions. The core parameters of the agreed new scheme design are set out below:-

- A new Scheme in April 2014, with regulations in place by April 2013;
- The scheme to be built on the basis of career average earnings;
- Options for no increase to employee contributions provided that overall financial constraints set by the Government are met;
- Some elements of choice to encourage retention of existing membership and encourage new membership; and
- flexible retirement age from 55.

What remains unknown is the accrual rate for the annual pension and the rate of annual revaluation increases. Currently deferred benefits and pensions in payment are increased in line with the Consumer Prices Index (CPI). It has been agreed that any member aged 55 or over as at 1 April 2012, will continue to accrue benefits under the current scheme, and will not have the option of joining the "New Scheme" in operation from April 2014.

As the "New Scheme" is due to be implemented from 1 April 2014, legislation needs to be in place as at 31 March 2013, to allow Actuary's to include the future changes to the regulations, within their assumptions for the 2013 Scheme Valuation.

LGPS Scheme changes 2014 - Governance Arrangements

A Governance Working Group (GWG) which includes senior representatives from CLG, Unions, NAPF, LGE and Administering Authorities has been established under the LGPS 2014 project to discuss aspects of the future Governance arrangements of the revised LGPS due for implementation in 2014. The remit of the GWG is to agree a set of recommendations on best practise in governance and procurement for the LGPS, and pass these recommendations to the Governance Project Group, who will in turn fine tune these recommendations and pass them on to the DCLG.

Ken Chisholm is a member of the GWG, giving London Borough of Hillingdon Pension Fund a voice in these proceedings. A summary of the work of the CWG to date will be presented to the Governance Project Board of the Local Government Employers on 18th April. Work so far has focussed on the setting up of an "LGPS Pensions Board", who will introduce and oversee a set of principals intended to show that the LGPS is being administered in a transparent and effective fashion. Who will make up this "Board" and what, if any, statutory powers are transferred/absorbed from other already constituted bodies are yet to be decided. The Government has already declared that The Pensions Regulator will in the future have a role in the governance of Public Sector Pension Schemes.

5. Training

CIPFA have developed a one day training course as an introduction to the LGPS, which would be useful to new Members of Pensions Committee or any substitute Members who have little knowledge of the scheme. The course will be held in London on 14 June 2012 and will cost £295. If there is any interest in this course could you please contact Nancy Leroux to discuss.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

DELOITTE – 2011/12 ANNUAL AUDIT PLAN

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

SUMMARY

The attached document sets out the initial plans for the audit of the Pension Fund Accounts 2011/12 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September.

RECOMMENDATIONS

The committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2011/12 accounts.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2012 is £7.8m (2011 £7.8m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.39m (2011 £0.39m).

Key Audit Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. They are as follows:

- Contributions
- Benefits
- Financial Instruments
- Management of Key Controls

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2012.

FEES

The estimated level of fees for the 2011/12 audit £36,500 (no change on last year).

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon

Report to the Pension and Audit Committees

Audit Plan for the Year Ended 31 March 2012
Pension Fund Annual Report Audit

February 2012

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2012.

Audit scope		
Our audit scope is unchanged from last year	Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund. The pension fund accounts remain part of the accounts of the Authority as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Authority accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report.	Section 1

Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: **1.** **Contributions** – In view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay, we have included the calculation and payment of contributions as an area of audit risk. 2. **Benefits** – There are a number of complexities to the calculation of both benefits in retirement and benefits paid on ill health and death, we have identified benefits payable as an area of audit risk. 3. **Financial Instruments** – In the past the pension fund has invested in private equity and derivative financial instruments. Such investments can give rise to complexities in accounting, disclosure and measurement; accordingly we will treat the appropriateness of the accounting, measurement and disclosure for these investments as an audit risk. 4. **Management override of key controls** - This is a presumed area of risk within auditing standards. As consistent with previous years the presumed risk of revenue recognition continues to be rebutted for the pension fund.	Section 2

Timetable		
Our work will be carried out at the same time as our audit of the Authority	The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Authority's financial statements in order for us to have completed the audit of the financial statements in time for inclusion in the Authority's annual report.	Section 5

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Planning materiality set at £7.8m **Reporting threshold set at £0.39m**	We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7.8 million (2011: £7.8 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £0.39 million (2011: £0.39 million) and smaller adjustments that are qualitatively significant. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.	

Prior year uncorrected misstatements and disclosure deficiencies		
No prior year issues	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2010/11 accounts.	

Independence		
We reconfirm our independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the "Independence policies and procedures" section included at Appendix 1. We will reconfirm our independence and objectivity for the year ending 31 March 2012 in our final report to the Pension and Audit Committees. We have discussed our relationships with the Authority in our separate audit plan for the audit of the Authority's financial statements.	Appendix 1

Fee		
Fee in line with prior year	We propose a fee of £36,500 excluding VAT (2010/11: £36,500) which is in line with the fee scale advised by the Audit Commission.	

Engagement team		
Continuity in the team	Heather Bygrave will continue to lead the audit and will be supported by Mark Browning who will be the day to day contact on the engagement.	

Matters for those charged with governance		
Briefing on audit matters	We have attached at Appendix 1 our "Briefing on audit matters" which includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.	Appendix 1

1. Scope of work and approach

Overall scope and approach

Audit objectives are explained in more detail in our "Briefing on audit matters" document attached as Appendix 1.

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

Our audit objectives are set out in our "Briefing on audit matters" document attached as Appendix 1.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £7.8 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document. The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements.

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the statement of accounts:

- Comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts.
- Reading the other information published within the pension fund annual report for consistency with the pension fund accounts.
- Where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.
- The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.
- Consider whether the annual report has been prepared in accordance with the Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2011/12 on the following areas:

Contributions

Tiered contribution rates increase complexity

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund and tiered contribution rates, we have identified this as a key risk.

Deloitte response

We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule:

- Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly.
- Recalculate contributions for a sample of individual members to ensure they are calculated in accordance with the schedule of rates.
- Perform analytical review procedures to gain assurance over the total contributions received in the year.
- Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies.

We note that the Authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies.

Benefits

There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits.

Changes were made to the local government pension fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and benefits paid on ill health and death.

In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008. The calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Also individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some employers may not have retained all the necessary records.

The Government has also completed the process to amend the revaluation and index factors for statutory minimum uplift from the Retail Price Index to the Consumer Price Index. This change has further increased the complexity of benefit calculations. This change is being appealed through the courts but as it stands the amendment is in force.

Deloitte response

We will perform the following procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules.

- Review the design and confirm the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits.
- Test a sample of new pensioner calculations and other benefits paid by tracing to supporting documentation and reviewing the calculation, to ensure it is in line with the relevant rules.
- Perform analytical review procedures over the pensions paid in the year based on prior year audited numbers adjusted for changes in pensioner numbers and any pension increases.

2. Key audit risks (continued)

Financial instruments	
Private equity and derivatives are complex to value	The pension fund makes some use of investments in private equity and derivative financial instruments. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a key risk. The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements.
Deloitte response	For the private equity investments we will seek to understand the approach adopted in the valuation of such investments and inspect supporting documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end. We will update our understanding of the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Audit Practice on Local Authority Accounting. We will consult with our internal specialists and where considered necessary ask them to perform tests of these balances through re-calculation of the value attributable to them.

Management override of controls	
Audit guidance includes a presumed risk of management override of key controls.	Auditing standards recognise that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports. They include a presumption of a risk of management override of key controls.
Deloitte response	We will focus our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

3. Consideration of fraud

3.1 Characteristics

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We are aware that management has the following processes in place in relation to the prevention and detection of fraud which include:

- Anti-fraud and corruption policy
- Codes of conduct
- Whistle-blowing procedures

3.2 Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

3.3 Fraud inquiries

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments; Management's process for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; Management's communication, if any, to employees regarding its views on business practices and ethical behaviour; and Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks; and Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

3. Consideration of fraud (continued)

We will make inquiries of others within the Authority as appropriate. We will also inquire into matters arising from your whistling blowing procedures.

3.4 Process and documentation

We will gather this information through meetings and review of relevant documentation, including meeting minutes.

3.5 Representations

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - officers;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

As set out in "Briefing on audit matters" (Appendix 1), our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:

- Obtain and refresh our understanding of the entity and its environment including the identification of relevant controls
- Identify risks and any controls that address those risks
- Carry out 'design and implementation' work on relevant controls
- If considered necesary, test the operating effectiveness of selected controls
- Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered. At this stage, we do not propose to carry out tests on the operating effectiveness of controls and will obtain our assurance wholly from substantive testing procedures. We have selected this approach as the most efficient.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Authority, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

5. Timetable

		2012								
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Management	Prepare plan based on discussions with management									
	Early discussion of Authority's approach to risks areas									
	Performance of detailed audit planning fieldwork									
	Audit fieldwork/audit issues meetings									
	Review of pension fund annual report									
	Preparation of our report on the 2011/12 audit									
Pensions and Audit Committees	Audit plan									
	Report to the Pension and Audit Committees on the 2011/12 audit									

Our work during these visits will be closely co-ordinated with the work carried out on other parts of main audit of Hillingdon.

6. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" attached at Appendix 1 and sets out those audit matters of governance interest which came to our attention during the audit to date. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of Hillingdon, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP
Chartered Accountants

St Albans
24 February 2012

Appendix 1: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- To express an opinion in true and fair view terms to the members on the financial statements;
- To express an opinion as to whether the accounts have been properly prepared in accordance with the relevant financial reporting framework; and

Other reporting objectives

Our reporting objectives are to:

- Present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations.
- Provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Appendix 1: Briefing on audit matters (continued)

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as stakeholder expectations, sector developments, financial stability and reporting requirements for the financial statements. We use a different materiality for the examination of the summary contributions to that used for the financial statements as a whole.

We determine materiality to:

- Determine the nature, timing and extent of audit procedures.
- Evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

The materiality in relation to the audit of the pension scheme's financial statements will not necessarily coincide with the expectations of materiality of an individual member of the scheme in relation to his or her expected benefits. Our judgments about materiality are made in the context of the financial statements as a whole and the account balances and classes of transactions reported in those statements, rather than in the context of an individual member's designated assets, contributions or benefits.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Appendix 1: Briefing on audit matters (continued)

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to trustees and create value for management and those charged with governance whilst minimising a “box ticking” approach.

Our audit methodology is designed to give trustees the confidence that they deserve.

For controls considered to be ‘relevant to the audit’ we evaluate the design of the controls and determine whether they have been implemented (“D & I”). The controls that are determined to be relevant to the audit will include those:

- Where we plan to obtain assurance through the testing of operating effectiveness;
- Relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls);
- Where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- To enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor’s responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor’s report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor’s responsibilities relating to other information in documents containing audited financial statements

Appendix 1: Briefing on audit matters (continued)

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectiv which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge of key decisions takes place by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner and, where appropriate, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual entities.

Appendix 1: Briefing on audit matters (continued)

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- State that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities;
- Require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- State that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates;
- Prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- Provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- Maintaining integrity, objectivity and independence;
- Financial, business, employment and personal relationships between auditors and their audited entities;
- Long association of audit partners and other audit team members with audit engagements;
- Audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- Non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

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Agenda Item 12

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