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HILLINGDON
LONDON

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Pensions Committee

Date: **WEDNESDAY, 19 SEPTEMBER 2012**

Time: **5.30 PM**

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

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

Councillors on the Committee

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

Advisory Members
John Holroyd
Andrew Scott

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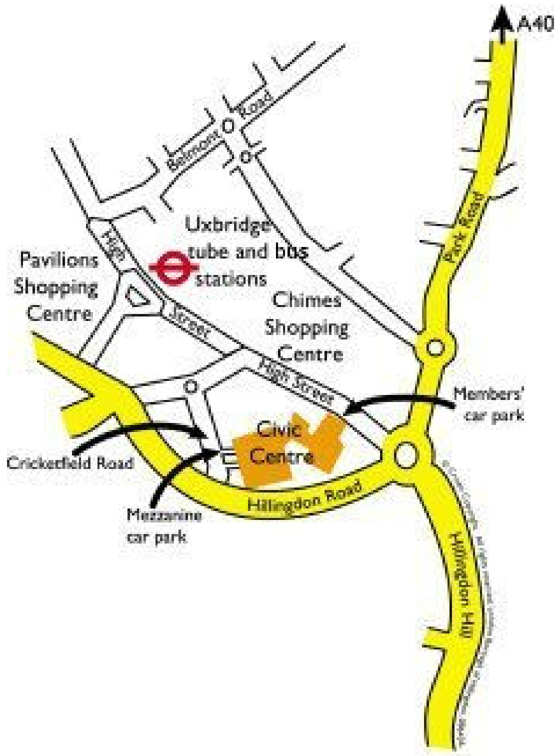

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Agenda

PART II - Members Only

Fund Manager – Marathon

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

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Minutes

PENSIONS COMMITTEE

20 June 2012

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

	Committee Members Present: Councillors Philip Corthorne (Chairman), Josephine Barrett, George Cooper, Janet Duncan, Raymond Graham and Paul Harmsworth (Labour Lead) **Advisory Members/Co-optee Members Present:** Andrew Scott **LBH Officers Present**: Tunde Adekoya, Ken Chisholm, Nancy LeRoux and Paul Whaymand and Nikki O'Halloran **Also Present:** Scott Jamieson	
3.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Councillors Richard Lewis and David Simmonds. Councillors Josephine Barrett and George Cooper were present as substitutes.	**Action by**
4.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Barrett, G Cooper, Corthorne, Duncan and Harmsworth 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 during the consideration thereof.	**Action by**
5.	**MINUTES OF THE MEETING - 28 MARCH 2012** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting held on 28 March 2012 be agreed as a correct record.**	**Action by**
6.	**MINUTES OF THE MEETING - 10 MAY 2012** *(Agenda Item 4)* **RESOLVED: That the minutes of the meeting held on 10 May 2012 be agreed as a correct record.**	**Action by**
7.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 5)* **RESOLVED: The Agenda Items 6 to 10 be considered in public and Agenda Items 11 to 12 be considered in private for the**	**Action by**

	reasons stated on the agenda. Members of the press and public would be excluded from the meeting during the consideration of these items.	
8.	**REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND** *(Agenda Item 6)* Consideration was given to the report on the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 31 March 2012. The total value of the fund's investments as at 31 March 2012 was £611.8m. Members were advised that the performance figures included within the report had been extracted from the Northern Trust Executive Report on page 17 of the agenda. Members noted that, in the current economic climate, the fund's investments had still made above normal stock market returns. Mr Scott Jamieson, Investment Advisor, stated that as the global economy was now more synchronised, the recent period of low economic growth had been more widespread than it would otherwise have been. The market malaise of 2010 had been repeated in recent weeks as economies around the world had faltered. It was noted that Germany was likely to shoulder the financial responsibility of preserving the Euro project, provided there was a behavioural change in those countries which had been profligate over the last few years. Mr Jamieson advised that the future of the global economy was uncertain, particularly as it was heavily influenced by the political environment. It was noted that Mr Mike Powers had recently announced his retirement from UBS. Mr Powers would be attending the Committee's next meeting on 19 September 2012 to provide Members with an update and to say farewell. **RESOLVED: That the content of this report and the performance of the Fund Managers be noted.**	**Action by**
9.	**RETIREMENT PERFORMANCE STATISTICS & COST OF EARLY RETIREMENTS MONITOR** *(Agenda Item 7)* Consideration was given to the report which summarised the number of Early Retirements in the year 2011/2012. The report also provided Members with an update on the current situation with regard to the cost to the fund of early retirements. **RESOLVED: That the contents of the report be noted.**	**Action by**
10.	**PENSION FUND OUTTURN 2011 - 2012** *(Agenda Item 8)* Consideration was given to the report which gave Members an overview of the annual budget for the operation of the Pension Fund and enabled them to monitor income and expenditure. The report set	**Action by**

<table>
<tr><td></td><td>out the outturn position for the 2011/12 budget.

They were advised that member expenditure had exceeded member income in the last year and that a cash-flow review needed to be undertaken. Members noted that work was underway to look at the Council's impending retirements and the associated financial implications.

RESOLVED: That the Committee note the budget outturn position for the 2011/12 financial year.</td><td></td></tr>
<tr><td>11.</td><td>PENSIONS ADMINISTRATION PERFORMANCE (Agenda Item 9)

Consideration was given to the report which summarised the key work areas of the pension's administration section for each month during the period 1 January 2012 to 31 March 2012. Although performance had previously been reported quarterly, to improve transparency and to review trends, this information had been reported monthly for this report.

It was noted that this was the last report that would be provided internally and that the next report would be provided by CAPITA Hartshead. The next report will continue to include information that had previously been reported so that performance could be benchmarked.

RESOLVED: That the content of the report be noted.</td><td>Action by</td></tr>
<tr><td>12.</td><td>GOVERNANCE ISSUES (Agenda Item 10)

Consideration was given to the report which provided an update on Pension Fund Governance issues. The report covered the transfer of pensions' administration to CAPITA Hartshead from 1 April 2012, and an update on the current position regarding the proposed new LGPS from 1 April 2014. It was noted that the appointment of CAPITA Hartshead was likely to provide a 27% cost saving over the five year contract.

Although there had been some minor initial teething problems, these had been quickly resolved. Performance over the first month had been very positive.

With regard to changes to the scheme, Members noted that the move to a career average scheme was a big change. It was also noted that, within the proposed provisions, it was likely that there would be a sharp increase in contributions.

RESOLVED: That the content of the report be noted.</td><td>Action by</td></tr>
<tr><td>13.</td><td>REPORT FROM INVESTMENT SUB COMMITTEE & UPDATE ON INVESTMENT STRATEGY (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</td><td>Action by</td></tr>
</table>

	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).	
14.	**CORPORATE GOVERNANCE AND SOCIAL RESPONSIBLE INVESTMENT** *(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**
	The meeting, which commenced at 5.30 pm, closed at 6.04 pm.	

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

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	Tunde Adekoya, 01895 556350

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

SUMMARY

This report reviews the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 30 June 2012. The total value of the fund's investments as at the 30 June was £602m. (Whilst this represents a drop of around £10m from the end of financial year in March 2012, in the months since June the Fund's value has rebounded back to around £612m at the end of August.)

RECOMMENDATION

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

1. INFORMATION

The performance of the Fund for the quarter to 30 June 2012 showed an underperformance of -0.45%, with a negative return of -1.59% compared to the benchmark of -1.14%. All Managers except Marathon underperformed their relative benchmark during the quarter. One year figures show returns of 0.35%, an underperformance of (0.31)%.

Performance Attribution Relative to Benchmark

	Q2 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
UBS	(0.62)	(0.42)	(1.27)	(1.72)	0.93
UBS Property	(0.05)	(0.13)	(1.73)	(0.55)	(0.58)
SSgA	(0.09)	0.16	0.13	-	0.10
SSgA Drawdown	(0.55)	(1.23)	(0.16)	-	(0.16)
Ruffer	(3.11)	(0.24)	-	-	2.93
M&G	(2.82)	(2.23)	-	-	(1.82)
Marathon	1.80	(0.16)	-	-	1.98
JP Morgan	(1.37)	-	-	-	0.99
Total Fund	**(0.45)**	**(0.31)**	**(0.24)**	**(1.40)**	**(0.09)**

Market Commentary

Equity markets had a volatile quarter. After four consecutive months of positive returns for equity markets, investor sentiment deteriorated in April leading to falls across the board. Markets began the month on a relatively sour note with the much-watched US payrolls data release disappointing. Economic data out of China indicated that the economy was in the process of slowing down. Contrasting this to some extent was the broadly positive earnings data from the first quarter reporting season. Once again, the Eurozone that attracted the most attention with Spain being placed firmly under the spotlight. Over the month Spain suffered a weak bond auction, announced more austerity measures, was downgraded by a credit rating agency, re-entered recession and announced that non-performing loans had reached an 18 year high.

Equity markets staged something of a rally in June. Markets waited until the final few days of the month to really make their mark with European markets leading the way higher in the aftermath of the latest in a series of European summits. In particular, markets were buoyed by the fact that it seemed to pave the way for the European Stability Mechanism, Europe's rescue funding programme, to directly recapitalise struggling banks within the region.

Investors seeking a safe haven from the volatility of equity markets poured money into treasury securities. Demand for treasury bonds pushed the yield on the 10-year treasury bond down to 1.66% at the end of June from 2.22% at the end of March and down from 3.16% one year ago.

According to the IPD Monthly Index, UK commercial property recorded a total return of +0.3% for the three months ending 30 June 2012. This comprised an income return of +1.6% and capital growth of -1.3%. At a sector level, Industrial was the strongest performer over the quarter, delivering a total return of +1.0. By comparison, the Retail and Office sectors recorded -0.3% and 0.8% respectively.

2. MANAGER PERFORMANCE

2.1 Manager: JP Morgan

Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have outperformed since inception (Nov 2011) by 0.99%. However, in the quarter under review, JP Morgan underperformed by (1.37) % with a return of (0.38) % against benchmark return of 0.99%

2.2 Manager: M&G

Performance Objective: The investment objective of the Prudential/M&G UK Companies Financing Fund LP is to seek to maximise returns consistent with prudent investment management. The Fund aims to provide an absolute return of Libor +4% (net of fees). Additional returns may be achieved through equity participation or success fees.
Approach: The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market.

Performance

	Q2 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	(1.59)	2.80	-	-	3.09
Benchmark	1.23	5.03	-	-	4.91
Excess Return	(2.82)	(2.23)	-	-	(1.82)

Over the second quarter of 2012, M&G investments posted their first negative return with -1.59% being relatively -2.79% behind 3 Month LIBOR +4% p.a. target of 1.23%. For one year the account now stands ay 2.80% versus 5.03% whilst since inception at the end of May 2010, the portfolio registers a 3.09% pa return against the benchmark of 4.91% pa. While the since inception Internal Rate of Return for this portfolio is also short of the target with a figure of 2.69%.

2.3 Manager: MARATHON

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

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

Performance: In the 2nd quarter Marathon portfolio fell exactly 2%, however this was 1.80% above the MSCI World index return of 8.00%. This leads to a great start to 2012, with a return of 9.27% being 5.37% ahead, but unfortunately this is still not enough to reverse the underperformance over the one year with returns of -3.86% versus -3.71%. Although since inception the good results seen last quarter and Q3 2011 means they are now beating the benchmark by 1.98%, returning 8.25% pa against 6.27% pa

2.4 Manager: RUFFER

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

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

Performance: The Ruffer portfolio returned -2.83% during the quarter and against the return of 0.28% for LIBOR 3 Month GBP delivered the worst return of the period with -3.11%. This feeds into the year to date and 1 year numbers, with returns of -0.76% and -0.24 respectively. However, since inception from May 2010, a higher absolute return is seen as the portfolio registers a 3.78% pa return, the upshot of which is a much improved relative return of 2.93% against the benchmark of 0.85% pa. Ruffer's Q2 performance was undermined by economically sensitive equities, such as Cisco, Texas Instruments and Ericcson which all declined in value on fears of lower capital expenditure. The largest single hit taken by the portfolio was however JP Morgan, with total value loss of 20% and just finished slightly above it's' purchase price. (Due to a variation in the performance model and how accrued income is treated there is a difference in the Northern Trust reporting and Ruffer presentation)

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

Account		**Q2 2012 %**	**1 Year %**	**Since Inception %**
SSgA Main Account	Performance	(2.53)	(1.60)	12.39
	Benchmark	(2.44)	(1.76)	12.29
	Excess Return	(0.09)	0.16	0.10
SSgA Drawdown Account	Performance a/c 2	0.64	3.55	5.05
	Benchmark a/c 2	1.19	4.78	5.21
	Excess Return	(0.55)	(1.23)	(0.16)

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.10%. The Draw-Down fund which commenced June 2009 has underperformed its benchmark with a since inception return of (0.16) %. 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.

2.6 Manager: UBS
Performance Objective: To seek to outperform their benchmark index by 2% per annum, over rolling three year periods.
Approach: UBS follow a value-based process to identify businesses with good prospects where, for a variety of reasons, the share price is under-estimating the company's true long term value. Ideas come from a number of sources, foremost of which is looking at the difference between current share prices and UBS's price target for individual stocks. The value-based process will work well in market environments where investors are focussing on long term fundamentals.
Performance:

	Q2 2012 %	**1 Year %**	**3 Years %**	**5 Years %**	**Since Inception %**
Performance	(3.25)	(3.55)	12.55	0.90	9.49
Benchmark	(2.63)	(3.13)	13.81	2.62	8.56
Excess Return	(0.62)	(0.42)	(1.27)	(1.72)	0.93

Performance for the quarter was negative and behind the benchmark with the largest contributions to underperformance coming from Yule Catto, BP and Barclays Bank. However, UBS reiterated their belief in the inherent value in these stocks. In fact, UBS underperformed the benchmark all through one, three and five year periods but managed to outperform since inception by 0.93%.

2.7 Manager: UBS Property
Performance Objective: To seek to outperform their benchmark index by 0.75% per annum over rolling three year periods.
Approach: UBS take a top down and bottom up approach to investing in property funds. Initially the top down approach allocates sector and fund type based on the benchmark. The bottom up approach then seeks to identify a range of funds which are expected to outperform the benchmark.
Performance:

	Q2 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	0.25	4.03	8.39	(4.45)	(1.00)
Benchmark	0.30	4.16	10.12	(3.90)	(0.42)
Excess Return	(0.05)	(0.13)	(1.73)	(0.55)	(0.58)

The UBS Property portfolio posted a return of 0.25% during the period, now the twelfth consecutive positive return; however, this was slightly below the IPD UK PPFI All Balanced Funds index, which returned 0.30%. Over one year the portfolio achieved a respectable 4.03%, but this is 13 basis points behind the benchmark. Driven by the underperformance of Q4 2009 the three year period still falls below target with figures of 8.39% versus 10.12%, an underperformance of -1.73% is observed. Since inception, in March 2006, there are losses of exactly -1% and while the benchmark also falls, at -0.42% this still translates as a 58 basis points underperformance on an annualised basis. Since the increased allocation to the Unite Student Accommodation Fund (USAF) in March 2012 there have not been any property fund purchases or sales.

3. ABSOLUTE RETURNS FOR THE QUARTER

	Opening Balance £000's	Appreciation £000's	Income Received £000's	Net Investment	Closing Balance £000's	Active Management Contribution £000's
UBS	113,101	(5,234)	1,562	-	109,429	(643)
UBS Property	49,297	(421)	546	(1)	49,421	(23)
SSgA	117,490	(2,972)	-	-	114,518	(112)
SSgA Drawdown	14,948	95	-	(380)	14,663	(83)
Ruffer	118,424	(4,015)	661	-	115,070	(3,682)
M&G	11,149	(179)	-	380	11,350	(323)
Marathon	58,670	(1,172)	-	-	57,498	1,034
JP Morgan	72,012	(276)	-	-	71,736	(986)

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 Marathon had a positive impact on the appreciation of holdings contributing £1,034K in total.

Underperformance from UBS, UBS Property, SSgA, Ruffer, Marathon and JP Morgan reduced appreciation by £5,852k.

4. M&G Update

There are now eleven holdings within the fund at the official close in July 2012, with the last investment of £100m as loan to an unnamed UK power company. The average credit rating of all companies in the loan portfolio is BBB, with average loan period of 6.6 years. In total at the close of the fund, £930 million had been invested. The first draw-down of £883k for the M&G Debt opportunities fund was made on 14 September 2012, representing 5.88% of our commitments to the fund.

5. Macquarie Update

Macquarie European Infrastructure Fund 4 (MEIF4) reached agreement on its first acquisition during the quarter. A MEIF4 led consortium had an offer for Open Grid Europe (OGE) accepted by previous owner E.On, in May. The transaction has since been approved by the relevant authorities and closed on 23 July 2012, following the quarter end. OGE is the owner and operator of the longest regulated supra-regional gas transmission network in Germany, with approximately 12,000km of gas pipeline and 27 compressor stations. Due to its position as the hub transmission network operator for pan-European gas flows, OGE represents the ultimate core strategic infrastructure asset, not just in Germany but for the broader European economy. Germany is Europe’s largest and strongest economy with a well developed, reliable regulatory framework. MEIF4’s final commitment to OGE will be €260.0 million, representing a 23.6 per cent interest.

During the quarter, Macquarie State bank of India Fund (MSIF) completed an investment of USD 108.0 million (including transaction costs) into Ashoka Concessions Limited (“ACL” or “Ashoka”), a holding company of seven toll roads in India. The total transaction size was USD 150.0 million including co-investment by SBI Macquarie Infrastructure Trust (“SMIT”) and transaction costs. Binding transaction documents in relation to the acquisition were entered into on 12 August 2012.Financial closure is expected to occur by the end of September 2012.

6. Other Items

At the end of June 2012, £30.4m (book cost) had been invested in private equity, which equates to 5.05% of the fund against the target investment of 5.00%. This level still remains within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £925k and distributed £1,076k, whilst LGT called £161k and distributed £555k. This trend is set to continue in the next few years as the fund’s investments in private equity enters its’ vintage years and more distributions will be received as the various funds mature.

The securities lending programme for the quarter resulted in income of £19.4k. Offset against this was £6.7k of expenses leaving a net figure earned of £12.7k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 June 2012 the average value of assets on loan during the quarter totalled £28.5m representing approximately 14.8% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro and 50% Australian dollars (June 2012) hedges. The latest quarterly roll occurred on the 7 August 2012 and resulted in a realised gain of £429k.

For the quarter ending 30 June 2012, Hillingdon returned (1.59) %, outperforming against the WM average of (1.90) by 0.31%. The one year figure shows an outperformance of 1.25%, returning 0.35% against the average return of (0.90)%.

FINANCIAL IMPLICATIONS

These are set out in the report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report.

BACKGROUND DOCUMENTS

None.

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London Borough of Hillingdon

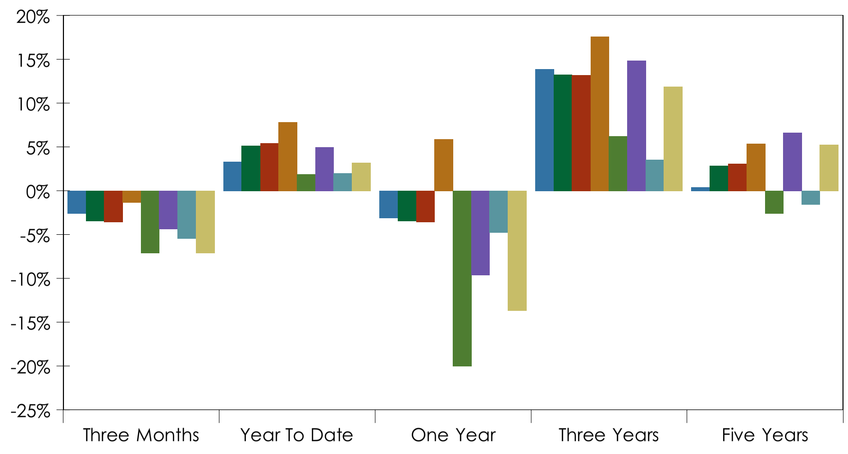
2nd Quarter, 2012

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	-2.6	3.3	-3.1	13.8	0.4
FT: World	-3.5	5.1	-3.5	13.2	2.8
FT: World ex UK	-3.6	5.4	-3.5	13.2	3.1
FT AW North America	-1.4	7.8	5.9	17.6	5.4
FT: Developed Europe ex UK	-7.1	1.9	-20.0	6.2	-2.6
FT: Developed Asia Pac x Jp	-4.4	4.9	-9.6	14.8	6.6
FT AW: Japan	-5.5	2.0	-4.8	3.5	-1.6
MSCI Emerging Markets GD	-7.1	3.2	-13.7	11.9	5.3

The expectation that Greece would leave the Euro ceasing repayments on sovereign debt and that the ensuing mayhem would engulf Spain and Italy requiring further German intervention did not come to pass. Greece remains in the Euro, for now, and the Spanish banking system will receive aid directly rather than through its own government. Equity markets reacted to the continuing uncertainty in predictable fashion; red numbers across the board for the quarter with the exception of the UK and US regions when measured in Euro due to the currency return. US and Chinese economic data is mixed but still good when compared with Europe. The US consumer market, so critical to the global economy has slowed its spending rate to near 2% and needs job growth to reaccelerate. The first half of 2012 returns remain positive after the gains in quarter one. Globally, Basic Materials was the weakest sector and Telecoms was the strongest. Shares in global banking fell as Moody's downgraded 15 top banks including Morgan Stanley, Bank of America, Citigroup and RBS while the bankers heading those institutions enjoyed double digit pay rises averaging almost 12%. The price of crude oil futures ended the quarter down more than 20% at $98 per barrel following slowing growth in China and an increase in supply from Saudi Arabia. The FTSE World was down by -3.5% (GBP) over quarter two 2012 and is behind by the same percentage over one year (GBP).

UK GDP fell by 0.3% in the first quarter of 2012, the same decline posted in quarter four 2011. However the most recent data has been positive; CPI dropped and came in below expectation, manufacturing order books and output expectations have improved along with export orders and employment is rising at its fastest rate since 2010. Government ownership levels of RBS are likely to increase before they decrease with a planned capital restructure in the autumn and recent failures in its most basic functions as a retail bank. Barclays opted to pay a £290m fine to both UK and US regulators for LIBOR manipulation as 14 of their traders remain under investigation with the FBI. Rolls Royce is seeking a new chairman to steer the company to even greater success. Basic Materials was the weakest sector over quarter two followed by Technology, Utilities was the strongest sector. The FTSE All Share was down -2.6% (GBP) over the second quarter and is now behind over one year by -3.1% (GBP).

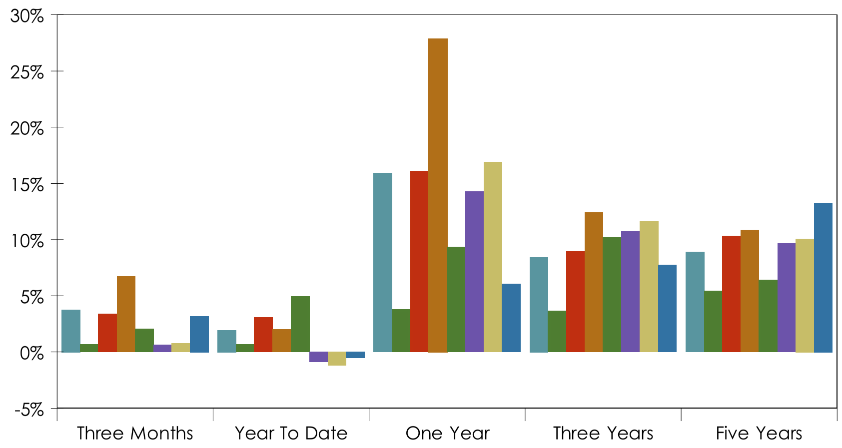
Rising anger at austerity measures has increased economic and political risk across Europe. During quarter two Greece scrambled to a coalition government that supported remaining in the single currency, the Dutch cabinet resigned and France elected its first Socialist president in 20 years. Fear of a banking collapse in Spain has driven the public to send their money abroad, mostly to Germany; EUR 66.2bn was sent out in May 2012 compared to EUR 5.4bn in May 2011. This is exactly what the EUR 100bn of EU bailout funds is seeking to avoid while enabling Madrid to relieve their sovereign books of the burden but requiring fewer austerity measures. Worryingly, the German industrial engine has been slowing as demand drops in key export markets like China. Better news has seen European companies approving higher dividend payments, even in cases where earnings have dropped. Only 1 in 5 companies cut their dividend while half increased them. Eurozone inflation held steady to end June and GDP increased by 0.1% in Q1. Eurozone unemployment increased to a record 11.1% in May with Spain being hardest hit at 24.6%. The FTSE Developed Europe ex UK index returned -7.1% (GBP) over quarter two and -20% (GBP) over the year.

The US economy grew at an annualised rate of 1.9% in quarter one 2012 and demand for durable goods rebounded in May as US companies boosted capital spending. However, the US jobs market disappointed by adding only 80k jobs in June leaving the unemployment rate unchanged at 8.2%. The housing sector also slowed in April and manufacturing activity contracted for the first time in three years. The US is set to raise $1.7bn selling leases to drill for oil in the Gulf of Mexico; Statoil, Shell and BP spent almost a $1bn between them. Second quarter losses in Ford's overseas operation could reach $570m following lower consumer demand but overall domestic US auto sales beat expectations in June as 1.3m vehicles were sold; up 22% from a year ago. All sectors other than Telecoms, Utilities, Health Care and Consumer Services lost over the second quarter. The Fed has cut its forecast for economic growth in 2012 from 2.9% to 2.4%. The FTSE North America index returned -1.4% (GBP) over the second quarter and 5.9% (GBP) for the year.

Japan's exports continue to rise largely thanks to steady demand from the US. The impact of potential power shortages from the mothballing of the country's final nuclear power plant remains to be seen. The FTSE Japan returned -5.5% (GBP) for quarter two and the FTSE Developed Asia Pacific ex Japan returned -4.4% (GBP). Demand from China's export markets is decreasing across the board although some encouraging figures came from the services sector in June. The Indian economy grew at its slowest rate since 2003 over Q1 with 5.3% year on year vs 9.2% a year earlier. Sharp falls in manufacturing and agriculture are largely responsible. The proposed merger of Glencore and Xstrata continues to labour as more groups express displeasure at the terms, mainly the plan to pay £173m to retain senior management. Gold's diversification benefits remain an option for the wary; it ended the quarter down at $1,590 per ounce. The MSCI Emerging Markets index returned -7.1% (GBP) for the second quarter and -13.7% (GBP) for the year.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	3.8	2.0	15.9	8.4	8.9
FTSE All Stock 0-5 Yr. Gilts	0.7	0.7	3.8	3.7	5.4
FTSE All Stock 5-15 Yr. Gilts	3.4	3.1	16.1	8.9	10.3
FTSE All Stock > 15 Yr. Gilts	6.7	2.0	27.9	12.4	10.8
ML STG N-Gilts All Stocks	2.1	4.9	9.3	10.2	6.4
FTSE Index Linked	0.6	-0.9	14.3	10.7	9.6
FTSE Index Linked 5+ yrs	0.8	-1.2	16.9	11.6	10.1
JPM GBI Global	3.2	-0.5	6.1	7.7	13.3

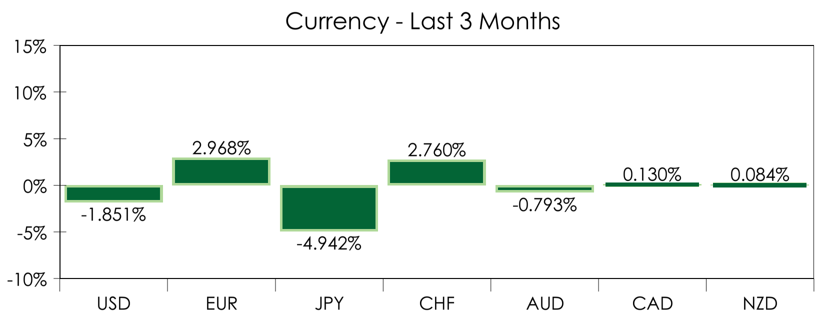
The second quarter of 2012, was dominated by fears of a euro area break-up but also a synchronised slowing of global growth saw major central banks take action. The JP Morgan Global Manufacturing & Services June PMI slipped to 50.3, down from February's 12 month peak of 55.4. Growth slowed in the service sector and manufacturing production contracted. The Bank of Japan increased its asset purchase program by JPY5trn, while leaving policy rates unchanged. The Reserve Bank of Australia cut rates twice by 75bps to 3.5%. China's central bank has cut interest rates twice in a month down to 6%, in a bid to stabilise the economic slowdown there. The Federal Reserve extended 'Operation Twist', selling short dated government debt to purchase longer dated paper to stimulate the economy. The Bank of England followed by increasing QE by £50bn, while the European Central Bank cut both its refi rate and the deposit rate by 25bps to record lows of 0.75% and zero respectively. Concerns on the world economic outlook have pushed down to record lows the 10-year government bond yields for the US, Germany and the UK. The JPM Global Govt Bond index has gained +3.2% (GBP) in the second quarter of 2012, while the Barclays Capital Global Aggregate Corporate Bond index delivered +2.2% (GBP).

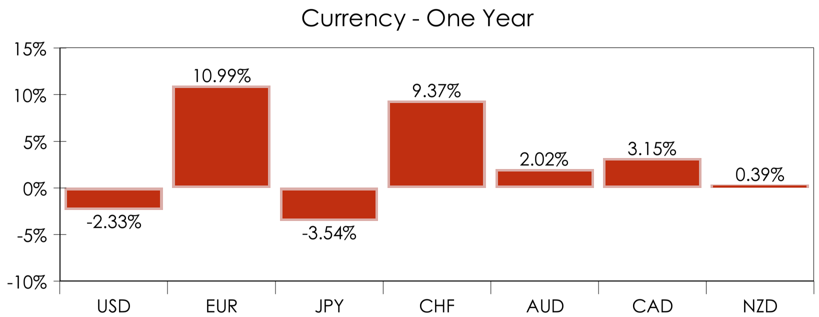
The UK economy fell back into recession as UK GDP posted its second consecutive quarter contraction of 0.3% in Q1. The Purchasing Managers Indices (PMI) for services, manufacturing and construction all deteriorated in June. The construction index fell sharply to 48.2 while the manufacturing PMI at 48.6 remains below the 50 growth/contraction mark. On the upside, inflation has declined sharply to 2.8% for June from a peak of 5.2% last September; below 3% for the first time since Q4 2009. Growing concern for the deteriorating economic outlook, has led the BoE to launch a series of policy initiatives aimed to boost growth. In his June Mansion House speech, BoE Governor King announced plans to inject 6-month liquidity into the banking system and a 'funds for lending programme'. The MPC kept the Bank rate unchanged at 0.5% but announced a £50bn extension to its Asset Purchase Facility at the July meeting. The on-going Euro-zone crisis and the uncertain economic outlook have pushed perceived safe-haven gilt yields down to historic lows. The benchmark 10-year gilt yield moved from 2.21% last quarter, to end June at 1.75%. The FTSE All Stock Gilts returned +3.8% (GBP) for the quarter while the ML Sterling Non Gilts gained +2.1% (GBP).

Greece's future in the euro hung on the outcome of the second Greek election on the 17th June, and policy makers considered options for an orderly exit. Spain became the fourth euro area member to seek an international bailout, formally requesting financial support, of up to EUR100bn for its banking sector. However the package failed to stem the jump in Spanish yields, which on benchmark 10-year debt rose to more than 6.8%. The EU summit at the end of June made some progress, agreeing on a radical restructuring of the EUR100bn plan to recapitalise Spanish banks, a EUR120bn growth package and creation of a single banking supervisory unit at the ECB - a first step towards banking union. At 46.4 in June, the Euro-zone Composite PMI was higher than May's reading of 46.0 but still firmly in contraction. The ECB cut its main lending rate by 25bps to an historical low of 0.75% at its July meeting, and cut its deposit rate from 0.25% to zero in an effort to stimulate the flow of money between banks and in turn, from banks to businesses. German 2-year Bund yields fell below zero in response, but the Spanish and Italian bond spreads widened over the Bund. The benchmark German Bund 10-year yield dropped from 1.82% at the end of Q1 to a low of 1.21% in May before closing June back up at 1.60%. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, increased from 124.7 at the end of March to close June at 165.8. The JPM European Govt Bond index returned +1.5% (EUR) and the Barclay Capital Global Aggregate Credit index was up at +5.3% (EUR) for Quarter 2.

Recent US data shows signs that the US economy recovery is faltering. Business confidence has weakened as the Institute for Supply Management (ISM) PMI survey fell from 53.5 to 49.7, the first sub-50 reading in almost 2 years. The rate of job creation has slowed markedly in Q2, rising by a monthly average of only 75,000 compared to over 200,000 in Q1. Unemployment has risen slightly to 8.2%. This has impacted on consumer sentiment, which has fallen to a 6-month low. This slowing growth and the impact of the Spanish banking crisis situation in the Euro-zone heightened risk aversion. The increased demand for US Treasuries has driven the benchmark 10-yr Treasury yield to all time lows. The Federal Open Market Committee (FOMC) extended 'Operation Twist' in June, until the end of the year in an attempt to stimulate the economy. Fed Chairman Bernanke has not ruled out further stimulus, highlighting the event driven risks from the Euro-zone and domestically, the pending 'fiscal cliff' of tax rises and spending cuts which need to be addressed. The 10-year benchmark Treasury yield ended the quarter at 1.66% down from 2.21% at the end of March. For the quarter the JPM US Govt Bond index was up 3.0% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned +2.5% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-1.85	0.92	-2.33	-1.62	-4.92
European Union euro	2.97	3.19	10.96	1.71	-3.68
Japanese yen	-4.94	4.56	-3.53	-7.95	-13.65
Swiss franc	2.76	2.13	9.34	-6.25	-10.08
Australian dollar	-0.79	0.93	2.01	-9.53	-8.70
Canadian dollar	0.13	1.04	3.14	-5.96	-5.77
New Zealand dollar	0.08	-2.07	0.39	-8.81	-5.71

The second quarter of 2012 saw a weakening of the Euro and Sterling and a strengthening of the Dollar and Yen. The Euro saw losses against the Sterling, Dollar and Yen. In the same period, the Yen strengthened against the Euro, Sterling and Dollar. Chinese consumer inflation in June 2012 slowed sharply to the lowest level in nearly two and a half years. This is likely one key reason why the central bank was comfortable with cutting benchmark interest rates for the second time in less than a month. Economists said the lower inflation is opening doors for a further loosening of monetary policy and more investment by the government in the second half of the year to ensure the country's economy rebounds. China's CPI rose 2.2% year on year, the lowest since January 2010 when CPI rose 1.5% year on year. The mood among large companies in Japan has brightened since last quarter but the outlook remains tempered by a strong yen and weak external demand. The Reserve Bank of Australia cut interest rates by 0.50% in May and another 0.25% in June - the lowest level in almost 3 years - to boost demand and cushion any adverse impact of the sovereign debt crisis in Europe. As a sign that these cuts were working, Australian retail sales rose at more than twice the rate expected in May.

In the UK, Q2 2012 saw Sterling gain against the Euro but weaken against the Yen and Dollar. As expected, the Bank of England's Monetary Policy Committee increased the scale of its quantitative easing asset programme in early July by £50bn to £375bn. The MPC also elected to leave the UK's interest rate at the historic low of 0.5%. The 0.5% rate is the lowest in the Bank of England's 300 year history, and has been in effect since March 2009 when the central bank made its last in a long run of interest rate cuts. Faltering global growth has pushed inflation to its lowest since 2009. Falling commodity prices helped lower the annual CPI inflation rate from 3% in April to 2.8% in May as food price inflation slowed and fuel prices dropped. In June, George Osbourne delayed the 3p rise in fuel duty in a move that will cost the treasury £550 million but will bring some relief to motorists. Unemployment in the UK fell by 51,000 to 2.61 million in the 3 months to April 2012. The jobless rate fell to 8.2%. Overall, there are 29.28 million people in work, up 166,000 on the previous quarter. The Office of National Statistics said the unemployment level in the UK overall was "showing some improvement". Nationwide reported a 0.9% fall in UK housing prices during the 3 month period to June 2012, 1.5% lower than one year ago. Sterling closed the quarter up against the Euro by 3.0% and down against the Yen and Dollar by 4.9% and 1.9% respectively.

In the US, A decision on whether to launch another round of asset purchases remains in the balance as the Federal Reserve wrestles with a complicated economic outlook and uncertainty about the costs and benefits of its easing tools. Any downgrade in the forecasted decline in unemployment rate over the next few years would likely trigger further action. US house prices rose more than expected in April, adding to evidence of a recovery in residential property and boosting Barack Obama's re-election chances. The Case-Shiller index, released in late June, showed house prices in 20 of the largest US cities increased 0.7% in April for a third consecutive monthly gain. On an annual basis, house prices across the country are still down 1.9%, a slower decline than in previous months. In May, consumer inflation dropped to its lowest level in 3 years, relieving some of the pressure on America's budgets as they continue to suffer from a depressed job market and a slowing economic recovery. The data supports the Federal Reserve's view that inflationary pressures due to high commodity prices earlier in the year were temporary, and may give the central bank a little more room to stimulate US growth without worrying about a spike in the cost of living. The US unemployment rate remained unchanged from March at 8.2%. The US trade deficit narrowed in May to $48.7bn as exports climbed and oil prices fell, easing import costs. The gap between imports and exports declined 3.8% from $50.6bn in April. In May, exports rose to $183.1bn as US companies sold more food, animal feed and beverages, capital goods and professional services abroad. Imports fell to $231.8bn as US demand for foreign industrial supplies and materials, consumer goods and food and drink declined. The Dollar ended the quarter up against the Euro and Sterling by 4.8% and 1.9% respectively, however it was down compared to the Yen by 3.1%.

In the Euro area, the Euro weakened against the Dollar, Yen and Sterling this quarter. The governing council of the European Central Bank left the single currency's interest rate unchanged at 1% during Q1 2012, but it reduced the rate by 0.25%, to 0.75%, on 5th of July. This was the first cut in the single currency's rate this year. Eurozone inflation rate dropped only slightly to 2.4% in June, down from the 2.6% recorded in March, as demand fell and fuel prices dropped. Although the European Central Bank aims to keep inflation below 2% over the medium term, the annual rate has been above 2% since November 2010. Eurozone unemployment has reached a new Euro-era record. The jobless rate in the 17-country region was 11.1% in May, the highest since the launch of Europe's monetary union in 1999. The current number of unemployed in the region amounts to some 17.4 million. Spanish unemployment rose again to reach a new high of 24.6% in May 2012 with the under 25's seeing an unemployment rate of 52.1% in May 2012. Among the other member states, the lowest unemployment rates were recorded in Austria (4.1%), the Netherlands (5.1%), Luxembourg (5.4%) and Germany (5.6%), with the highest in Spain (24.6%) and Greece (22.5%). The Euro ended the quarter down against the Yen, Dollar and Sterling by 7.9%, 4.8% and 3.0% respectively.

Scheme Performance

During the second quarter of 2012 equity markets across the globe saw falls while bond markets continued to grow, against this backdrop the London Borough of Hillingdon returned -1.59% versus the Total Plan composite benchmark of -1.14%; this resulted in a relative return of -0.45%. In monetary terms this is a fall in assets of £9.7 million and the value of the combined scheme now stands at £601.95 million as at 30th June 2012. During this period £0.5 million was brought in the scheme and invested with Macquarie, while £0.38 million was moved from SSGA Drawdown to M&G. Looking further into the analysis once again the main driver was Ruffer's Absolute Return Fund, this period the underperformance of the fund leads to the biggest negative impact. This was offset by Marathon and Private Equity assets which were the only accounts to post positive relative returns this quarter. In allocation terms most mandates are in line with the neutral position with the only notable impact coming from Fauchier due to the termination of this account.

The results this quarter wiped out most of the previous periods gains, leaving the year so far just 3 basis points ahead with a return of 3.05%. This now means over one year the scheme underperforms by 30 basis points, a theme which is repeated over all longer periods with a relative return of -0.21% pa for 3 years increasing to -1.37% pa over 5 years. Although since inception in September 1995 the plan comes back into line with an annualised return of 6.25% just 9 basis points below the benchmark.

Manager Performance

JP Morgan

Over the latest quarter JP Morgan investments fell -0.38% which compared to the 0.99% target of the 3 Month LIBOR + 3% translates as a -1.36% relative underperformance. This partly offset last quarter's gains, but they're still ahead for the year so far with a return of 2.97% versus 2.01%. Similar results are seen for the inception to date (November 2011) with figures of 3.59% for the fund versus the benchmark of 2.60%.

Macquarie

After two quarters of large negative returns the Macquarie portfolio posts a modest 0.56% over the recent quarter. But it's these previous quarter's that have the main impact on the longer periods with a one year figure of -16.5% while since inception (September 2010) is only slightly better with an annualised loss of -12.6%.
At present no benchmark has been applied to this mandate.

Marathon

In the 2nd quarter Marathon portfolio fell exactly -2%, however this was relatively 1.87% above the MSCI World index return of 8.00%. This leads to a great start to 2012, with a return of 9.27% being 5.17% ahead, but unfortunately this is still not enough to reverse the underperformance over the one year with returns of -3.86% versus -3.71%. Although since inception the good results seen last quarter and Q3 2010 means they are now beating the benchmark by 1.87%, returning 8.25% pa against 6.27% pa.

M&G Investments

Over the second quarter of 2012, M&G investments posted their first negative return with -1.59% being relatively -2.79% behind 3 Month LIBOR +4% p.a. target of 1.23%. For one year the account now stands ay 2.80% versus 5.03% whilst since inception at the end of May 2010, the portfolio registers a 3.09% pa return against the benchmark of 4.91% pa. While the since inception Internal Rate of Return for this portfolio is also short of the target with a figure of 2.69%.

Manager Performance

Ruffer
The Ruffer portfolio returned -2.83% during the quarter and against the return of 0.28% for LIBOR 3 Month GBP delivered the worst relative return of the period with -3.10%. This feeds into the year to date and 1 year numbers, with relative returns of -0.76% and -0.24 respectively. However, since inception from May 2010, a higher absolute return is seen as the portfolio registers a 3.78% pa return, the upshot of which is a much improved relative return of 2.9% against the benchmark of 0.85% pa.

Private Equity
The private equity assets, consisting of funds with Adam Street and LGT, continued to grow over the last three months returning 7.29% and 0.99% respectively. Over the year mixed results are seen with Adam Street is the highest performing manager delivering 12.86% while LGT fell -1.77%. Over the longer periods, the outlook over which private equity investments should be measured, improvements in the absolute returns are seen with Adam Street increasing to 16.02% for the three years and LGT with 10.37% for the same period. However, since their respective inceptions in May 2004 and January 2005 while LGT posts 8.20% pa and Adam Street drops to 1.12% pa.
At present no benchmark has been applied to these mandates.

SSGA
The SSGA passively managed portfolio fell -2.53% in the quarter which was 9 basis point below the benchmark, further analysis confirms the passive nature with both allocation and performance inline with the neutral position. This nullifies some of last quarter's gain with the year to date at 3.42%, still just behind target, while over one year the return drops further to 0.73%, but this is 17 basis points ahead of the benchmark. Higher returns are seen in longer periods with the fund in-line with the benchmark with the since inception return of 12.39% pa only 9 basis points above the benchmark, but the passive nature is best demonstrated by the 3 year R squared and beta figures of 1, while the tracking error a mere 0.18.

SSGA Drawdown
The SSGA Drawdown fund posted 0.64% in the latest period with the blended benchmark showing 1.19%, this -0.54% relative return is entirely due to the shift in weights with the mandate now being 78% in cash fund as opposed to the 50/50 split of the benchmark. This feeds into the one year numbers with 3.55% versus 4.78%; however, from the inception of the fund in June 2009 the weights average out over time and the funds match their index leading to an annualised return of 5.05% which is a just 15 basis points behind the benchmark.

UBS
The last three months have been a volatile period for markets and the FTSE All Share fell -2.53%, in this environment UBS UK Equity posted a -3.25%, leading to a relative return of -0.64%. Looking into the attribution analysis, stock selection was the main driver and in contrast to last quarter the sectors of Consumer Services (-0.59%) and Financials (-0.81%) are the biggest detractors to performance. Whilst asset allocation added some value with the positive decisions of overweighting Telecoms (0.41%) and underweighting Basic Materials (0.25%) was slightly offset by the large underweight in Consumer Goods (-0.42%). This is not enough to affect 2012 so far, with both absolute and relative returns remaining positive; however similar results are seen over one year with -3.55% against -3.13%. This -0.43% relative return is also attributable to selection, and again the most notable are Consumer Services (-1.23%) and Financials (-1.19%) which is offset by positive asset allocation and again Basic Materials (1.24%) and Telecoms (0.79%) lead the way. UBS exhibits relative underperformance across longer periods, with -1.11%, -1.68% and -1.12% for three, five and ten years respectively; however they still demonstrate outperformance since inception with figures of 9.49% versus 8.56% on an annualised basis.

UBS Property
The UBS Property portfolio posted a return of 0.25% during the period, now the twelfth consecutive positive return; however, this was slightly below the IPD UK PPFI All Balanced Funds index, which returned 0.30%. Over one year the portfolio achieved a respectable 4.03%, but this is 13 basis points behind the benchmark. Driven by the underperformance of Q4 2009 the three year period still falls below target with figures of 8.39% versus 10.12%, a relative underperformance of -1.57% is observed. Since inception, in March 2006, there are losses of exactly -1% and while the benchmark also falls, at -0.42% this still translates as a 58 basis points underperformance on an annualised basis.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 04/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 05/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 06/12	Active Contribution 2Q 2012
Adam Street	-1.62	-	-1.62	-	-331,890.94	5.50	-	5.50	-	1,104,380.02	3.38	-	3.38	-	712,863.20	1,485,352.29
JP Morgan	-0.48	0.33	-0.81	-0.81	-584,937.81	-0.77	0.33	-1.10	-1.10	-792,856.01	0.87	0.32	0.55	0.55	392,022.95	-985,770.88
LGT	-2.33	-	-2.33	-	-391,420.61	0.45	-	0.45	-	74,640.71	2.94	-	2.94	-	490,723.74	173,943.84
Macquarie	-2.11	-	-2.11	-	-36,134.94	4.65	-	4.65	-	78,017.87	-1.84	-	-1.84	-	-32,337.93	9,545.00
Marathon	-1.25	-2.73	1.48	1.52	845,026.66	-3.72	-3.96	0.24	0.25	131,587.96	3.08	2.98	0.10	0.10	57,537.38	1,034,152.00
M&G Investments	0.00	0.41	-0.41	-0.41	-45,983.34	0.00	0.41	-0.41	-0.41	-46,174.79	-1.59	0.40	-2.00	-1.99	-231,053.28	-323,211.41
Nomura	0.76	-	0.76	-	539.51	-0.60	-	-0.60	-	-426.80	0.35	-	0.35	-	245.37	358.08
Ruffer	-1.99	0.09	-2.08	-2.07	-2,459,775.85	-1.65	0.09	-1.74	-1.74	-2,019,918.16	0.80	0.10	0.70	0.70	797,975.49	-3,681,718.52
SSGA	-1.40	-1.39	-0.01	-0.01	-7,540.46	-4.13	-4.17	0.04	0.04	39,601.05	3.12	3.24	-0.13	-0.12	-144,287.85	-112,227.26
SSGA Drawdown	0.02	-0.05	0.07	0.07	10,367.07	0.53	1.11	-0.58	-0.57	-87,688.28	0.08	0.12	-0.04	-0.04	-5,704.48	-83,025.69
UBS	-2.37	-0.33	-2.04	-2.05	-2,300,504.97	-6.97	-6.80	-0.17	-0.18	-173,559.81	6.52	4.82	1.70	1.62	1,830,749.12	-643,315.67
UBS Property	0.53	0.23	0.30	0.30	148,499.19	0.65	0.04	0.61	0.61	302,252.72	-0.91	0.04	-0.95	-0.95	-474,176.25	-23,424.35

Total Fund Market Value at Qtr End: £602.0 M

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Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	602.0	100.00	-1.59	-1.14	-0.45	-0.45	3.05	3.01	0.04	0.03	0.35	0.65	-0.31	-0.30

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	21.8	3.63	7.29	-	-	-	9.18	-	-	-	12.86	-	-	-
Fauchier	0.0			-	-	-		-	-	-	-4.77	-	-	-
JP Morgan	71.7	11.92	-0.38	0.99	-1.37	-1.36	2.97	2.01	0.96	0.95	-	-	-	-
LGT	17.2	2.85	0.99	-	-	-	2.46	-	-	-	-1.77	-	-	-
Macquarie	1.7	0.29	0.56	-	-	-	-11.76	-	-	-	-16.50	-	-	-
Marathon	57.5	9.55	-2.00	-3.80	1.80	1.87	9.27	3.90	5.37	5.17	-3.86	-3.71	-0.16	-0.16
M&G Investments	11.4	1.89	-1.59	1.23	-2.82	-2.79	-0.27	2.50	-2.78	-2.71	2.80	5.03	-2.23	-2.12
Ruffer	115.1	19.12	-2.83	0.28	-3.11	-3.10	-0.21	0.56	-0.76	-0.76	0.73	0.97	-0.24	-0.24
SSGA	114.5	19.02	-2.53	-2.44	-0.09	-0.09	3.42	3.50	-0.08	-0.08	-1.60	-1.76	0.16	0.17
SSGA Drawdown	14.7	2.44	0.64	1.19	-0.55	-0.54	1.36	2.59	-1.23	-1.20	3.55	4.78	-1.23	-1.17
UBS	109.4	18.18	-3.25	-2.63	-0.62	-0.64	4.34	3.32	1.02	0.99	-3.55	-3.13	-0.42	-0.43
UBS Property	49.4	8.21	0.25	0.30	-0.05	-0.05	0.86	1.10	-0.24	-0.23	4.03	4.16	-0.13	-0.13

Total Fund Market Value at Qtr End: £602.0 M

Scheme Performance

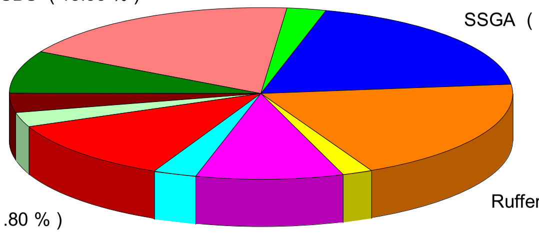
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	11.23	11.47	-0.24	-0.21	0.40	1.80	-1.40	-1.37	30/09/95	6.25	6.34	-0.09	-0.09

By Manager

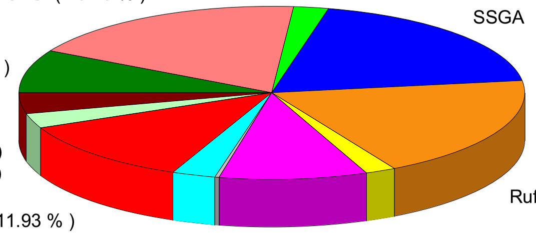
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	16.02	-	-	-	7.95	-	-	-	31/01/05	1.12	-	-	-
Fauchier	-	-	-	-	-	-	-	-	30/06/10	-1.04	-	-	-
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	3.59	2.60	0.99	0.97
LGT	10.37	-	-	-	9.47	-	-	-	31/05/04	8.20	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	-12.60	-	-	-
Marathon	-	-	-	-	-	-	-	-	09/06/10	8.25	6.27	1.98	1.87
M&G Investments	-	-	-	-	-	-	-	-	31/05/10	3.09	4.91	-1.82	-1.73
Ruffer	-	-	-	-	-	-	-	-	28/05/10	3.78	0.85	2.93	2.90
SSGA	12.44	12.32	0.13	0.11	-	-	-	-	30/11/08	12.39	12.29	0.10	0.09
SSGA Drawdown	5.05	5.21	-0.16	-0.15	-	-	-	-	30/06/09	5.05	5.21	-0.16	-0.15
UBS	12.55	13.81	-1.27	-1.11	0.90	2.62	-1.72	-1.68	31/12/88	9.49	8.56	0.93	0.85
UBS Property	8.39	10.12	-1.73	-1.57	-4.45	-3.90	-0.55	-0.57	31/03/06	-1.00	-0.42	-0.58	-0.58

Total Fund Market Value at Qtr End: £602.0 M

Weighting at Beginning of Period



Weighting at End of Period

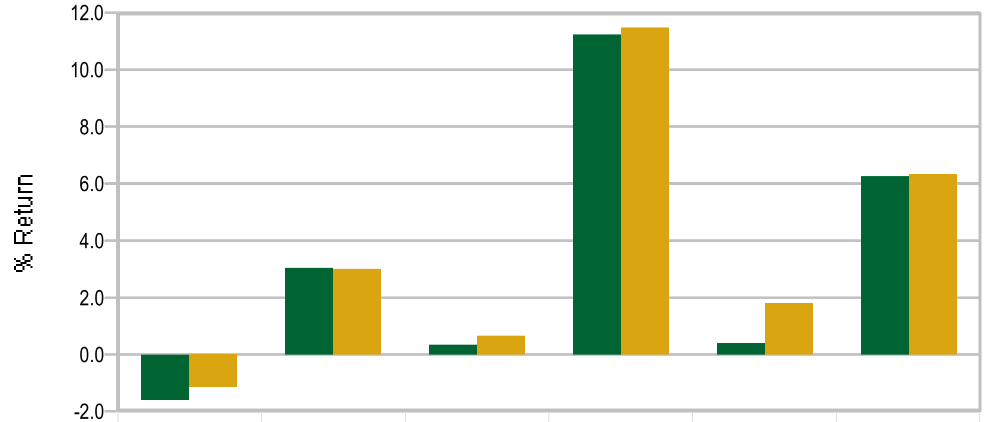


Adam Street | Cash | JP Morgan | LGT | Macquarie | Marathon
M&G Investments | Ruffer | SSGA | SSGA Drawdown | UBS | UBS Property

	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	611,171	100.00	499	-12,500	2,783	601,953	100.00
Adam Street	20,484	3.35	-151	1,491	0	21,824	3.63
Cash	17,000	2.78	0	0	14	17,014	2.83
JP Morgan	72,012	11.78	0	-276	0	71,736	11.92
LGT	16,589	2.71	394	176	0	17,159	2.85
M&G Investments	11,149	1.82	380	-179	-0	11,350	1.89
Macquarie	1,205	0.20	500	19	0	1,724	0.29
Marathon	58,670	9.60	0	-1,173	0	57,498	9.55
Nomura	71	0.01	0	-0	1	71	0.01
Ruffer	118,424	19.38	0	-4,016	661	115,070	19.12
SSGA	117,490	19.22	0	-2,973	0	114,518	19.02
SSGA Drawdown	14,948	2.45	-380	95	0	14,663	2.44
UBS	113,101	18.51	0	-5,234	1,562	109,429	18.18
UBS Property	49,297	8.07	-1	-421	546	49,421	8.21

London Borough of Hillingdon

Historical Plan Performance

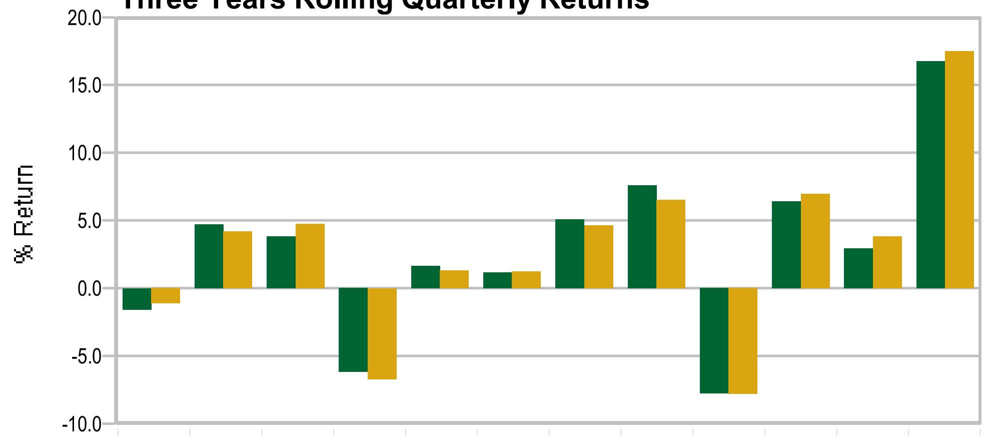


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.59	3.05	0.35	11.23	0.40	6.25
Benchmark	-1.14	3.01	0.65	11.47	1.80	6.34

Risk Statistics - 3 years

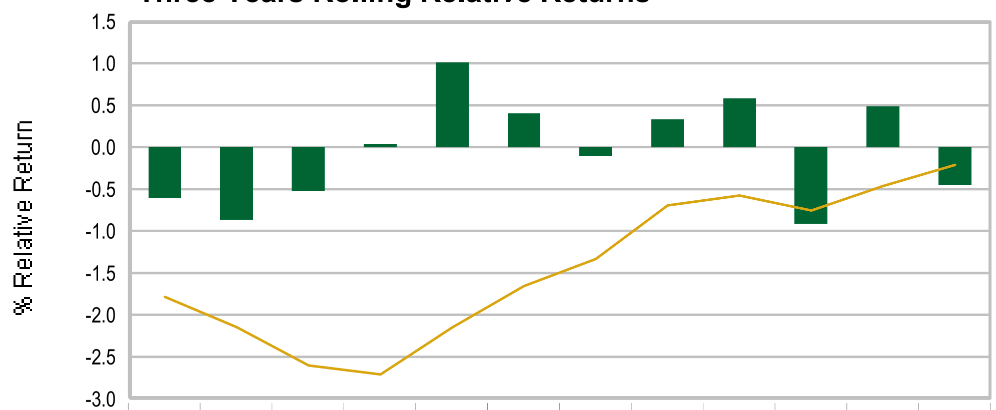
	Fund	B'mark
Performance Return	11.23	11.47
Standard Deviation	9.20	9.21
Relative Return	-0.21	
Tracking Error	1.31	
Information Ratio	-0.18	
Beta	0.99	
Alpha	-0.10	
R Squared	0.98	
Sharpe Ratio	1.09	1.11
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	611,171	
Net Investment £(000)	499	
Income Received £(000)	2,783	
Appreciation £(000)	-12,500	
Closing Market Value (£000)	601,953	

Three Years Rolling Quarterly Returns



	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-1.59	4.71	3.82	-6.20	1.64	1.15	5.08	7.60	-7.77	6.41	2.93	16.78
Benchmark	-1.14	4.20	4.77	-6.74	1.31	1.26	4.67	6.52	-7.81	6.97	3.83	17.50

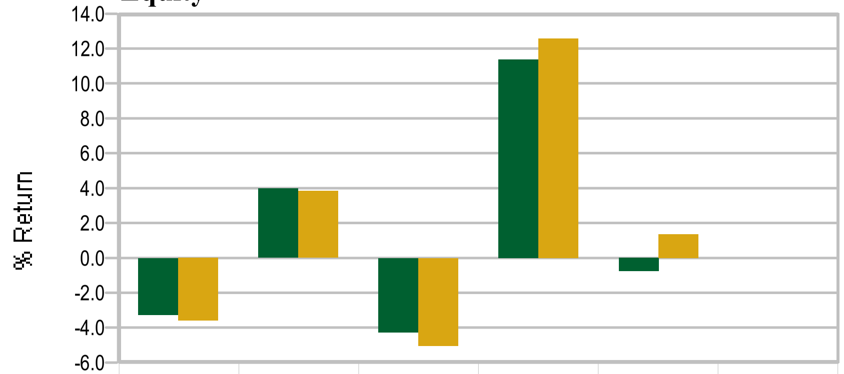
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-0.61	-0.87	-0.52	0.04	1.01	0.40	-0.11	0.33	0.58	-0.91	0.49	-0.45
3Y Relative	-1.79	-2.15	-2.60	-2.71	-2.15	-1.66	-1.34	-0.70	-0.58	-0.76	-0.46	-0.21

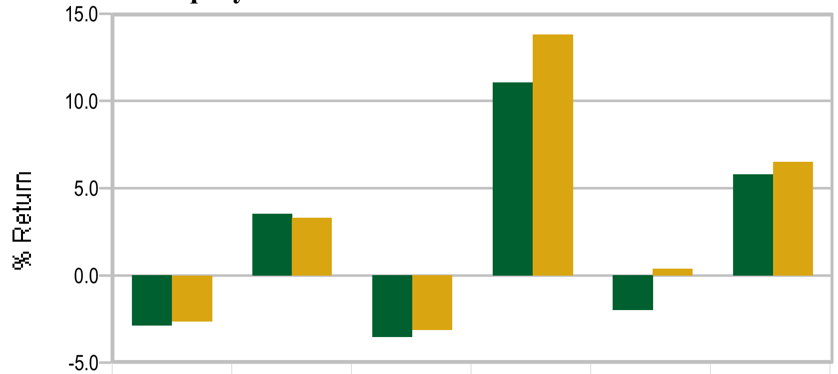
London Borough of Hillingdon

Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.26	3.98	-4.27	11.37	-0.77	-
B'Mark	-3.60	3.83	-5.04	12.58	1.38	-

UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.87	3.53	-3.54	11.05	-1.99	5.80
B'Mark	-2.63	3.32	-3.13	13.81	0.39	6.51

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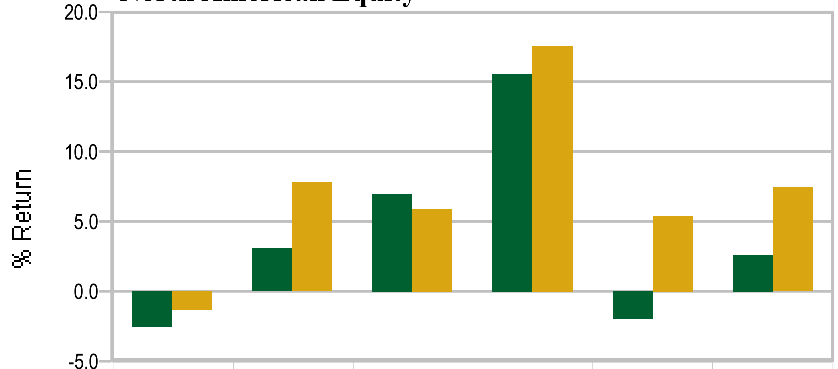
Overseas Equity

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.75	4.57	-5.57	11.60	0.39	5.23
B'Mark	-4.61	4.28	-6.98	11.26	2.25	5.71

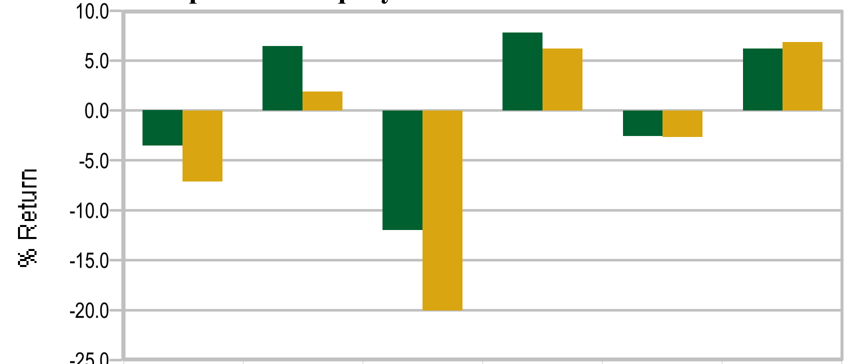
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.55	3.11	6.95	15.54	-2.00	2.58
B'Mark	-1.35	7.79	5.88	17.56	5.38	7.46

London Borough of Hillingdon

Europe ex UK Equity

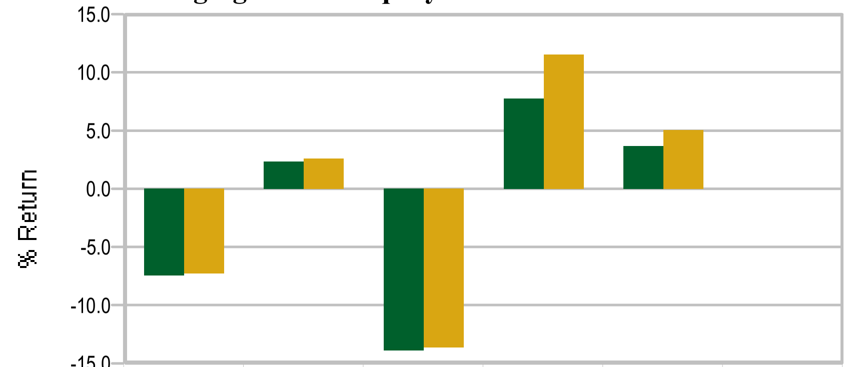


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.51	6.47	-11.94	7.81	-2.52	6.17
B'Mark	-7.08	1.89	-20.01	6.20	-2.64	6.82

Asia Pacific Equity

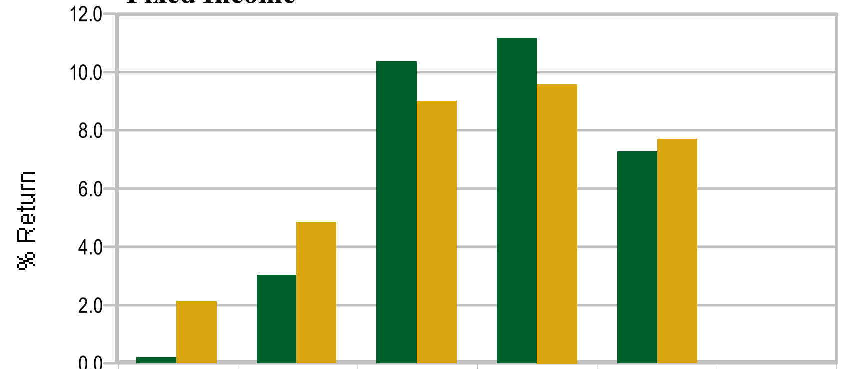
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-4.76	1.53	-5.09	9.76	1.29	-
B'Mark	-4.91	3.46	-7.27	8.47	1.87	-

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.44	2.34	-13.87	7.75	3.69	-
B'Mark	-7.27	2.60	-13.62	11.53	5.06	-

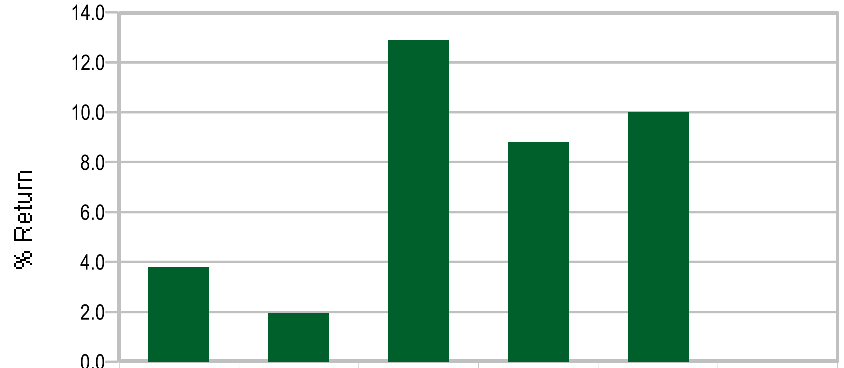
Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.20	3.03	10.36	11.17	7.29	-
B'Mark	2.11	4.84	9.01	9.59	7.71	-

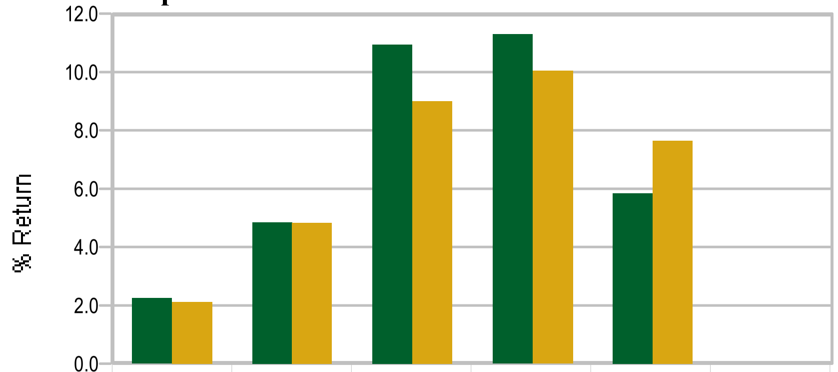
London Borough of Hillingdon

Government Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	1.97	12.89	8.79	10.01	-

Corporate Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.26	4.85	10.95	11.28	5.85	-
B'Mark	2.11	4.84	9.01	10.05	7.65	-

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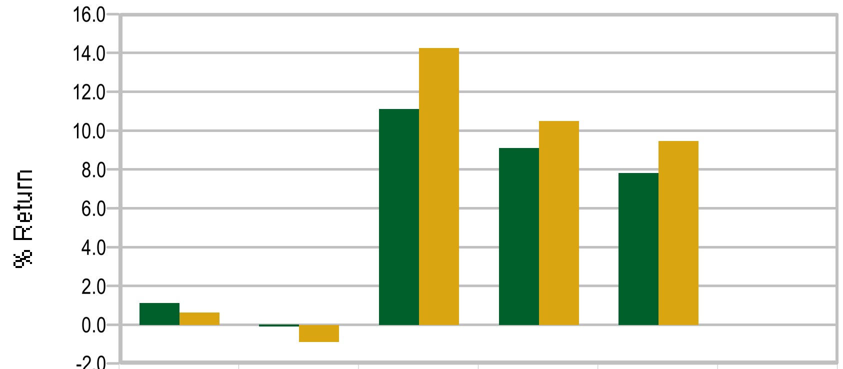
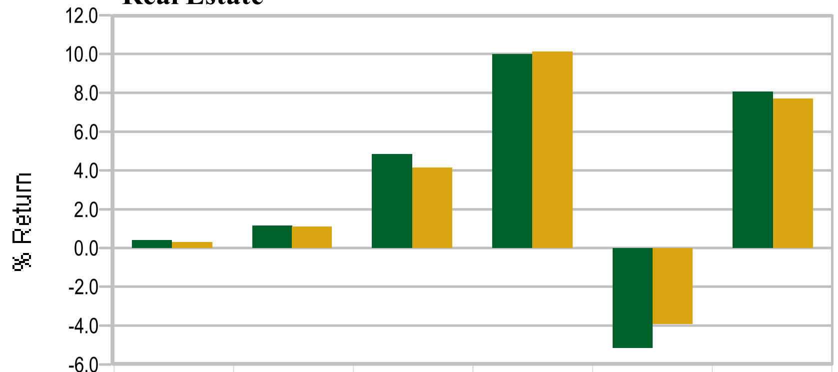
Index Linked Gilts



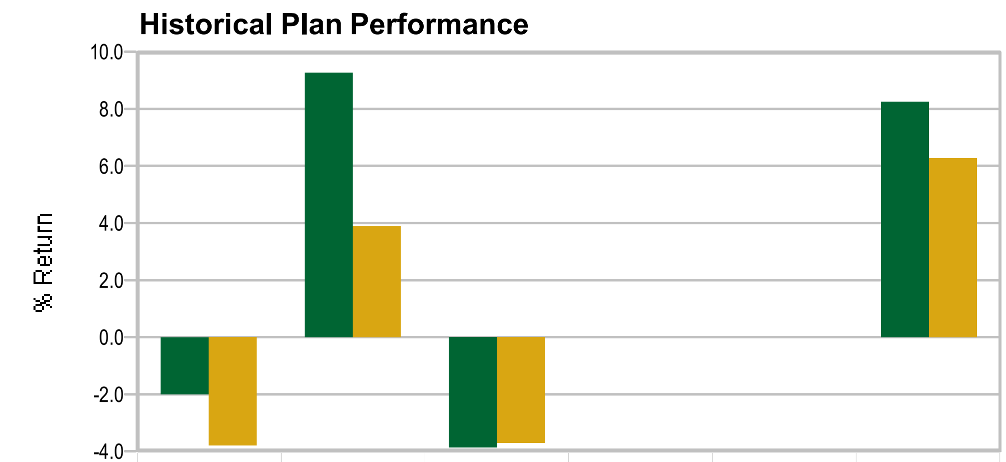
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.12	-0.09	11.12	9.10	7.81	-
B'Mark	0.65	-0.87	14.26	10.49	9.46	-

Real Estate

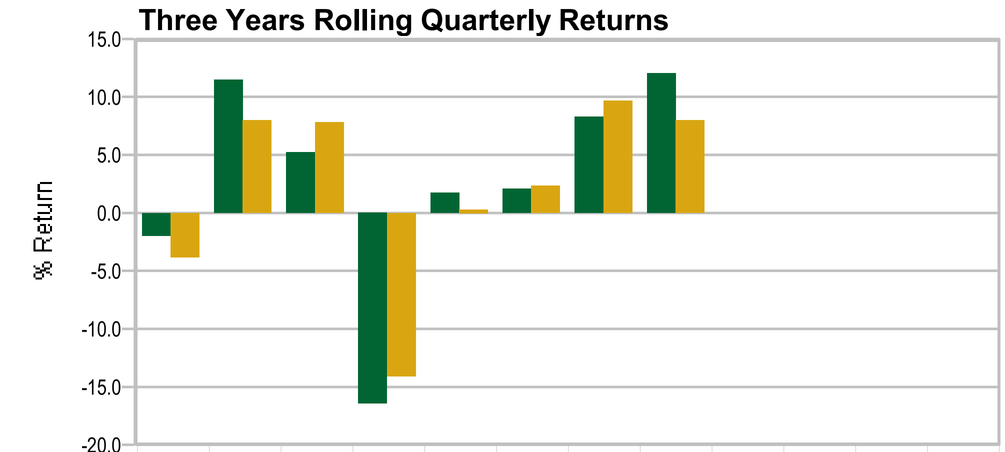


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.40	1.16	4.82	9.99	-5.14	8.05
B'Mark	0.30	1.10	4.16	10.12	-3.90	7.69

Marathon

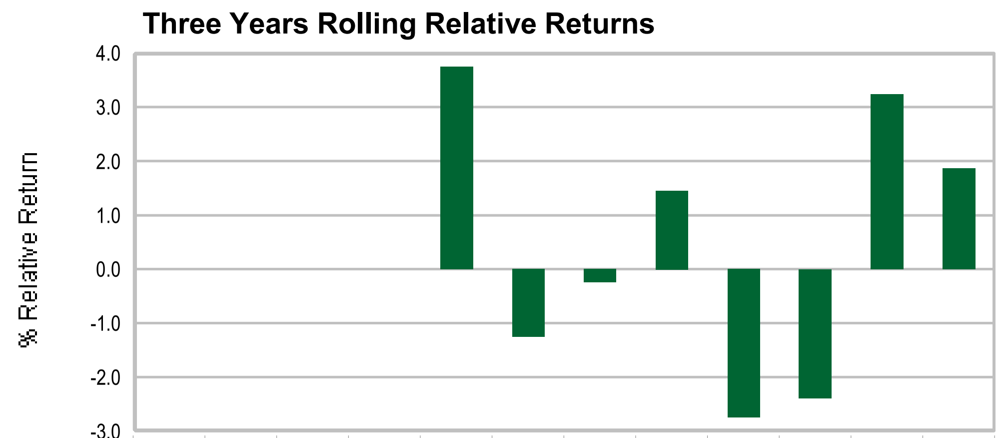


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.00	9.27	-3.86	-	-	8.25
Benchmark	-3.80	3.90	-3.71	-	-	6.27



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

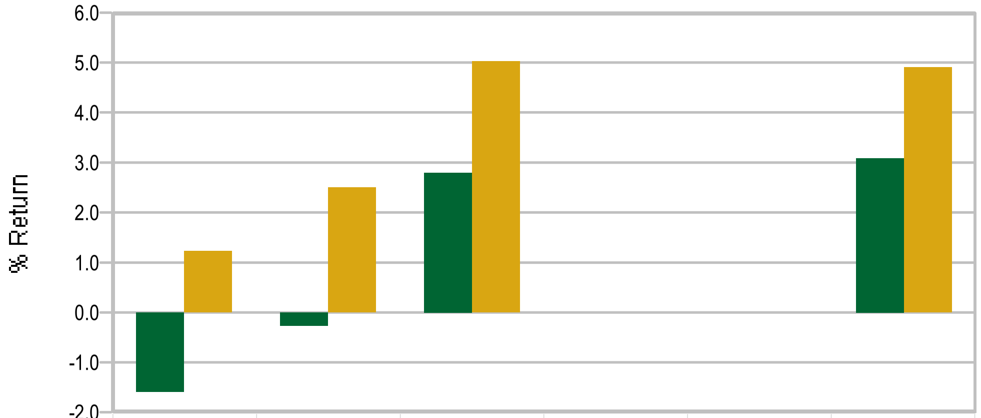
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	9.6	
Inception Date	Jun-2010	
Opening Market Value (£000)	58,670	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-1,173	
Closing Market Value (£000)	57,498	



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

M&G Investments

Historical Plan Performance

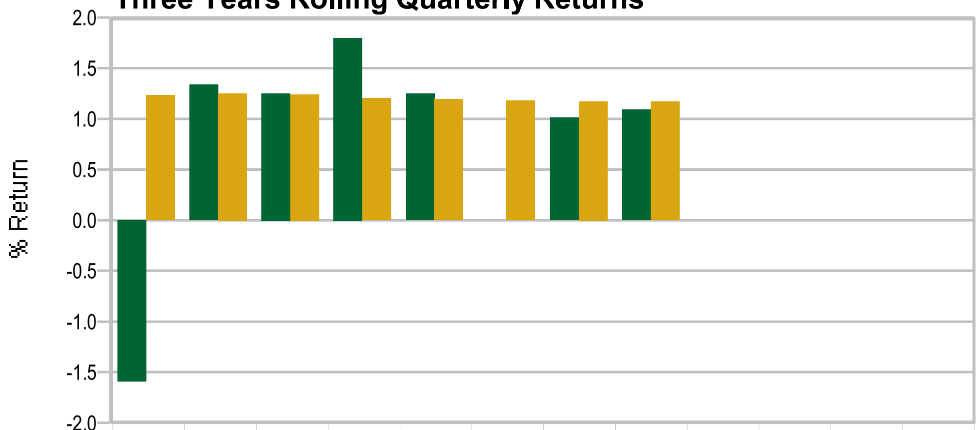


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.59	-0.27	2.80	-	-	3.09
Benchmark	1.23	2.50	5.03	-	-	4.91

Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	1.9	
Inception Date	May-2010	
Opening Market Value (£000)	11,149	
Net Investment £(000)	380	
Income Received £(000)	-0	
Appreciation £(000)	-179	
Closing Market Value (£000)	11,350	

Three Years Rolling Quarterly Returns



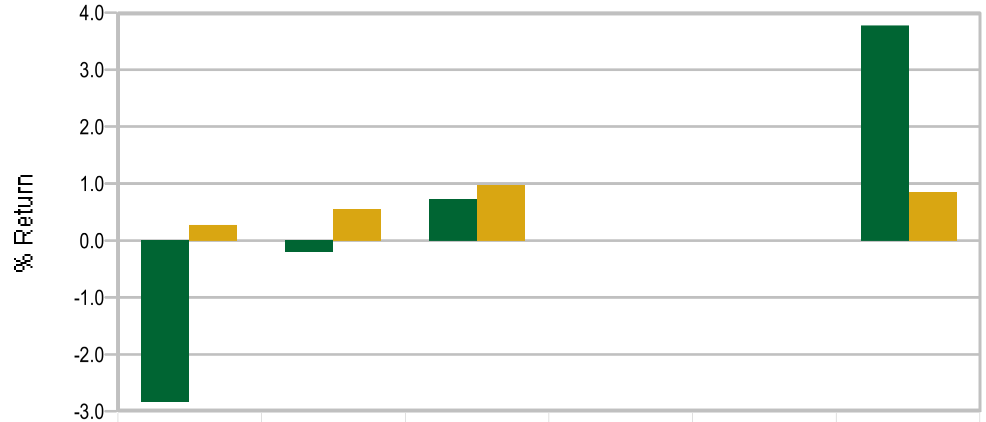
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-1.59	1.34	1.25	1.80	1.25	0.00	1.01	1.09	-	-	-	-
Benchmark	1.23	1.25	1.24	1.21	1.19	1.18	1.17	1.17	-	-	-	-

Three Years Rolling Relative Returns

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

Ruffer

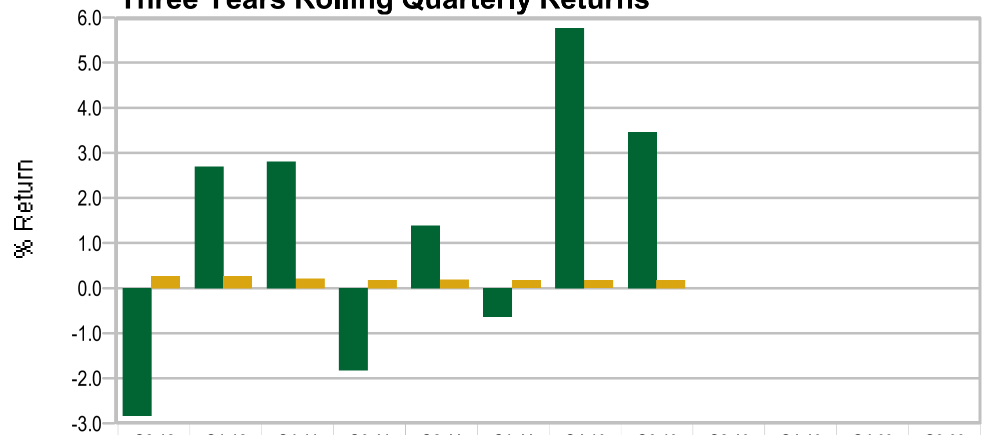
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.83	-0.21	0.73	-	-	3.78
Benchmark	0.28	0.56	0.97	-	-	0.85

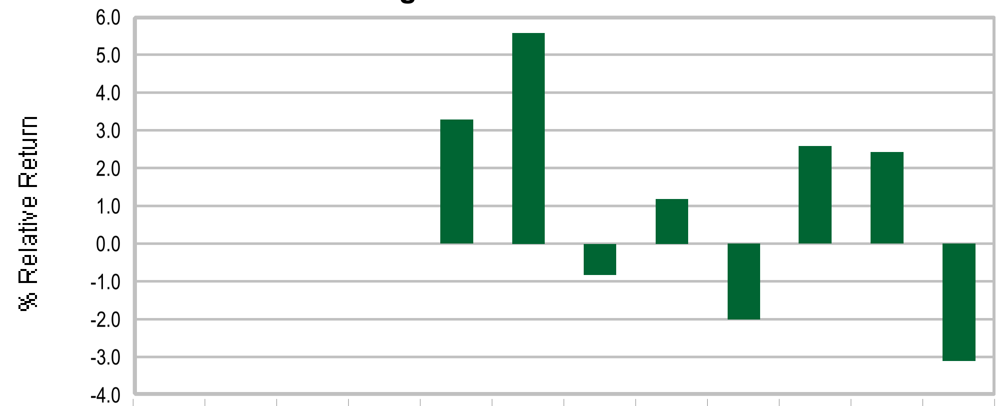
Risk Statistics - 3 years	**Fund**	**B'mark**
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.1	
Inception Date	May-2010	
Opening Market Value (£000)	118,424	
Net Investment £(000)	0	
Income Received £(000)	661	
Appreciation £(000)	-4,016	
Closing Market Value (£000)	115,070	

Three Years Rolling Quarterly Returns



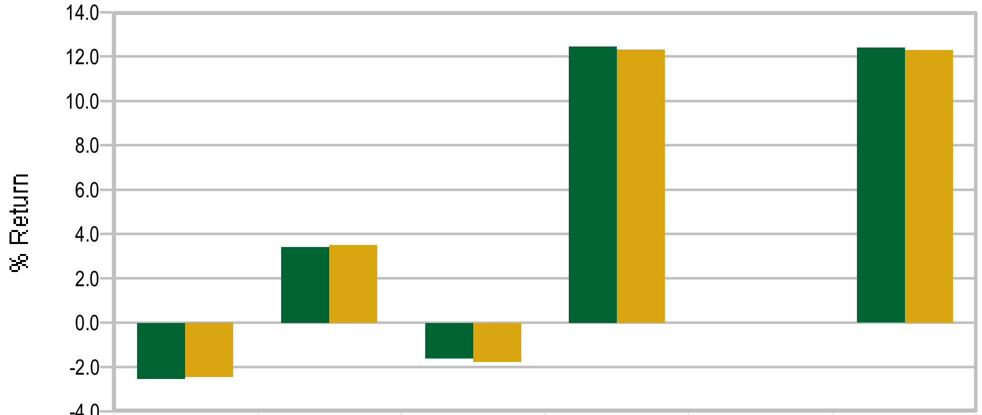
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-2.83	2.70	2.81	-1.82	1.39	-0.64	5.77	3.47	-	-	-	-
Benchmark	0.28	0.28	0.22	0.19	0.20	0.18	0.18	0.18	-	-	-	-

Three Years Rolling Relative Returns



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

Historical Plan Performance

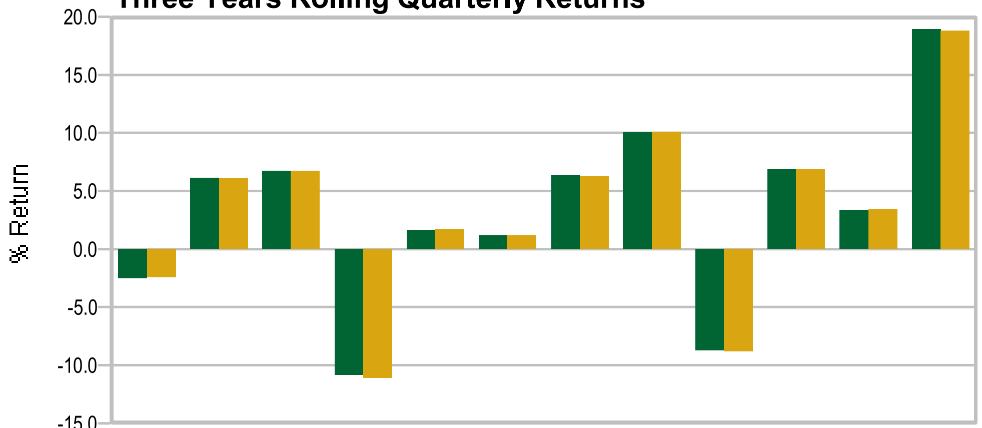


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.53	3.42	-1.60	12.44	-	12.39
Benchmark	-2.44	3.50	-1.76	12.32	-	12.29

Risk Statistics - 3 years

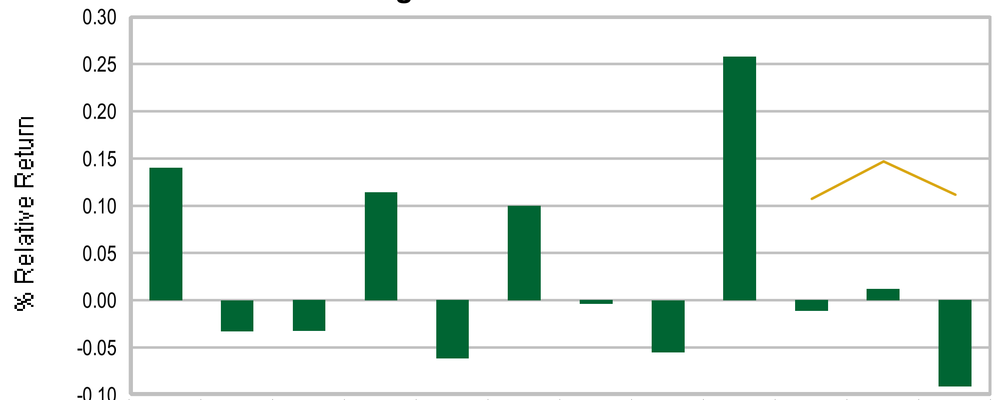
	Fund	B'mark
Performance Return	12.44	12.32
Standard Deviation	11.70	11.76
Relative Return	0.11	
Tracking Error	0.18	
Information Ratio	0.72	
Beta	0.99	
Alpha	0.17	
R Squared	1.00	
Sharpe Ratio	0.96	0.94
Percentage of Total Fund	19.0	
Inception Date	Nov-2008	
Opening Market Value (£000)	117,490	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-2,973	
Closing Market Value (£000)	114,518	

Three Years Rolling Quarterly Returns



	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-2.53	6.11	6.71	-10.84	1.69	1.19	6.36	10.06	-8.72	6.85	3.38	18.95
Benchmark	-2.44	6.09	6.73	-11.07	1.75	1.20	6.26	10.13	-8.82	6.89	3.41	18.78

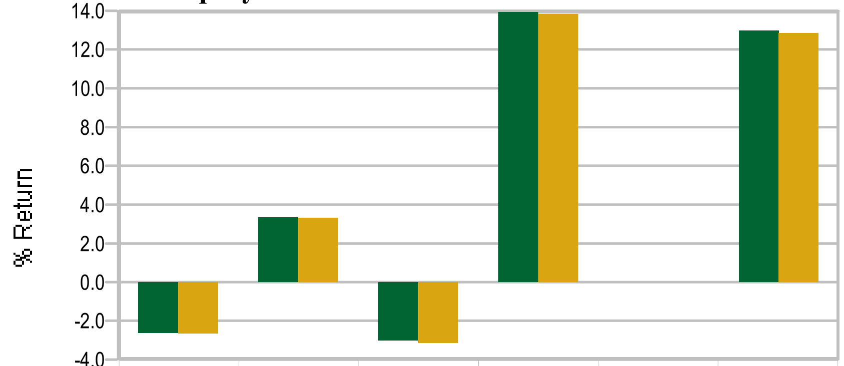
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	0.14	-0.03	-0.03	0.11	-0.06	0.10	-0.00	-0.06	0.26	-0.01	0.01	-0.09
3Y Relative	-	-	-	-	-	-	-	-	-	0.11	0.15	0.11

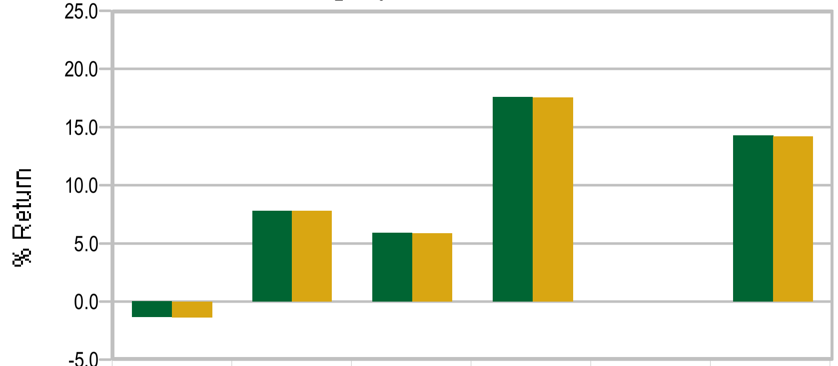
SSGA

UK Equity



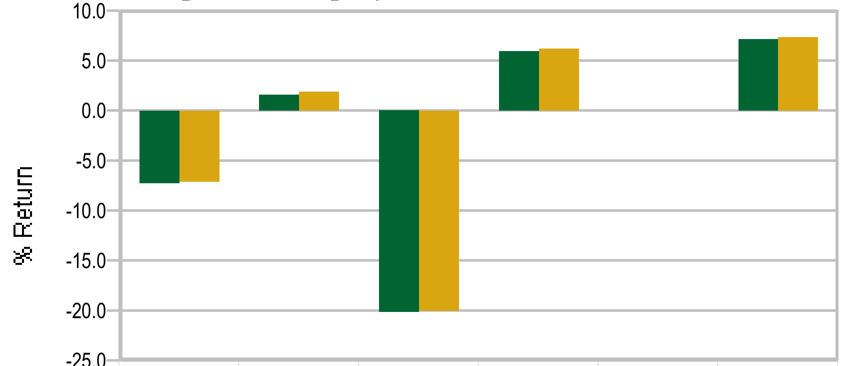
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.62	3.34	-3.01	13.92	-	12.97
B'Mark	-2.63	3.32	-3.13	13.81	-	12.82

North America Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.34	7.78	5.89	17.60	-	14.25
B'Mark	-1.36	7.79	5.88	17.56	-	14.18

Europe ex UK Equity



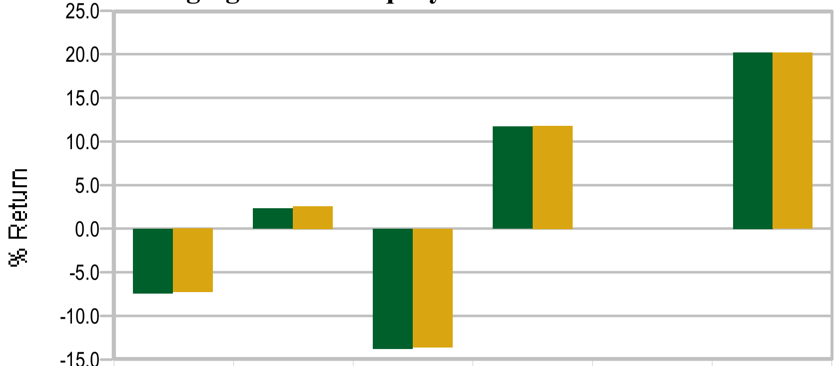
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.26	1.60	-20.14	5.92	-	7.15
B'Mark	-7.08	1.89	-20.01	6.20	-	7.35

Asia Pacific Equity

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-4.91	3.46	-7.25	8.45	-	10.47
B'Mark	-4.91	3.46	-7.27	8.47	-	10.52

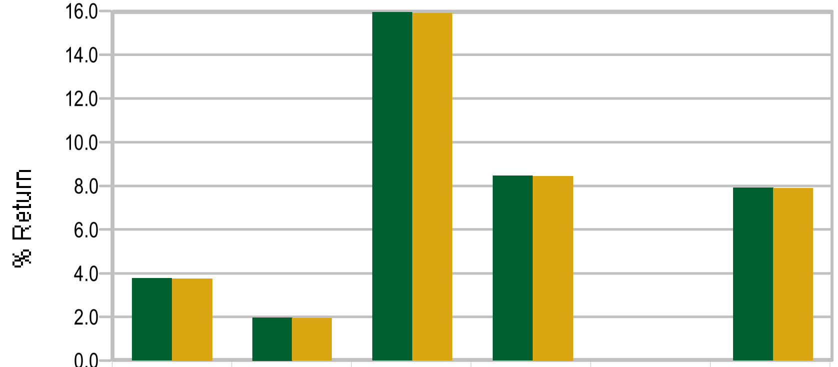
SSGA

Emerging Markets Equity



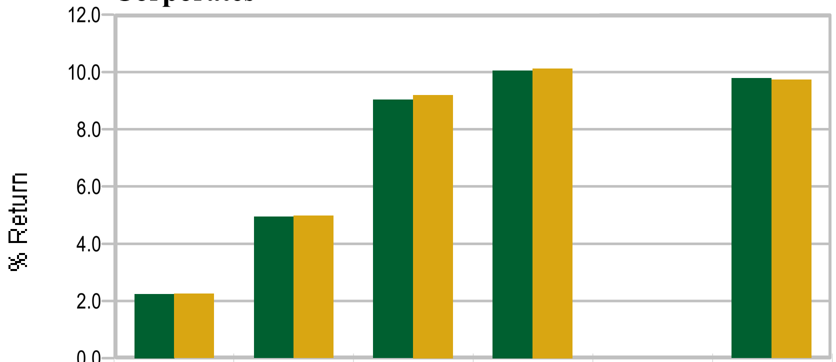
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.44	2.35	-13.80	11.68	-	20.22
B'Mark	-7.27	2.60	-13.62	11.82	-	20.19

Government Bonds



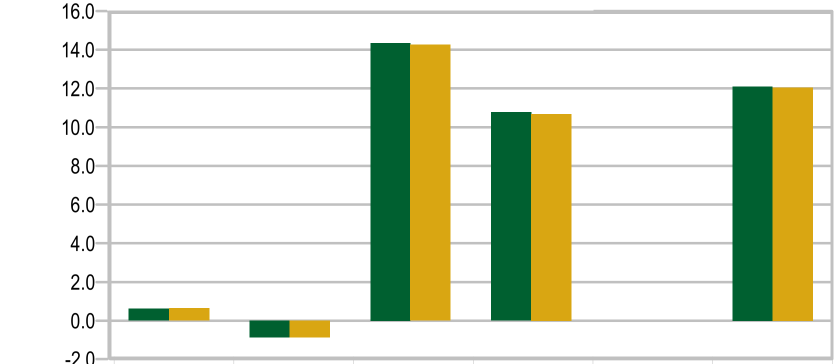
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	1.97	15.95	8.47	-	7.91
B'Mark	3.76	1.95	15.91	8.45	-	7.90

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.24	4.95	9.03	10.05	-	9.79
B'Mark	2.26	4.98	9.19	10.12	-	9.73

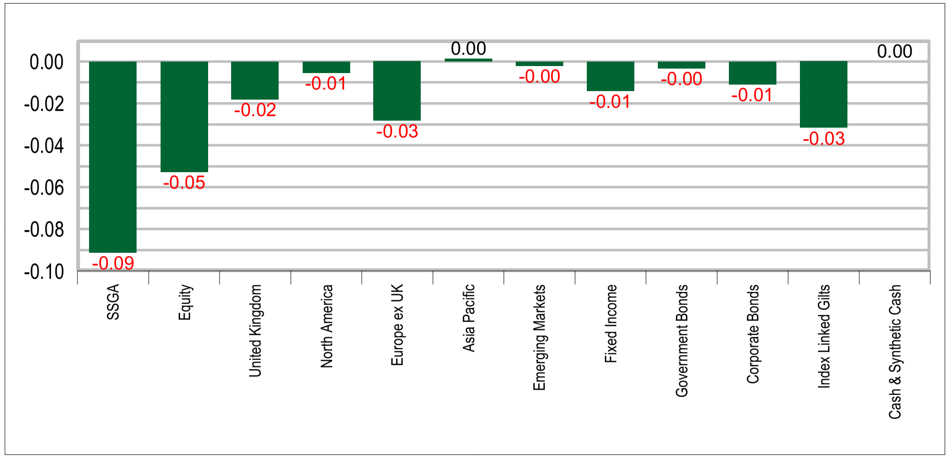
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.63	-0.87	14.36	10.76	-	12.10
B'Mark	0.65	-0.87	14.26	10.70	-	12.06

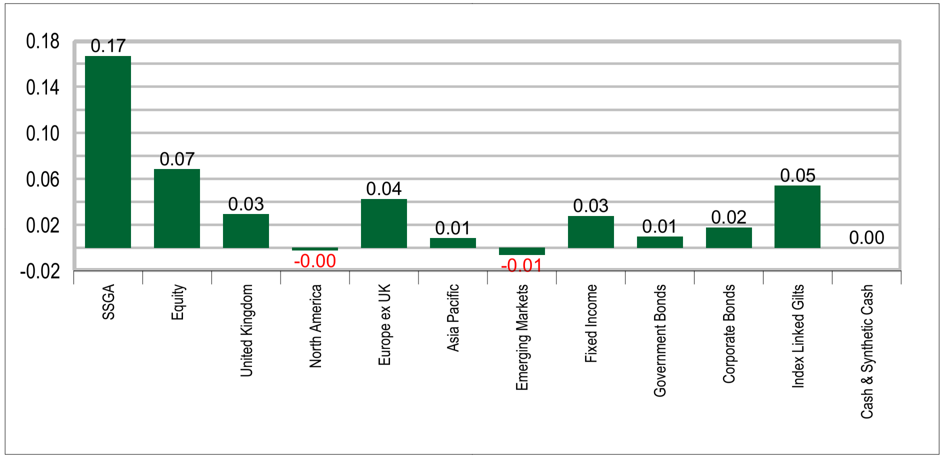
SSGA

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	-2.53	-2.44	-0.09	-0.05	-0.12	0.07	-0.09
Equity	-3.57	-	-3.57	-0.01	-0.29	0.25	-0.05
United Kingdom	-2.62	-2.63	0.01	-0.01	0.00	-0.01	-0.02
North America	-1.34	-1.36	0.01	0.00	-0.02	0.01	-0.01
Europe ex UK	-7.26	-7.08	-0.20	-0.01	-0.01	-0.00	-0.03
Asia Pacific	-4.91	-4.91	-0.01	0.01	-0.19	0.18	0.00
Emerging Markets	-7.44	-7.27	-0.18	0.00	-0.08	0.07	-0.00
Fixed Income	2.47	-	2.47	-0.01	0.18	-0.18	-0.01
Government Bonds	3.77	3.76	0.01	-0.00	0.00	0.00	-0.00
Corporate Bonds	2.24	2.26	-0.01	-0.00	0.18	-0.18	-0.01
Index Linked Gilts	0.63	0.65	-0.02	-0.03	-0.00	0.00	-0.03
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

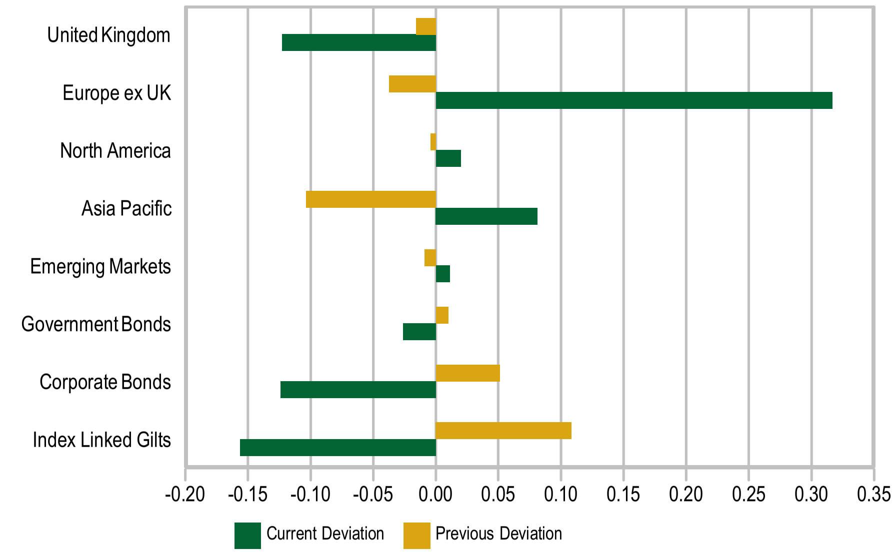
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	-1.60	-1.76	0.17	0.13	-0.49	0.52	0.17
Equity	-5.24	-	-5.24	0.04	-0.38	0.41	0.07
United Kingdom	-3.01	-3.13	0.12	-0.02	0.05	-0.01	0.03
North America	5.89	5.88	0.02	0.00	-0.05	0.05	-0.00
Europe ex UK	-20.14	-20.01	-0.16	0.03	0.08	-0.06	0.04
Asia Pacific	-7.25	-7.27	0.02	0.03	-0.19	0.17	0.01
Emerging Markets	-13.80	-13.62	-0.21	0.00	-0.27	0.26	-0.01
Fixed Income	10.07	-	10.07	0.04	-0.12	0.11	0.03
Government Bonds	15.95	15.91	0.04	0.01	0.00	-0.00	0.01
Corporate Bonds	9.03	9.19	-0.15	0.03	-0.12	0.11	0.02
Index Linked Gilts	14.36	14.26	0.08	0.05	0.01	-0.00	0.05
Cash & Synthetic Cash	-	-	0.00	0.00	0.00	0.00	0.00

SSGA

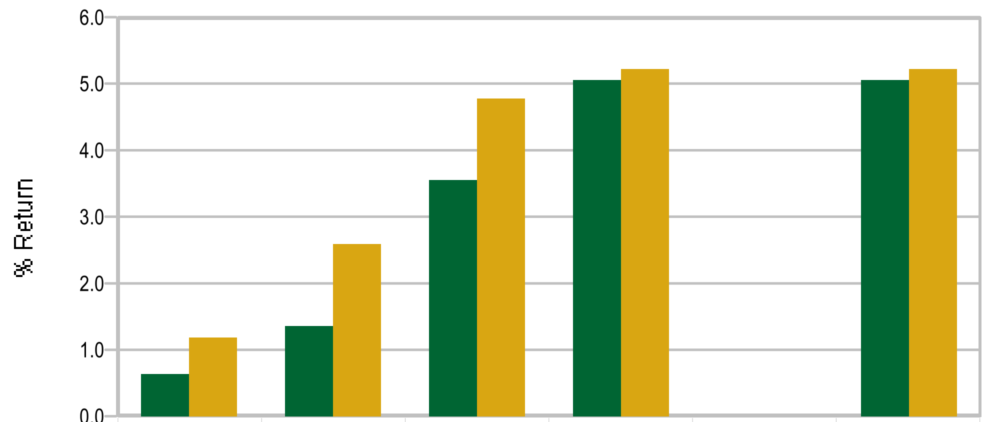
By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	80.31	79.83		80.31		79.83
United Kingdom	43.88	43.98	44.00	-0.12	44.00	-0.02
Europe ex UK	11.32	10.96	11.00	0.32	11.00	-0.04
North America	11.02	11.00	11.00	0.02	11.00	-0.00
Asia Pacific	11.08	10.90	11.00	0.08	11.00	-0.10
Emerging Markets	3.01	2.99	3.00	0.01	3.00	-0.01
Fixed Income	9.85	10.06		9.85		10.06
Government Bonds	1.47	1.51	1.50	-0.03	1.50	0.01
Corporate Bonds	8.38	8.55	8.50	-0.12	8.50	0.05
Index Linked Gilts	9.84	10.11	10.00	-0.16	10.00	0.11

SSGA Drawdown

Historical Plan Performance

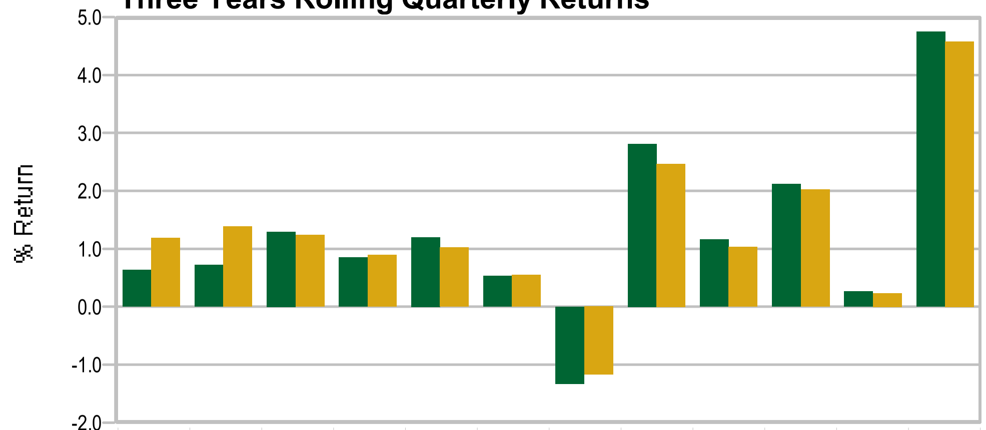


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.64	1.36	3.55	5.05	-	5.05
Benchmark	1.19	2.59	4.78	5.21	-	5.21

Risk Statistics - 3 years

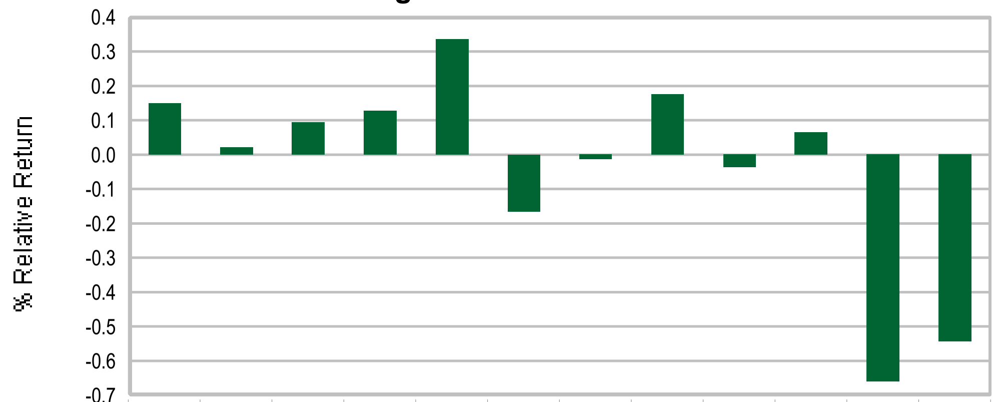
	Fund	B'mark
Performance Return	5.05	5.21
Standard Deviation	2.69	2.59
Relative Return	-0.15	
Tracking Error	0.62	
Information Ratio	-0.26	
Beta	1.02	
Alpha	-0.21	
R Squared	0.95	
Sharpe Ratio	1.42	1.54
Percentage of Total Fund	2.4	
Inception Date	Jun-2009	
Opening Market Value (£000)	14,948	
Net Investment £(000)	-380	
Income Received £(000)	0	
Appreciation £(000)	95	
Closing Market Value (£000)	14,663	

Three Years Rolling Quarterly Returns



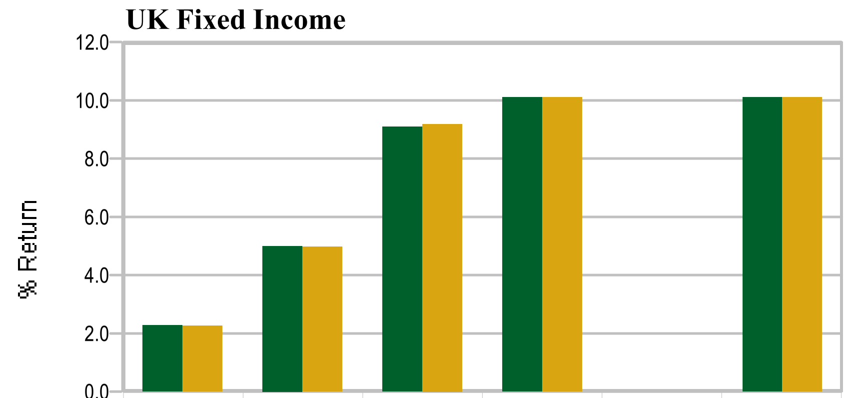
	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	0.64	0.72	1.30	0.85	1.20	0.53	-1.34	2.81	1.16	2.12	0.26	4.75
Benchmark	1.19	1.39	1.23	0.89	1.02	0.55	-1.17	2.47	1.03	2.02	0.24	4.59

Three Years Rolling Relative Returns

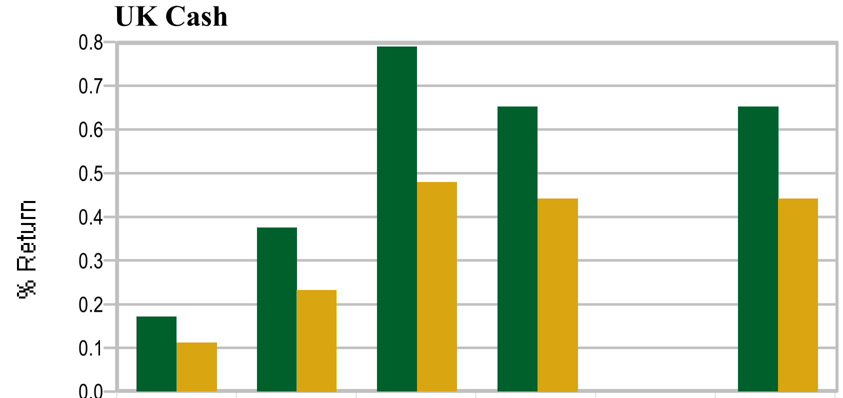


	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	0.15	0.02	0.09	0.13	0.34	-0.17	-0.01	0.18	-0.04	0.07	-0.66	-0.54
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-0.15

SSGA Drawdown



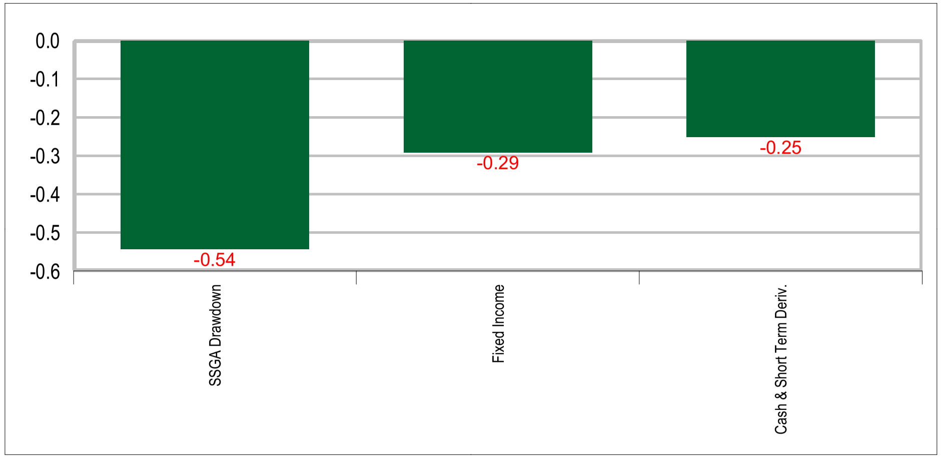
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.29	5.00	9.11	10.11	-	10.11
B'Mark	2.26	4.98	9.19	10.12	-	10.12



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.17	0.38	0.79	0.65	-	0.65
B'Mark	0.11	0.23	0.48	0.44	-	0.44

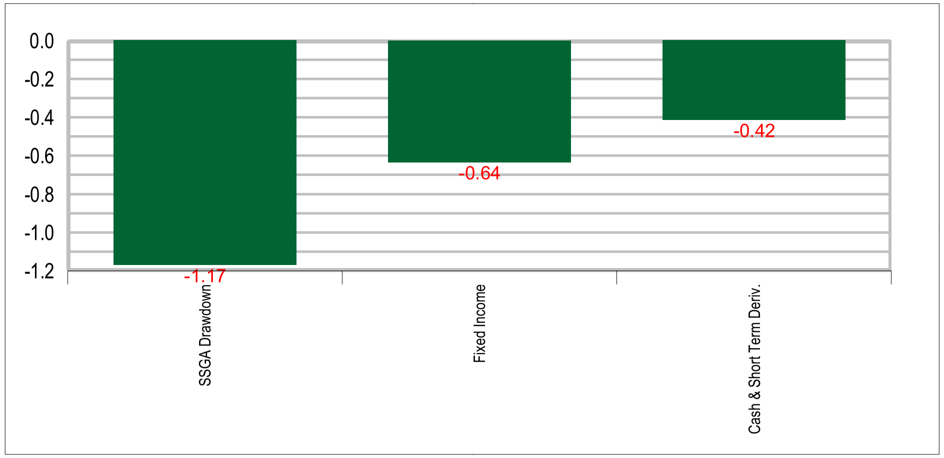
SSGA Drawdown

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	0.64	1.19	-0.54	-0.60	0.05	-0.54
Fixed Income	2.29	2.26	0.03	-0.30	0.01	-0.29
Cash & Short Term Deriv.	0.17	0.11	0.06	-0.30	0.05	-0.25

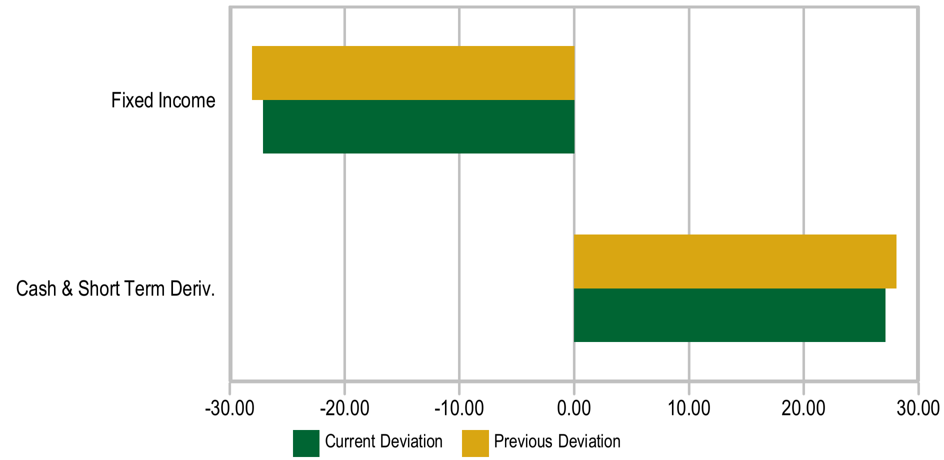
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	3.55	4.78	-1.17	-1.20	0.15	-1.17
Fixed Income	9.11	9.19	-0.08	-0.59	-0.04	-0.64
Cash & Short Term Deriv.	0.79	0.48	0.31	-0.61	0.19	-0.42

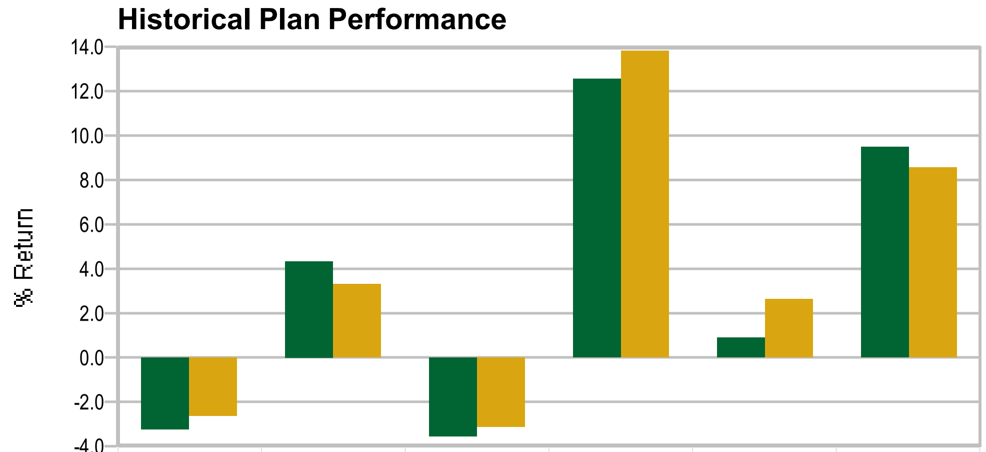
SSGA Drawdown

By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	22.88	21.94	50.00	-27.12	50.00	-28.06
Cash & Short Term Deriv.	77.12	78.06	50.00	27.12	50.00	28.06

UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.25	4.34	-3.55	12.55	0.90	9.49
Benchmark	-2.63	3.32	-3.13	13.81	2.62	8.56

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	12.55	13.81
Standard Deviation	16.90	14.98
Relative Return	-1.11	
Tracking Error	3.73	
Information Ratio	-0.34	
Beta	1.11	
Alpha	-2.16	
R Squared	0.96	
Sharpe Ratio	0.67	0.84
Percentage of Total Fund	18.2	
Inception Date	Dec-1988	
Opening Market Value (£000)	113,101	
Net Investment £(000)	0	
Income Received £(000)	1,562	
Appreciation £(000)	-5,234	
Closing Market Value (£000)	109,429	

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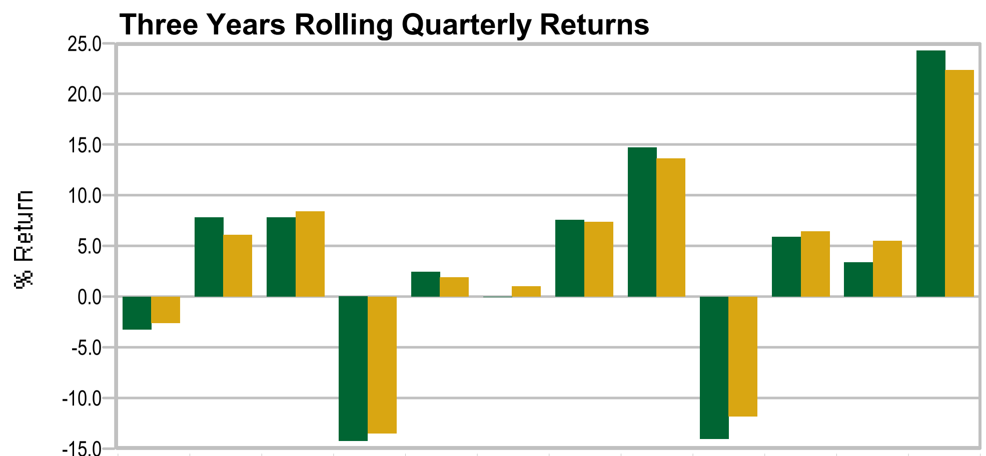
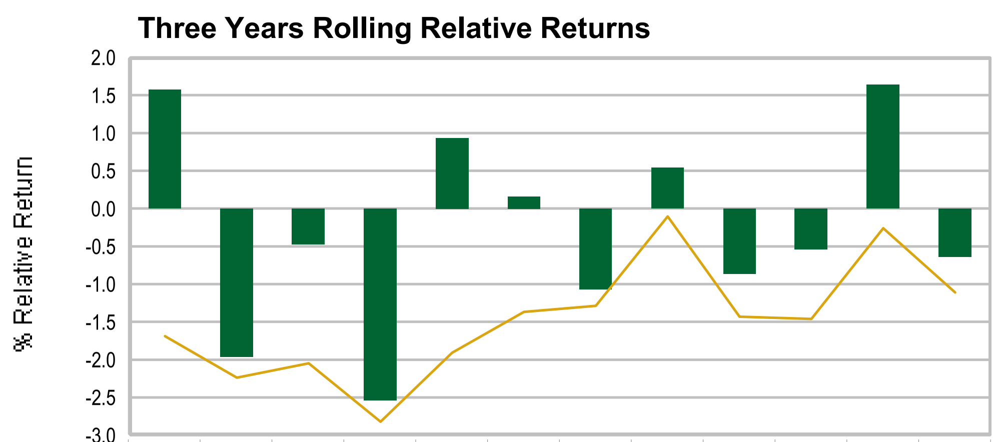
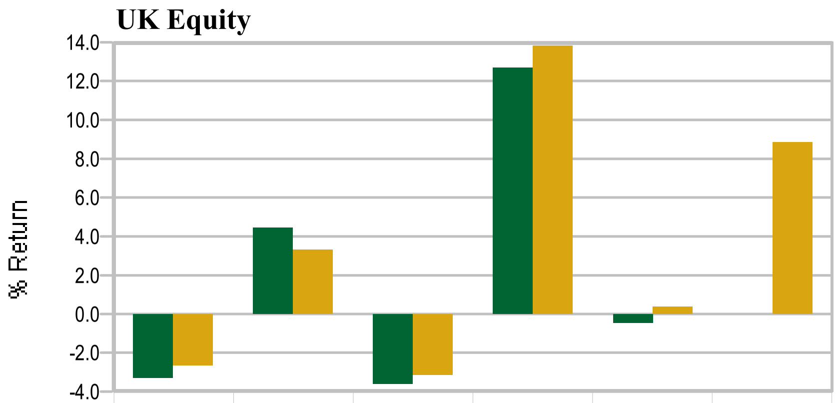


	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	-3.25	7.84	7.80	-14.25	2.46	-0.05	7.55	14.69	-14.05	5.91	3.41	24.30
Benchmark	-2.63	6.10	8.39	-13.50	1.91	1.03	7.38	13.63	-11.80	6.42	5.47	22.38



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	1.57	-1.96	-0.48	-2.54	0.93	0.16	-1.07	0.54	-0.87	-0.54	1.63	-0.64
3Y Relative	-1.69	-2.24	-2.05	-2.82	-1.91	-1.37	-1.29	-0.11	-1.43	-1.46	-0.26	-1.11

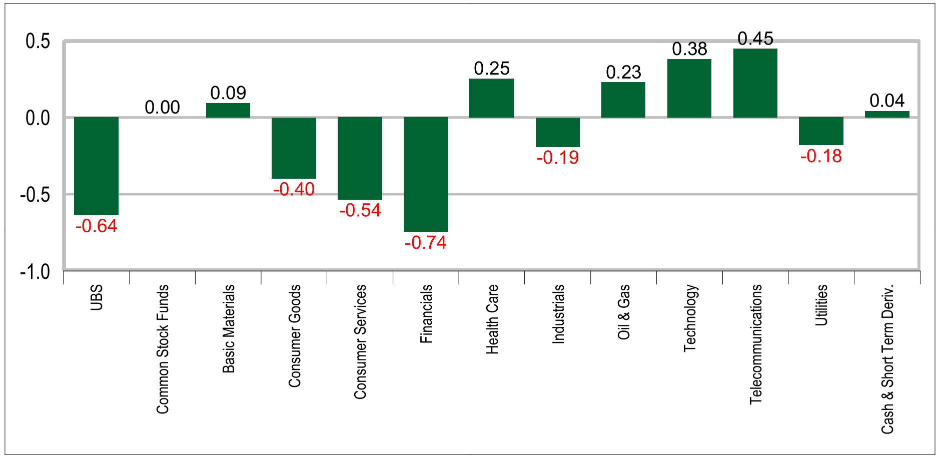
UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.29	4.45	-3.59	12.68	-0.46	-
B'Mark	-2.63	3.32	-3.13	13.81	0.39	8.85

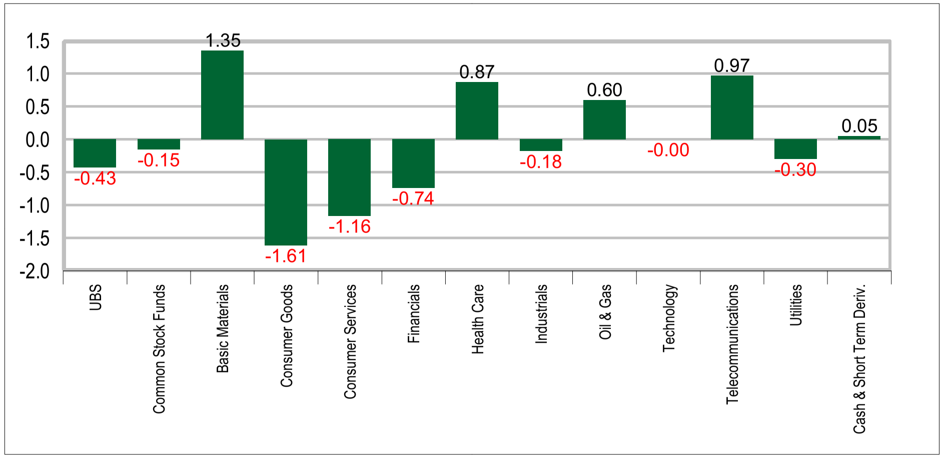
UBS

Relative Contribution - Three Months



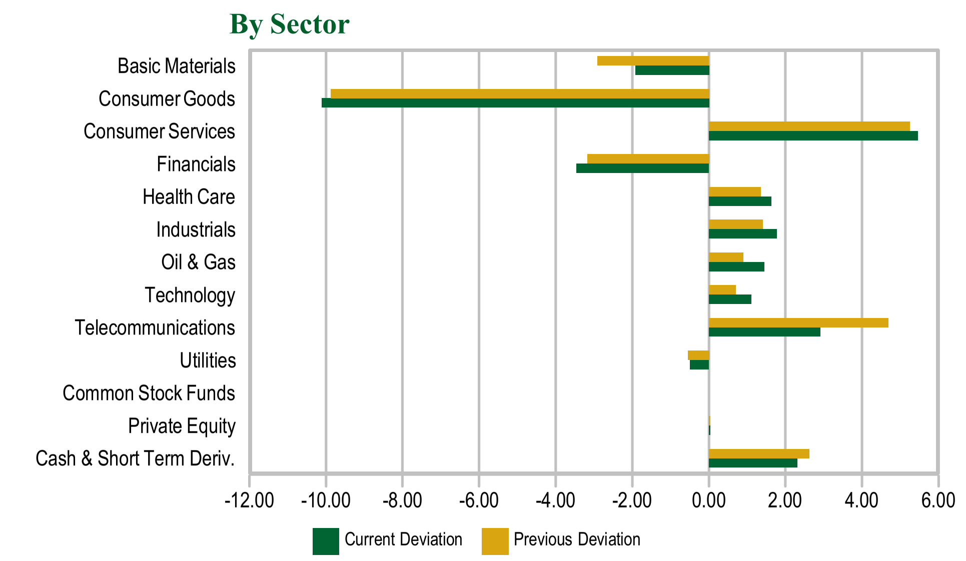
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-3.25	-2.63	-0.64	0.34	-0.97	-0.64
Common Stock Funds	0.00	-	0.00	0.00	0.00	0.00
Basic Materials	-13.90	-12.29	-1.84	0.25	-0.16	0.09
Consumer Goods	2.10	1.53	0.56	-0.42	0.02	-0.40
Consumer Services	-5.59	-1.56	-4.10	0.05	-0.59	-0.54
Financials	-9.60	-5.08	-4.76	0.07	-0.81	-0.74
Health Care	4.96	2.95	1.96	0.08	0.18	0.25
Industrials	-4.71	-2.80	-1.96	-0.01	-0.19	-0.19
Oil & Gas	-3.38	-4.64	1.31	-0.02	0.25	0.23
Technology	11.46	-6.06	18.64	-0.04	0.42	0.38
Telecommunications	6.57	6.10	0.44	0.41	0.04	0.45
Utilities	4.21	7.95	-3.47	-0.06	-0.12	-0.18
Cash & Short Term Deriv.	0.10	-	0.10	0.04	0.00	0.04

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	-3.55	-3.13	-0.43	1.25	-1.63	-0.43
Common Stock Funds	-34.14	-	-34.14	-0.15	0.00	-0.15
Basic Materials	-28.97	-29.91	1.34	1.24	0.11	1.35
Consumer Goods	14.00	16.91	-2.49	-1.50	-0.12	-1.61
Consumer Services	-12.18	-3.48	-9.01	0.06	-1.23	-1.16
Financials	-18.36	-11.22	-8.05	0.45	-1.19	-0.74
Health Care	14.38	6.56	7.33	0.21	0.66	0.87
Industrials	-0.86	3.09	-3.83	0.13	-0.31	-0.18
Oil & Gas	0.34	-2.41	2.82	0.03	0.56	0.60
Technology	-13.69	2.75	-16.00	-0.04	0.03	-0.00
Telecommunications	17.08	14.86	1.93	0.79	0.18	0.97
Utilities	4.34	13.37	-7.96	-0.02	-0.28	-0.30
Cash & Short Term Deriv.	0.67	-	0.67	0.05	0.00	0.05

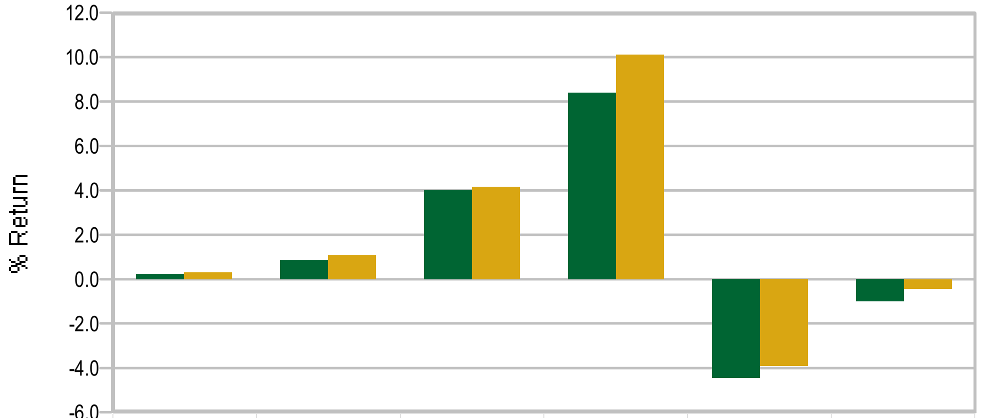
UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	8.19	8.23	10.12	-1.92	11.13	-2.91
Consumer Goods	3.79	3.63	13.91	-10.11	13.51	-9.88
Consumer Services	14.62	14.67	9.16	5.46	9.42	5.25
Financials	16.87	17.67	20.33	-3.46	20.84	-3.17
Health Care	9.41	8.56	7.78	1.63	7.20	1.36
Industrials	10.57	10.02	8.78	1.78	8.60	1.42
Oil & Gas	19.22	18.57	17.77	1.45	17.66	0.91
Technology	2.55	2.25	1.44	1.11	1.54	0.71
Telecommunications	9.58	10.85	6.68	2.90	6.16	4.69
Utilities	3.54	3.38	4.03	-0.49	3.93	-0.55
Common Stock Funds	0.00	0.00		0.00		0.00
Private Equity	0.04	0.04		0.04		0.04
Cash & Short Term Deriv.	2.32	2.62		2.32		2.62

UBS Property

Historical Plan Performance

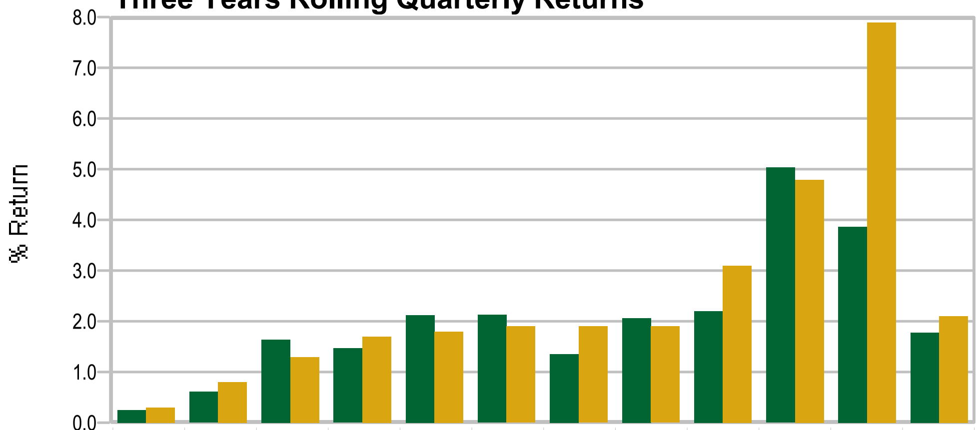


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.25	0.86	4.03	8.39	-4.45	-1.00
Benchmark	0.30	1.10	4.16	10.12	-3.90	-0.42

Risk Statistics - 3 years

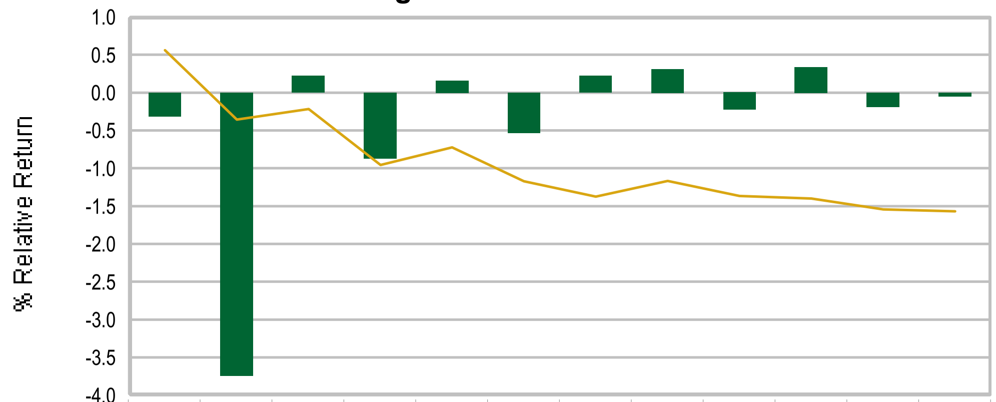
	Fund	B'mark
Performance Return	8.39	10.12
Standard Deviation	2.40	2.31
Relative Return	-1.57	
Tracking Error	2.25	
Information Ratio	-0.77	
Beta	0.59	
Alpha	1.92	
R Squared	0.32	
Sharpe Ratio	2.99	3.85
Percentage of Total Fund	8.2	
Inception Date	Mar-2006	
Opening Market Value (£000)	49,297	
Net Investment £(000)	-1	
Income Received £(000)	546	
Appreciation £(000)	-421	
Closing Market Value (£000)	49,421	

Three Years Rolling Quarterly Returns



	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	0.25	0.61	1.64	1.47	2.12	2.13	1.36	2.06	2.20	5.03	3.86	1.77
Benchmark	0.30	0.80	1.30	1.70	1.80	1.90	1.90	1.90	3.10	4.80	7.90	2.10

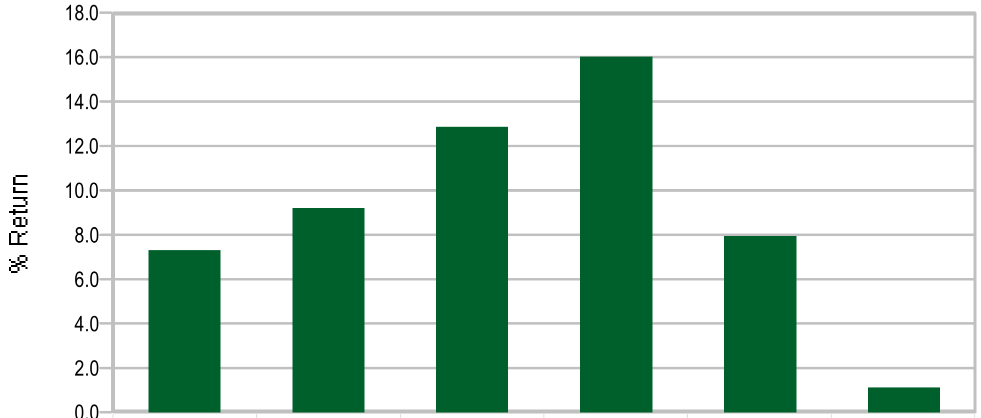
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Relative	-0.32	-3.74	0.23	-0.87	0.16	-0.53	0.23	0.31	-0.23	0.34	-0.19	-0.05
3Y Relative	0.56	-0.35	-0.22	-0.96	-0.72	-1.17	-1.38	-1.17	-1.36	-1.40	-1.55	-1.57

Adam Street

Historical Plan Performance

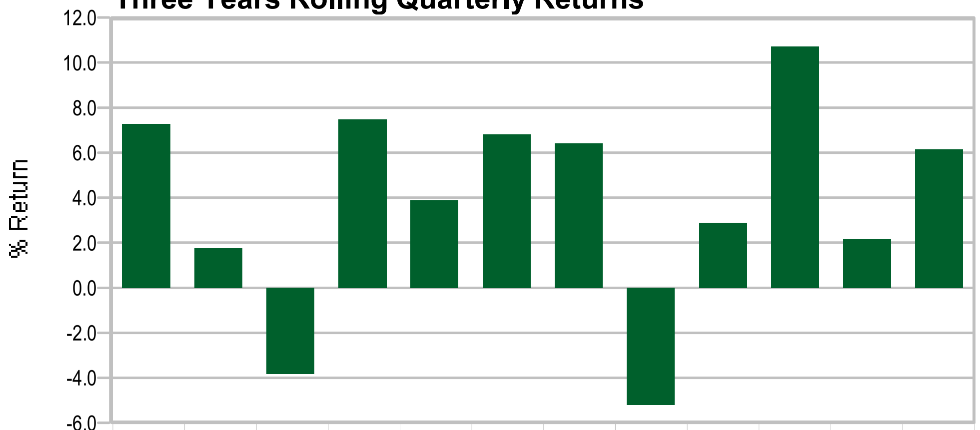


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.29	9.18	12.86	16.02	7.95	1.12

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	3.6	
Inception Date	Jan-2005	
Opening Market Value (£000)	20,484	
Net Investment £(000)	-151	
Income Received £(000)	0	
Appreciation £(000)	1,491	
Closing Market Value (£000)	21,824	

Three Years Rolling Quarterly Returns

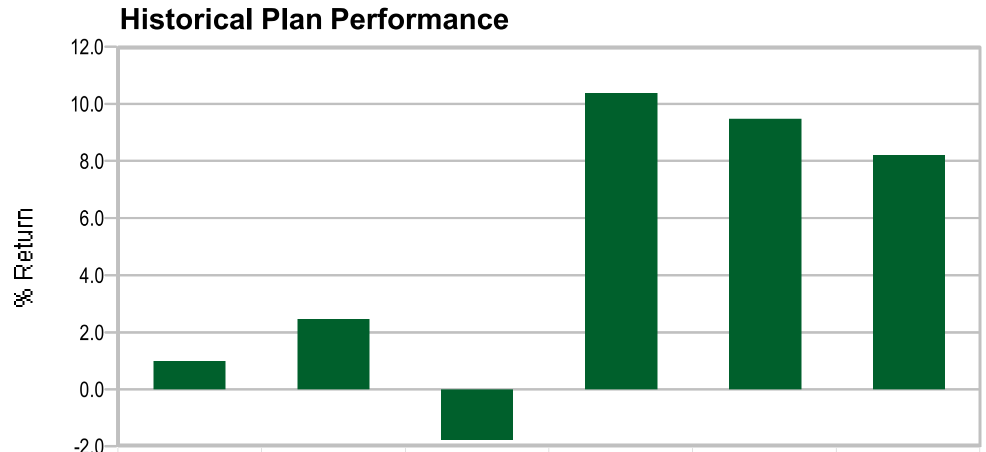


	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	7.29	1.76	-3.83	7.48	3.89	6.83	6.42	-5.19	2.90	10.72	2.15	6.16

Three Years Rolling Relative Returns

3M Relative
3Y Relative

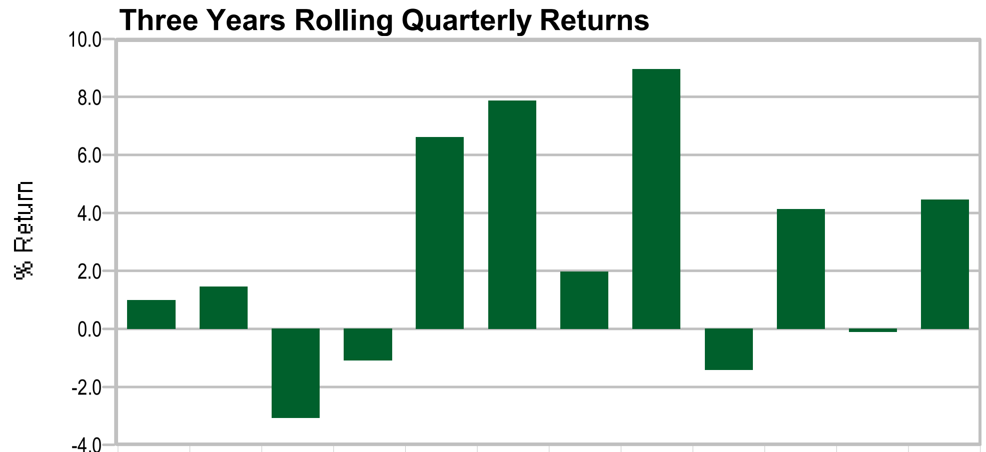
LGT



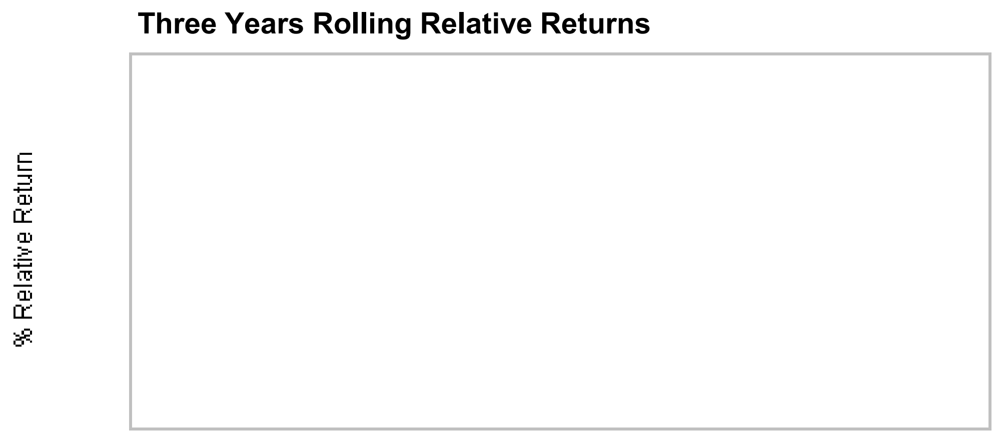
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.99	2.46	-1.77	10.37	9.47	8.20

Risk Statistics - 3 years

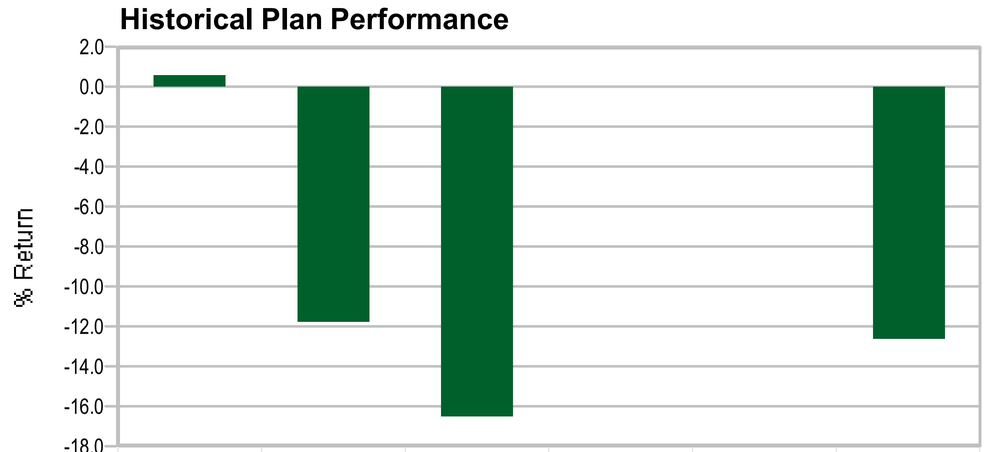
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.9	
Inception Date	May-2004	
Opening Market Value (£000)	16,589	
Net Investment £(000)	394	
Income Received £(000)	0	
Appreciation £(000)	176	
Closing Market Value (£000)	17,159	



	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09
Fund	0.99	1.45	-3.07	-1.10	6.61	7.88	1.99	8.95	-1.42	4.13	-0.11	4.46



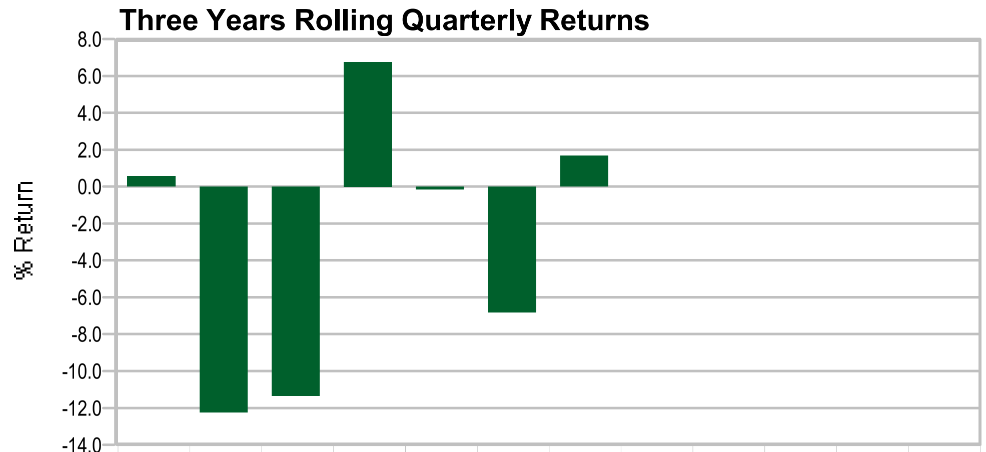
Macquarie



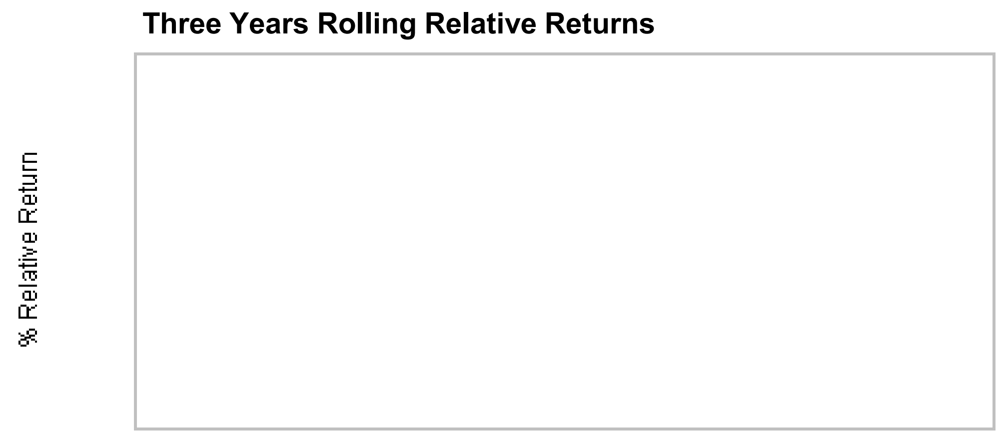
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.56	-11.76	-16.50	-	-	-12.60

Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	0.3	
Inception Date	Sep-2010	
Opening Market Value (£000)	1,205	
Net Investment £(000)	500	
Income Received £(000)	0	
Appreciation £(000)	19	
Closing Market Value (£000)	1,724	



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



Total Plan Benchmark

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

Fauchier

100.0 LIBOR 3 Month + 5%

Goldman Sachs

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

JP Morgan

100.0 LIBOR 3 Month + 3%

Marathon

100.0 MSCI World

M&G Investments

100.0 LIBOR 3 Month + 4%

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.

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

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

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

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

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

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

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

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WM LOCAL AUTHORITY

QUARTER 2 2012

The following summary is based on 55 funds with a total Market Value of £84,117m.

Update 1 - 03/08/2012

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	63.6	62.7	-3.6	-3.6	-3.6	-3.6	-4.9	-4.0
GLOBAL POOLED INC UK	3.9	3.9	-3.8	-3.6	-3.8	-3.6	-4.3	-4.0
UK EQUITIES	27.6	27.0	-2.7	-2.6	-2.7	-2.6	-2.7	-3.1
OVERSEAS EQUITIES	32.2	31.8	-4.3	-3.7	-4.3	-3.7	-6.8	-4.2
North America	10.5	10.7	-2.2	-1.4	-2.2	-1.4	3.9	5.9
Europe	7.9	7.8	-6.0	-6.9	-6.0	-6.9	-17.0	-20.0
Japan	3.6	3.5	-4.1	-5.5	-4.1	-5.5	-3.8	-4.8
Pacific (ex Japan)	3.9	3.8	-4.2	-4.7	-4.2	-4.7	-7.8	-9.4
Emerging Markets	5.3	5.1	-6.6	-7.3	-6.6	-7.3	-12.2	-13.6
Global ex UK	1.0	1.0	-3.8	-3.7	-3.8	-3.7	-3.7	-4.2
TOTAL BONDS	18.0	18.6	2.0	-	2.0	-	11.9	-
U.K. BONDS	10.2	10.6	2.5	3.8	2.5	3.8	11.5	15.9
OVERSEAS BONDS	2.1	2.3	2.3	1.7	2.3	3.2	6.6	5.3
INDEX LINKED	4.8	4.8	0.9	0.6	0.9	0.6	15.6	14.3
POOLED BONDS	0.9	1.0	1.9	0.7	1.9	0.7	7.0	18.9
TOTAL CASH	4.1	4.0	0.7	0.1	0.7	0.1	1.1	0.5
ALTERNATIVES	6.9	7.2	0.6	-	0.6	-	0.7	-
Total Private Equity	3.9	4.1	2.1	-	2.1	-	3.0	-
Total Hedge Funds	1.9	2.0	-0.8	-	-0.8	-	-1.0	-
Other Alternatives	1.1	1.1	-2.1	-	-2.1	-	-3.2	-
TOTAL POOLED MULTI ASSET	0.6	0.6	-1.4	-	-1.4	-	-2.3	-
TOTAL EX-PROPERTY	93.3	93.2	-2.0	-1.8	-2.0	-1.8	-1.1	-1.8
TOTAL PROPERTY	6.7	6.8	0.2	0.3	0.2	0.3	3.7	4.8
TOTAL ASSETS	100.0	100.0	-1.9	-1.7	-1.9	-1.7	-0.9	-1.3

WM PERFORMANCE SERVICES
A State Street Business

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 June 2012

LBH PRIVATE EQUITY FUNDS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
LGT CAPITAL PARTNERS									
	£	%	£	%	£	%		%	%
	000		000		000		000		June 12
Crown private Equity European Buyout Opport.	11,001	1.83	8,955	1.49	6,324	1.05	2,631	0.44	7.71
Crown Global Secondaries Plc (US$)	1,921	0.32	1,662	0.28	1,133	0.19	529	0.09	4.72
Crown Private Equity European Fund	4,027	0.67	3,195	0.53	803	0.13	2,392	0.40	6.53
Crown Private Equity European Buyout Opport. II	8,053	1.34	4,546	0.75	866	0.14	3,680	0.61	2.08
Crown Asia-Pacific Private Equity Plc (US$)	1,921	0.32	1,567	0.26	367	0.06	1,200	0.20	7.53
Crown European Middle Market II plc	3,221	0.53	1,197	0.20	101	0.02	1,096	0.18	11.63
Crown Global Secondaries II Plc (US$)	1,409	0.23	953	0.16	234	0.04	719	0.12	28.17
TOTAL(S) LGT CAPITAL PARTNERS	**31,553**	**5.24**	**22,075**	**3.67**	**9,828**	**1.63**	**12,247**	**2.03**	
ADAMS STREET PARTNERS	£		£						Mar-12
Adam Street Partnership Fund - 2005 US Fund	8,964	1.49	7,705	1.28	2,478	0.41	5,227	0.87	7.04
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,842	0.64	3,364	0.56	934	0.16	2,430	0.40	7.10
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,881	0.48	2,278	0.38	339	0.06	1,939	0.32	5.75
Adam Street Partnership 2006 Direct Fund	960	0.16	920	0.15	123	0.02	797	0.13	2.36
Adam Street Partnership Fund - 2006 US Fund, L.P	5,763	0.96	4,458	0.74	1,127	0.19	3,331	0.55	7.28
Adams Street Direct Co-Investment Fund, L.P.	1,921	0.32	1,838	0.31	77	0.01	1,761	0.29	N/A
Adams Street Partnership 2007 Direct Fund LP	320	0.05	295	0.05	66	0.01	229	0.04	8.72
Adams Street Partnership - 2007 Non -US Fund	1,121	0.19	695	0.12	65	0.01	630	0.10	6.50
Adams Street Partnership - 2007 US Fund	1,761	0.29	1,160	0.19	311	0.05	849	0.14	13.32
Adams Street Partnership - 2009 US Fund	960	0.16	319	0.05	19	0.00	300	0.05	27.79
Adams Street Partnership - 2009 Direct Fund	192	0.03	108	0.02	13	0.00	95	0.02	29.78
Adams Street Direct Co-Investment Fund II.	1,601	0.27	622	0.10	234	0.04	388	0.06	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	192	0.03	45	0.01	0	0.00	45	0.01	-2.91
Adams Street Partnership 2009 Non-US Developed Market	576	0.10	144	0.02	0	0.00	144	0.02	24.70
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**31,054**	**5.16**	**23,951**	**3.98**	**5,786**	**0.96**	**18,165**	**3.02**	

FUND VALUE	**602,238**	
COMMITMENT STRATEGY	52,696	8.75%
TO ACHIVE INVESTMENT	30,112	5.00%
CURRENT INVESTMENT BOOK COST	30,412	5.05%
CURRENT INVESTMENT MARKET VALUE	38,982	6.47%

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London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2012

Industry Update

Buyouts

Debt markets in the US remained liquid with most activity focused on refinancings. Significant stress with the persistent uncertainty surrounding the future of the euro weighed heavily on Europe. European buyout activity slowed with few pockets of growth. Some firms are holding onto portfolio companies longer and extending the terms of their funds. There continues to be a significant amount of uninvested capital targeted for buyout transactions. Across our buyout portfolio, valuations have improved helping challenged vintages to grow into our expectations. Investment returns from buyouts were modestly up in the first quarter. Performance gains have been driven largely by improvements in the 2005-2007 vintage years as these portfolio companies continue to rebound.

Venture Capital

During the second quarter of 2012, venture-backed IPO activity by dollars raised marked the strongest quarter on record, notably dominated by Facebook. Despite the very public and disappointing stumble of the IPO, Facebook remained quite active on the acquisition front purchasing four companies this year, including Instagram at a price just over $1B. Microsoft joined the acquisition activity by purchasing social-networking startup Yammer for $1.2B. Eleven venture-backed companies went public in the second quarter representing a drop of 42% from the first quarter of this year. Even as Facebook dominated headlines, the new JOBS Act has encouraged a number of companies to file to go public. If public markets can stabilize, it is possible for the exit market to open up for the second half of 2012.

Portfolio Statistics as of March 31, 2012

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	1Q12 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**98%**	**74%**	**75%**	**1.16x**	**6.92%**	**2.57%**	**5.57%**
2005 Subscription	02/2005	100%	84%	84%	1.19x	7.06%	2.57%	6.24%
2006 Subscription	01/2006	100%	75%	75%	1.13x	6.09%	2.55%	5.58%
2007 Subscription	01/2007	100%	67%	67%	1.19x	10.56%	4.42%	4.52%
2009 Subscription	01/2009	67%	29%	44%	1.18x	26.32%	11.95%	5.95%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.01x	1.68%	-0.11%	4.70%
Co-Investment Fund II	01/2009	100%	31%	31%	1.51x	37.16%	9.68%	0.61%

*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

While equity markets rallied in the first quarter, sovereign debt concerns and signs of a slowing US economy rattled markets and drove volatility through the second quarter. For the first quarter, our portfolios were up around 5% in the aggregate. Distributions remained steady continuing the positive trend from 2011. Across our Direct Funds, the first quarter produced the 11th consecutive quarter of positive returns with mark-ups of 5%.

Portfolio Outlook

Our distribution activity, although down from 2011 record levels, remained steady with May being the strongest month we have recorded in the last three years. A flight to quality continues in fundraising as many premier funds hit fundraising targets and closed. In addition, there has been continued interest in secondary investments, as some secondary funds have exceeded their fundraising targets in contrast to buyout funds which have experienced more difficult fundraising

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Portfolio overview – Q2 2012

- Since the last report, net invested capital has increased as the underlying managers have invested more capital than they have returned
- Distributions as a proportion of paid-in capital have remained unchanged at 0.45x
- Total portfolio gains now amount to Euro 6.0 million, being Euro 21.2 million of NAV less Euro 15.2 million of net invested capital
- The USD strengthened by 5% against the Euro in the period which had a positive effect on portfolio performance

Q2 2012		Net Performance (in millions of Euros)						Cash Multiple		Drawn	
		LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure		32.7	22.2	-10.1	12.2	16.9	4.8	0.45	1.21	68%	37%
Euro equivalent Dollar Exposure @	1.2686 USD / Euro	6.5	5.1	-2.1	3.0	4.2	1.2	0.41	1.24	80%	47%
Total Exposure (in Euro millions)		**39.1**	**27.4**	**-12.2**	**15.2**	**21.2**	**6.0**	**0.45**	**1.22**	**70%**	**39%**

Q1 2012	1.3329	38.8	26.4	-11.9	14.5	19.9	5.3	0.45	1.20	68%	37%
Q4 2011	1.2949	39.0	25.7	-11.2	14.5	19.6	5.1	0.44	1.20	66%	37%
Q3 2011	1.3387	38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	0%	38%
Q2 2011	1.4510	38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	1.3384	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q2 figures as of 30 June 2012
D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Deloitte: Report on the financial statement audit for the year ended 31 March 2012 Annual Report and Accounts

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2011/12 Pension Fund Annual Report and Accounts. The report is in draft pending the conclusion of the audit. It is expected the audit will be largely complete by the time the committee meets and a verbal update on the final outcome will be given at the meeting.

The auditor has indicated that it is expected that an unmodified opinion will be given on the Pension fund statements by 30 September 2012.

RECOMMENDATION

To note the auditor's findings and to approve the Annual Report of the Pension Fund.

BACKGROUND

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2012.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report will also be taken to Audit Committee on 20 September 2012.

SCOPE OF THE EXTERNAL AUDIT

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:
   - Key audit risks
   - Identified misstatements
   - Accounting and internal control systems
   - Current Accounting and Regulatory Issues

6. In addition, the Auditor requires a "Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 1 to the attached Deloitte report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and there were no audit adjustments to report.

8. In relation to accounting and internal control systems, Deloitte have made one recommendation to implement an additional review as part of the closing process for the financial statements of the Private Equity Funds and that Committee are asked to consider any issues arising. Management has agreed with the intention of the recommendation and will review through the Investment Sub Committee on an annual basis. The issue is discussed in Section 2 of the report.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None.

Deloitte.

London Borough of Hillingdon

Report to the Pension Committee and Audit Committee on the year ended 31 March 2012Local Government Pension Fund Audit

Final Report

September 2012

Contents

Executive summary

We have pleasure in setting out in this document our report to thePension and Audit Committee's of the London Borough of Hillingdonfor the year ended 31 March 2012 for discussion at the committee meetings scheduled for19September2012 and 20 September 2012 respectively. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2012.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

<table>
<tr><th>Status</th><th>Description</th><th>Detail</th></tr>
<tr><td colspan="3">Key findings on audit risks and other matters</td></tr>
<tr><td>We have concluded satisfactorily on each of the key audit risks identified in our audit plan. We did not identify any additional risks in the course of our work.</td><td>We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2011/12 accounts, and which were presented to the Audit Committee in February 2012 as follows:
Key risks
1. Contributions: The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies, has been addressed through our testing. No issues were noted with the exception of an incorrect classification of the contributions between employer deficit and employer normal contributions. As such an adjustment was posted increasing deficit contributions and decreasing normal contributions by £0.2 million;
2. Benefits:Complexities in the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified;
3. Financial instruments: The unquoted investments have been agreed to independent returns from the investment managers.We identified that in one case the adjustment posted to the value of the private equity fund for LGT Partners had been included in the change in market value figure again during 2011/12 resulting in an over valuation of the assets held by LGT Partners. An adjustment was posted amounting to £467,000 to change in market value to reduce the valuation to bring it in line with the reported valuation from the custodian.
We also continued to identify that some of the private equity funds audited financial statements included an emphasis of matter paragraph indicating the uncertainties over valuation of equities in illiquid markets. We have held discussions with the managers of these funds to ensure that the valuation techniques represent the most accurate fair value of the equities.
4. Management Override of Controls: all testing was completed with satisfactory results.</td><td>Section 1</td></tr>
</table>

Executive summary (continued)

Status	Description	Detail
Audit status		
Subject to the clearance of final points, we expect to issue an unmodified audit opinion on the financial statements.	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. We have substantially completed our audit in accordance with our Audit Plan which was presented to you prior to the commencement of the audit subject to the satisfactory completion of the matters set out below: • receipt of signed management representation letter (see appendix 1); and • update of post balance sheet event review. We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund information that would result in the issuance of a modified audit opinion.	N/A
Identified misstatements		
No uncorrected misstatements	Audit materiality was set at £7.5m (2010/11 £7.8m), which is consistent with that of the local government audit. The basis on which this is calculated is set out in our report to the audit committee. This is slightly higher than set out in the planning meeting report, which was based on a preliminary materiality for the Authority before the year end results were available, however we continue to report all unadjusted misstatements greater than £0.4m (2% of materiality) to the Audit and Pension Committees. There are no identified uncorrected misstatements above this level, and no qualitatively material misstatements that we wish to bring to your attention.	N/A
Accounting and internal control systems		
Review of underlying private equity funds	We have previously identified one area for improvement in relation to the internal control system. This improvement related to the review of the underlying private equity funds. We continue to recommend improvements in this area. Further detail on the area for improvement in the internal control system is included in Section 2 of the report.	Section 2

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	Unlike the positions in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • reviewed the design and implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly; • we have received from officers an analysis of contribution rates by employer and signed monthly statements from each Scheduled and Admitted body; • we performed tests of details to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates; and • we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level. It was noted that an incorrect allocation of the contributions was being disclosed in the fund account. As such £0.2 million was re-allocated to deficit funding from employer normal contributions. All other testing was completed with satisfactory results.

1. Key audit risks (continued)

Benefits

Audit risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.

Deloitte response

The following tests were performed to address the significant risk around benefits:

- we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review;
- we obtaineda schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules;
- we performed tests of detail, on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, Fund rules and benefit choices made; and
- we developed an expectation based on changes in membership numbers and pension increases to analytically review the benefits paid in the year.

All testing was completed with satisfactory results.

1. Key audit risks (continued)

Financial instruments	
Audit risk	The Fund makes some use of investments in unquoted investments vehicles, such as private equity houses. Although these funds are normally subject to third party external audit, up to date audited accounts were not avialable at the time that the pension fund accounts were compiled and audited. In such cases, year end fair values of investments in such funds will need to be estimated on the basis of unaudited information. In addition, market volailty raises questions about how to value these invstments. It would normally be expected that the reasonableness of the fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when thre is a significant time period between the latest audited accounts and the fund year end. As these investments are more complex to value we have identified the Fund's investments in property and pooledinvestment vehicles as a significant risk.
Deloitte response	The following tests were performed to address the significant risk around investments: • we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we have obtained a further understanding of the valuation of investments. The value of unquoted investments vehicles represents less than 6% (2011: 6%) of the assets of the Fund as a whole. The majority of the investments held by theFundbeing in investments which have a quoted value; • we have reconciled the total value of the investments held by the Fund as reported in the investment report fromNorthern Trust to the value of investments reported in the Net Assets Statement; • we have compared the valuations provided by Northern Trust to the reports provided by the investment manager; • we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources; and • we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers. We identified that in one case the adjustment posted in 2010/11 to the value of the private equity fund for LGT Partners had been included in the change in market value figure again during 2011/12 resulting in an over valuation of the assets held by LGT Partners. An adjustment was posted amounting to £467,000 to change in market value to reduce the valuation to bring it in line with the reported valuation from the custodian. as at 31 March 2012.

1. Key audit risks (continued)

Financial instruments(continued)	
Deloitte response (continued)	In addition it was noted that the audited accounts for the LGT funds again contained modified opinions. The financial statements of the funds included an emphasis of matter paragraph over the valuation of the illiquid investments. We held discussions with the fund manager to satisfy ourselves that the values of the investments are unlikely to contain a material error. Our discussions included gaining a further understanding of the valuation process used and comparing this to the industry standard. In line with the prior year additional disclosure has been included in the financial statements to give the users of the accounts better information on the risks surrounding this type of investment. We continue to recommend that the committee annually review the funds audited accounts to satisfy themselves that the valuations provided are sufficiently accurate, see section 2. Other than the above no issues were identified during our audit procedures.

1. Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 ‘ The auditors responsibility to consider fraud in an audit of the financial statements’ to presume there is a significant risk of management override of the system of internal control
Deloitte response	Our audit work included: • we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements; • we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and • we have made enquiries of those charged with governance as part of our planning and detailed audit processes. All testing was completed with satisfactory results.

2. Accounting and internal control systems

Control observation

During the course of our audit we identified one area for improvement in the internal control system which is detailed below:

Review of private equity funds financial statements	
Observation	Whilst an annual review process has been implemented to review the annual statements received from the private equity firms, there remains no procedure in place to complete a detailed review of the underlying private equity funds annual audited financial statements. It was again noted that the audit opinion on some of the funds was modified to include an emphasis of matter paragraph raising attention to the possibility the valuation may differ from that shown due to the illiquid market for these securities. This could lead to incorrect valuation of these funds in the pension scheme financial statements.
Recommendation	We recommend that a process is implemented to review annually the audited financial statements for all private equity funds. The committee should consider any issues identified by the auditors and the impact on the scheme should be assessed and disclosure included in the accounts to explain any uncertainties identified.
Management response	Management agree with the intention of the recommendation and will undertake an annual review through the Investment Sub Committee who meet at a time more suitable to the audit timetable.
Owner	Nancy LeRoux

3. Current accounting and regulatory issues

Upcoming financial reporting developments

For reference, the following developments in the pension industry may impact the governance arrangements and financial statements of the London Borough of Hillingdon. Whilst we appreciate that Local Government Pension Fund are not regulated by the Pensions Regulator we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector. In addition, whilst the Fund is not a company some information surrounding governance best practice may be of interest.

Governance Update - The FRC publishes guidance for Directors on the potential impact of increased country and currency risk on financial reports

The Financial Reporting Council (FRC) has published 'An Update for Directors of Listed Companies: Responding to increased country and currency risk in financial reports'. Organisations are operating in uncertain and volatile times and country and/or currency risks have seen significant change in the last year. This update aims to support Directors in considering the impact of these risks on their annual reports and guide them in providing a balanced and understandable assessment of the organisation's position and prospects to stakeholders, who are likely to be paying particular attention to these risks and the organisation's response to them.

The update highlights the more significant issues Directors and Audit Committees may wish to use as a starting point in considering the possible implications of the current economic uncertainties to their business. These include:

- exposure to country risk both through financial instruments and exposure to third party providers;
- the impact of austerity measures being implemented in many countries on the entity's forecasts, impairment reviews, assessment of going concern etc;
- consequences of currency events not factored into forecasts but that may nevertheless impact reported disclosures and sensitivity testing of impairment and going concern considerations; and
- whether there is a post balance sheet event requiring disclosure to avoid misleading stakeholders.

3. Current accounting and regulatory issues (continued)

The new LGPS 2014 project

On 22 December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:

- The design of a new LGPS.
- The future management and cost of the scheme.
- Governance of the LGPS.

- A timetable for implementing the new scheme by April 2014.
- A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new scheme.

During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Scheme (LGPS) in England and Wales, a project has been set up to reach agreement on the elements of the new scheme together with the management and governance of the scheme going forward.

Further information is available at:
http://www.lgps.org.uk/lge/core/page.do?pageId=15431012

3. Current accounting and regulatory issues (continued)

Pension Schemes and VAT

Despite VAT's establishment as a common, harmonised tax system, there is currently no uniformity across the EU for pension fund management. EU VAT law allows Member States to define a list of "Special Investment Funds" or "SIFS" which can be exempt from VAT. Some Member States treat all pension fund management as taxable (on the basis that pension funds are not SIFS), some as all exempt (as SIFS), with a whole spectrum of positions in between. The UK treats pension fund management as a fully taxable service which is subject to VAT at the standard rate (currently 20%). As a result of this, the majority of pension funds have been incurring significant irrecoverable VAT costs on pension fund management. There are currently two cases reviewing the VAT liability of pension fund management, these are:

- ***Wheels**,* looks to challenge whether the UK is lawful in excluding occupational defined benefit schemes from the VAT exemption. Questions have been referred to the CJEU which should provide clarification around the VAT liability of this service.
- ***Fiscale***, is looking to make a wider challenge by questioning whether the management of all pension funds would come within the VAT exemption of SIF management. Questions have not yet been referred to CJEU. However, we expect this to happen shortly.

Where these cases are successful and it is deemed that VAT should never have been charged on pension fund management fees there will be an opportunity for pension funds to recover this VAT which has been overpaid from their investment managers. Therefore, the key point is for a pension funds to ensure it has protected its position by engaging in discussions with its various pension fund managers (as the VAT claim lies with the pension fund manager as the entity that charged VAT and paid this to HMRC). The pension fund needs to check to ensure its pension fund manager has submitted a claim, and continues to submit claims, which covers all relevant periods.

To date, as UK VAT law caps VAT claims to **just four years**, pension funds have been requesting their pension fund managers to submit claims as soon as possible to stop any earlier periods from "falling out of time". However, following the recent CJEU case of *Banca Antoniana*, there could potentially be scope for pension funds to request repayment of overpaid VAT for periods beyond the four year cap, and that the pension fund manager can claim this cost from HMRC to the extent it is not covered by the UK's capped period. However, HMRC have not yet confirmed how they will implement this judgement into UK VAT law and so it is advised that pension funds continue to engage in discussions with its pension fund managers to submit claims

4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Audit or Pension Committee's wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non audit services or of any apparent breach of that policy. Fees payable to the auditors for the audit of the annual accounts of theLondon Borough of Hillingdon (excluding VAT) have been provided to the audit committee in the report covering the local authority. Our fee is consistent with the scale fee determined by the Audit Commission.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Liaison with internal audit	The Audit team, following an assessment of the independence and competence of the internal auditor, reviewed the findings of internal audits to inform the risk assessment and considered the impact on our audit approach. No adjustments were made to the audit approach as a result of our review of the work of internal audit.
Written representations	A copy of the representation letter to be signed on behalf of the Authorityis attached at Appendix 1.
Relationships	There are no relationships (including the provision of non-audit services) we have with the London Borough of Hillingdon, its trustees and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

5. Responsibility statement

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Council by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Audit Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rest with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Fund’s system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors’ report.

We view this report as part of our service to you for corporate governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP

Chartered Accountants
St Albans
07 September2012

Appendix 1: Draft representation letter

Deloitte LLP

Our Ref: ***MGB/HB/2012*** ***Date:***

Dear Sirs

London Borough of HillingdonPension Fund (the "Fund")

This representation letter is provided in connection with your audit of the financial statements of the Fundfor the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011, the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the Fund's asset and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the Fund year.

We acknowledge as members of London Borough of Hillingdon Council our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. 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.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.
We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fundand we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Funds (revised May 2007) ("Pensions SORP 2007") or other requirements.

9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

10. You have been informed of all changes to the Fund rules during the year and up to the current date.

11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

12. No claims in connection with litigation have been or are expected to be received.

13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

14. There have been no events subsequent to 31 March 2012 which require adjustment of or disclosure in the financial statements or notes thereto.

15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

16. The pension Fund accounts and related notes are free from material misstatements, including omissions.

17. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

18. The Fund has satisfactory title to all assets.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.

21. We confirm that:

- all retirement benefits and Funds, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;

- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the Fund liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. All trades in complex financial instruments are in accordance with our risk management policies,have been conducted on an arm's length basis and have been appropriately recorded in the accounting records,including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments(including any embedded derivatives and written options) and other financial instruments has been withheld.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Fund (Administration) Regulations 2008 and related guidance.

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2012 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of London Borough of Hillingdon

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Pension Fund
Annual Report & Accounts
for the year to 31 March 2012

HILLINGDON
LONDON

INVESTOR IN PEOPLE

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CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2012

Administering Authority	London Borough of Hillingdon
Pension Fund Committee Members as at 31 March 2012	Cllr Philip Corthorne (Chairman) Cllr Michael Markham (Vice-Chairman) Cllr Paul Harmsworth Cllr Richard Lewis Cllr David Simmons Cllr Janet Duncan John Holroyd (Pensioner/Deferred Member Rep) Andrew Scott (Active Member Rep)
Chief Finance Officer	Paul Whaymand
Investment Consultant	Hymans Robertson LLP
Investment Adviser	Scott Jamieson
Fund Managers	UBS Global Asset Management Ruffer LLP Marathon Global Investors State Street Global Advisors LGT Capital Partners Adam Street Partners Macquarie Investment M&G Investments (Direct Investment) JP Morgan Asset management
Actuary	Hymans Robertson LLP
Legal Services	Raj Alagh, Borough Solicitor LBH
Auditor	Deloitte LLP
Banker	HSBC Bank Plc
Custodian for Fund Assets:	Northern Trust Company
AVC Provider	Prudential Assurance Company
Officer Support	Nancy le Roux, Senior Finance Manager Ken Chisholm, Corporate Pensions Manager Tunde Adekoya, Pension Fund Accountant James Lake, Investment Manager Harry Lawson, Corporate Accounting Manager
Administration	Capita Hartshead Limited (From 01 April 2012)

2. Management Report

(a) Introduction

London Borough of Hillingdon is the administering authority for the London Borough of Hillingdon Pension Fund, which is part of the Local Government Pension Scheme (LGPS). All aspects of the fund's management and administration, including investment matters are overseen by the Pensions Committee, supported by the Pensions Investment Sub-Committee.

The Pensions Investment team oversee the accounting and management information requirements of the fund. The day to day management of the investment of funds is undertaken by independent fund managers. The Pensions Administration Team administers all aspects of benefits regulations and maintenance of membership records.

During the year Pensions Committee meet formally on four occasions and in addition have regular meetings with Fund Managers to review performance. The Investment Sub-Committee meet between main committee meetings and additionally when required.

b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund.

Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. Within Hillingdon Council, of the 6,879 employees who were eligible to join the scheme as at 31 March 2012, 4,840 were scheme members, which equates to 70% of the workforce.

Over the last few years total membership of the fund has grown steadily as shown in the table below although there has been a slight dip in active members over the last three years.

5 Year Analysis of Fund Membership

Membership type	2007/08	2008/09	2009/10	2010/11	2011/12	5 year movement
Active	6,192	6,249	6,235	6,039	5,948	-3.94%
Pensioner	4,660	4,832	4,991	5,187	5,378	+15.4%
Deferred	4,158	4,541	4,772	4,890	5,492	+32.08%
Total Membership	**15,010**	**15,622**	**15,998**	**16,116**	**16,818**	**+12.05%**

Early Retirement

The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2007/08	2008/09	2009/10	2010/11	2011/12
Redundancy or Efficiency	51	32	21	26	65
Ill Health	24	20	15	13	12
Total	**75**	**52**	**36**	**39**	**77**

The age and membership profile as at 31 March 2012 is shown below:

Age Band	Active	Deferred	Pensioner/Dependent	Total
6 – 10	0	0	3	3
11 – 15	0	0	16	16
16 – 20	46	36	24	106
21 – 25	189	197	3	389
26 – 30	348	396	0	744
31 – 35	461	462	0	923
36 – 40	651	599	5	1,255
41 – 45	992	892	18	1,902
46 – 50	1,203	1,083	46	2,332
51 – 55	978	1,027	108	2,113
56 – 60	723	675	344	1,742
61 – 65	311	115	1,270	1,696
66 – 70	42	8	1,089	1,139
71 – 75	4	2	915	921
76 – 80	0	0	728	728
81 – 85	0	0	468	468
86 – 90	0	0	243	243
91 – 95	0	0	86	86
96 – 100	0	0	11	11
Over 100	0	0	1	1
Total	**5,948**	**5,492**	**5,378**	**16,818**

(c) Key Performance Data

All LGPS funds measure performance against key industry performance indicators. Targets are set at the start of each year and reported quarterly to Pensions Committee. The table below details Hillingdon's performance against target for the year to 31 March 2012 compared to the year ending 31 March 2011. Due to long term sickness and resignation from the section, there was a significant drop in performance in 2011/12. This can be seen in the table below.

Performance Indicator	Hillingdon Target	2010/11 Performance %	2011/12 Performance %
Letter detailing transfer in quote	10 days	77.38	76.20
Letter detailing transfer out quote	10 days	70.00	46.28
Process refund & issue payment	5 days	76.92	67.57
Letter notifying estimate of benefit	10 days	86.23	88.92
Letter notifying actual benefit	5 days	76.71	79.51
Letter acknowledging death	5 days	98.01	98.17
Letter notifying amount of dependant's benefit	5 days	65.21	72.56
Calculate & notify deferred benefits	10 days	73.84	54.04

d) Staffing

The pensions' administration team has five full time equivalent posts devoted to LGPS work. The Department for Communities and Local Government publish the Government's SF3 statistics for staff to pension scheme member ratios. The latest available statistics for 2010/11 are as shown below. The published statistics indicate that the London Borough of Hillingdon ratio of staff to members is in the upper quartile.

FTE Staff to Scheme Member Ratio

Authority	Hillingdon	All English	Outer London
2010/11	1:3223	1:2900	1:3111

The staff to pension scheme member ratio for 2011/12 is 1:3364.

The latest available Government SF3 statistics (for 2010/11) indicate the cost per member for all English Authorities was £46.78 compared with an outer London average of £61.99 per scheme member and £44.71, (a decrease of £1.39 per member from 2009/10) for London Borough of Hillingdon. Despite the continued increase in the number of scheme members, the Service has maintained a below average "cost per member" when compared to all outer London Boroughs.

(e) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2011/12 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Bishop Ramsey School	156,569.36	20.70
Bishopshalt School	173,948.55	25.10
Douay Martyrs School	122,432.16	18.10
Greenwich Leisure	98,468.03	16.80
Guru Nanak Academy	107,974.91	16.60
Harefield Academy	124,720.07	13.30
Haydon School	265,024.26	16.40
Heathrow Travel care	13,798.37	18.10
Hillingdon & Ealing Citizens Advice	39,020.78	15.50
Look Ahead Housing Care	29,319.63	23.00
London Housing Consortium	110,000.49	18.10
Mitie Cleaning	34,771.58	21.00
Mitie Facilities Management	83,562.13	21.00
Northwood School	61,219.35	25.10
Rosedale Hewens Academy	113,182.34	21.50
Stockley Academy	149,306.46	18.50
Swakeleys Academy	140,071.38	17.80
Uxbridge College	710,988.91	15.50

Uxbridge High School	169,001.62	19.80
Vyners Academy	134,350.06	27.20
Willows Academy	47,520.00	21.60
Yes Dining Ltd	67,105.46	21.00
Total	**2,952,355.90**	

3. Financial Performance

The budget for 2011/12 was set and approved by Pensions Committee in March 2011 and was reported and monitored throughout the year on a quarterly basis.

By the very nature of the Pension Fund, preparing a budget is complex. Additionally, predicting costs and income associated with the investment side of the Fund is challenging, as investment managers costs and any income generated is linked to movements in investment markets, which are outside the control of the Pension Fund. Therefore, the budgets for the Pension Fund are prepared without reference to 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. Recent volatility in the market serves to illustrate the difficulties associated with such forecasting in the current economic environment

Actual Income /expenditure against original budget

The original budget for 2011/12 forecast a surplus from operations of £343k, the actual result for the year was a £2,045k deficit. This deficit was due to increased member expenditure on Pension payments and Lump Sums payable as a result of higher redundancy and retirement levels, compared to 2010/11. Overall, net member expenditure increased by £1,759k, year on year, whilst net member income decreased by £790k in the same period.
The main differences between 2010/11 and 2011/12 in the actual income/expenditure were
:

- A decrease in employees contributions of £357k;
- A decrease in employers contributions of £167k;
- A decrease in transfer values received of £265k.

Expenditure:

- An Increase in benefit payments of £1,923k;
- A reduction in transfer values paid out of £159 k,
- An increase in investment and administration expenses of £14k

This refers to the net additions from dealing with members as shown in the fund accounts in Part E of this report.

4. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks. A report, including the latest risk register showing the status and direction of each risk is taken quarterly to the Pension Committee. A brief narrative description of each risk is outlined below. Further detail on risks and associated mitigating actions are included in the Funding Strategy Statement in Section F of this report.

Key Risk 1 – Financial Risks - a team of experienced officers and 5 advisors support the Pensions' Committee who ensure the monitoring of all financial risks. The financial risks cover all aspects of the fund's investment strategy: the impact of changes on the returns on investments, the impact of active manager performance and the impact of pay and price inflation. Currently only the risk of the fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is a key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises and uses its influence to mitigate such risks.

Key Risk 4 – Governance Risks - These risks relate primarily to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep such risks under control.

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

Market Review - Year to 31 March 2012

The global economic background was, at best, uncertain over the period. The European debt crisis was the dominant theme affecting investor sentiment worldwide for much of the year. At times, the credibility of the Euro project came close to 'breaking point' politicians struggled to agree a suitable policy response, as political priorities and allegiances clashed with the needs of monetary union. Although the Greek debt crisis dominated the headlines, concerns over growth in sovereign debt extended to other countries, including, Spain, Italy, and even the US. Nevertheless, there were signs of economic recovery in the US, for example growth in employment in the latter half of the period. However, the recovery was not mirrored in other regions where economic growth stalled. For some countries, a return to recession (two or more consecutive quarters of economic contraction) was a distinct possibility.

In the UK, the guiding principle of Government policy was 'austerity', with public-sector pay restraint and painful spending cuts, against a background of sluggish economic growth. The Chancellor also announced in his autumn statement that it will take two years longer than first proposed to eliminate the UK's structural deficit.

Returns, in Sterling, for various asset classes during the year were as follows:

Equities	**%**
UK (FTSE) All Share	+1.4
All World (ex UK)	-0.2
North America	+6.9
Europe (ex UK)	-11.4
Japan	+0.9
Pacific Basin (ex Japan)	-5.1
Emerging Markets	-8.5
Bonds	
UK Gilts (All Stocks)	+14.5
UK Index Linked (All)	+18.1
Overseas Bonds	+5.4
Corporate (All Investment Grade)	+8.0
Property	+6.6
Cash	+0.6

Equity markets sustained heavy losses during the summer of 2011, as the enormity of the Greek debt crisis became apparent to investors. By the end of March 2012 these losses were more than made good in the UK, US and Japan. However, recovery in European and Emerging markets was somewhat muted and less than full by this time. Government bonds of countries spared the worst of the debt crisis (e.g. UK, US, Germany) fared particularly well, reflecting investors' preference for safety in 'troubled' times.

Key events during the year were:

Global Economy

- Short-term interest rates were unchanged in the UK and US; increases in Eurozone rates were reversed as the debt crisis unfolded.
- UK and European central banks provided further liquidity to money markets.
- Two ratings agencies, Moody's and Fitch, placed the UK's top credit rating on negative outlook.
- Economic growth in major Asian markets was impaired by weak external demand.
- The UK declined to participate in a plan for closer fiscal union across the European Union.

Equities

- The US equity market delivered a satisfactory positive return, substantially outpacing other markets. Equities in Europe, Japan and Emerging Markets were particularly weak.
- The strongest equity sectors compared with the 'All World' Index were Technology (+14.4% relative) and Health Care (+14.2% relative); the weakest were Basic Materials (-16.5% relative) and Oil & Gas (-9.0% relative).

Bonds

- Yields in safe haven bond markets (US, Germany and UK) fell sharply as investors sought security. By contrast, bond yields in the weaker Eurozone countries moved sharply higher.
- Long dated UK bond yields fell to levels not seen for 60 years as investors sought 'safety'.
- The legacy of the financial crisis remains a legitimate concern and still has the capacity to deliver 'shocks' to the system. Policy makers have a fine line to tread between 'austerity' and expansionary measures.

John Hastings, May 2012, for and on behalf of Hymans Robertson LLP

INVESTMENT POLICY

Following a review by Pension Committee, it was agreed that there was a need for closer scrutiny of the investment management of Fund assets leading to the creation of the Investment Sub Committee. During the last year, the Investment Sub Committee has reviewed the Fund's investments and following a change to their delegated powers, to enable them the power to make investment decisions up to a value of 10% of the total of the Fund, have now actively taken investment decisions to react to changing markets in a timely manner. Investment Sub Committee is fully supported by Hymans Robertson and Scott Jamieson. Pensions Committee now have an enhanced governance role in seeking assurance on the activities of the Investment Sub Committee.

Funding and investment strategies

The main consideration when compiling a funding and investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependents, both now and in the future. These benefits, which form the liabilities of the Fund are very long term in nature. Benefits are currently being paid to pensioners in the Fund, however, many active and former active members of the Fund are still many years from retirement, so assets are being built up now in order to pay benefits to these members after they retire. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities and property which are expected to deliver higher investment returns over the longer term.

Investment strategy

The allocation of Fund assets among the managers' mandates during the year was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					3.35	
JP Morgan			11.77			
LGT					2.71	
M&G						1.81
Macquarie						0.20
Marathon	0.91	8.68				
Ruffer	2.73	9.10	6.49			
State Street	8.43	6.88	4.40			
UBS Equities	18.07			0.01		
UBS Property				7.90		
Total	**30.14**	**24.66**	**22.66**	**7.91**	**6.06**	**2.01**

(a cash holding of 6.56% is not included in the above table.)

During 2011/12 the Pensions Committee took several decisions which changed the asset distribution of the fund. After a review of the managers and their portfolios, the following changes were implemented.

Following the decision to terminate Goldman Sachs, Committee agreed to appoint a specialist corporate bonds manager to take a different investment approach and to exploit the inherent value in the bonds market. JP Morgan was appointed.

Following a period of protracted underperformance, the mandate with Alliance Bernstein who managed an overseas equities mandate, was terminated in June 2012. All assets under their management were transferred to Ruffer, an absolute return manager. This decision was taken to further enhance the fund's income generation potential and to preserve capital.

Recent market conditions have made it very difficult for Hedge fund managers to outperform set benchmarks and as a result the decision was taken to temporarily discontinue investment in this asset class. As a result monies invested in the Fauchier Fund were transferred to SSgA Northern Trust pending a decision on where to invest. Fauchier remain on the Fund's list of Investment Managers.

During 2011/12, SSgA drawdown fund portfolio earmarked for the funding of M&G investment commitments breached the benchmark weighting of 50:50 as specified in the 2011 Statement of Investment Principles (SIP). This was due to temporary allocation of £7.3m from the proceeds from termination of Fauchier to the SSgA Sterling Liquidity fund. Necessary benchmark adjustments will be made in the 2012 version of the SIP to accommodate the change.

Commentary on the Fund Managers who manage asset on behalf of the London Borough of Hillingdon Pension Fund

State Street

State Street manages fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently. The scale of assets managed by State Street reduced as those being managed on a temporary basis were reallocated.

UBS (UK equities)

UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2012 was conducive to their investment style and contributed to their outperforming the benchmark in both one year and since inception categories.

UBS Property

The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a fund of funds arrangement with the assets managed in several pooled property funds managed by several managers, but with UBS responsible for selecting the pooled funds. Despite positive performance in a number of the underlying funds, the ongoing reorganisation costs continue to be a drag on performance and are likely to remain a challenge until the new structure is in place.

Private equity

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 6% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification.

Ruffer

The Absolute Return manager, Ruffer have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year and since inception.

Macquarie

The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year.

M&G

The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market.
Since Inception, the Fund's Internal Rate of Return of 5.22% matches the set target

Marathon

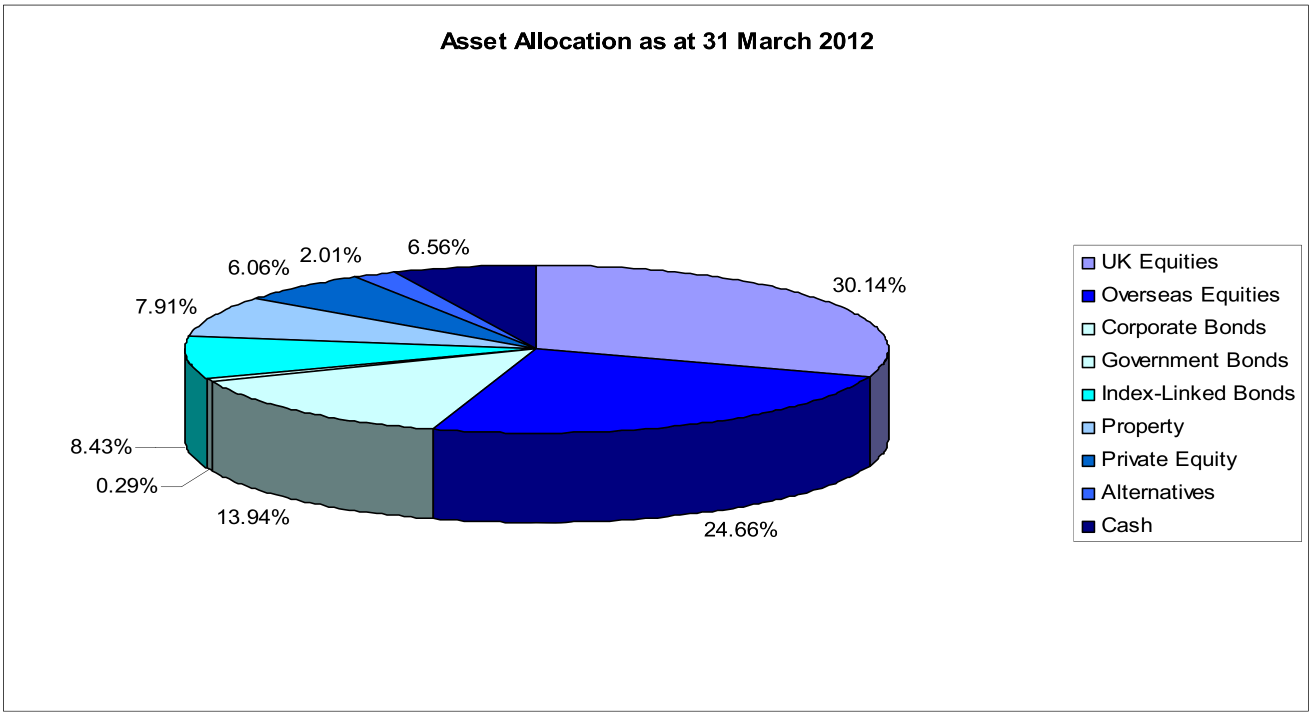
Despite outperformance in the last quarter of year ended 31 March 2012, Marathon failed to fully reverse the one year underperformance and this resulted in value of assets under management reducing by 0.16%. However, since inception returns have been relatively good, aided by increased performance in Q3 and Q4 2012.

JP Morgan

A new mandate with JP Morgan has been in place for approximately four months. Although still in its early stages, to date JP Morgan has performed positively and has taken advantage of the general need for consistent income stream, without the volatility of equities.

Fund Value and Asset allocation as at 31 March 2012

At 31 March 2012 the total value of the pension fund investment assets was £611,551k. The following diagram identifies the allocation, by asset class, as at 31 March 2012.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of the revised asset allocation which has been implemented during the year. Consequently, the fund now has increased exposure to UK equities, corporate bonds, index-linked bonds and cash due to the liquidation of the fund of hedge funds portfolio managed by Fauchier and the proceeds kept as cash.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2012.

INVESTMENT MANAGER	AS AT 31 MARCH 2012		AS AT 31 MARCH 2011	
	£'000	%	£'000	%
Adams Street	20,791	3.40	19,321	3.25
Alliance Bernstein	0	0	62,177	10.46
Goldman Sachs Asset Management	0	0	65,974	11.10
Fauchier	0	0	25,519	4.29
JP Morgan	72,012	11.78	0	0
LGT	17,011	2.78	16,555	2.78
M&G	11,149	1.82	5,314	0.89
Macquarie	1,205	0.20	1,277	0.21
Marathon	58,670	9.59	58,767	9.88
Ruffer	118,378	19.36	53,204	8.95
State Street Global Advisors	132,251	21.63	130,919	22.02
UBS	112,777	18.44	110,694	18.62
UBS Property	48,628	7.95	45,899	7.72
Other*	18,679	3.05	(1,026)	(0.17)
Total	**611,551**	**100.00**	**594,594**	**100.00**

*Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), Schedule 1, set out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2012 were:

Top 5 Holdings	Market Value as at 31 March 2012 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	72,012	11.78%
Marathon Asset Management	58,670	9.60%
SSgA Equity Index	51,677	8.46%
BP ORD USD0.25	15,306	2.50%
Vodafone	14,414	2.36%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2012 £000s	Percentage of Fund Value
BP	15,306	2.50%
Vodafone	14,414	2.36%
GlaxoSmithKline	9,501	1.55%
Royal Dutch Shell	8,649	1.42%
Lloyds Banking Group	4,981	0.82%
Barclays	4,650	0.76%
Rio Tinto	4,571	0.75%
HSBC	3,951	0.65%
Anglo American	3,736	0.61%
BAE Systems	3,324	0.54%

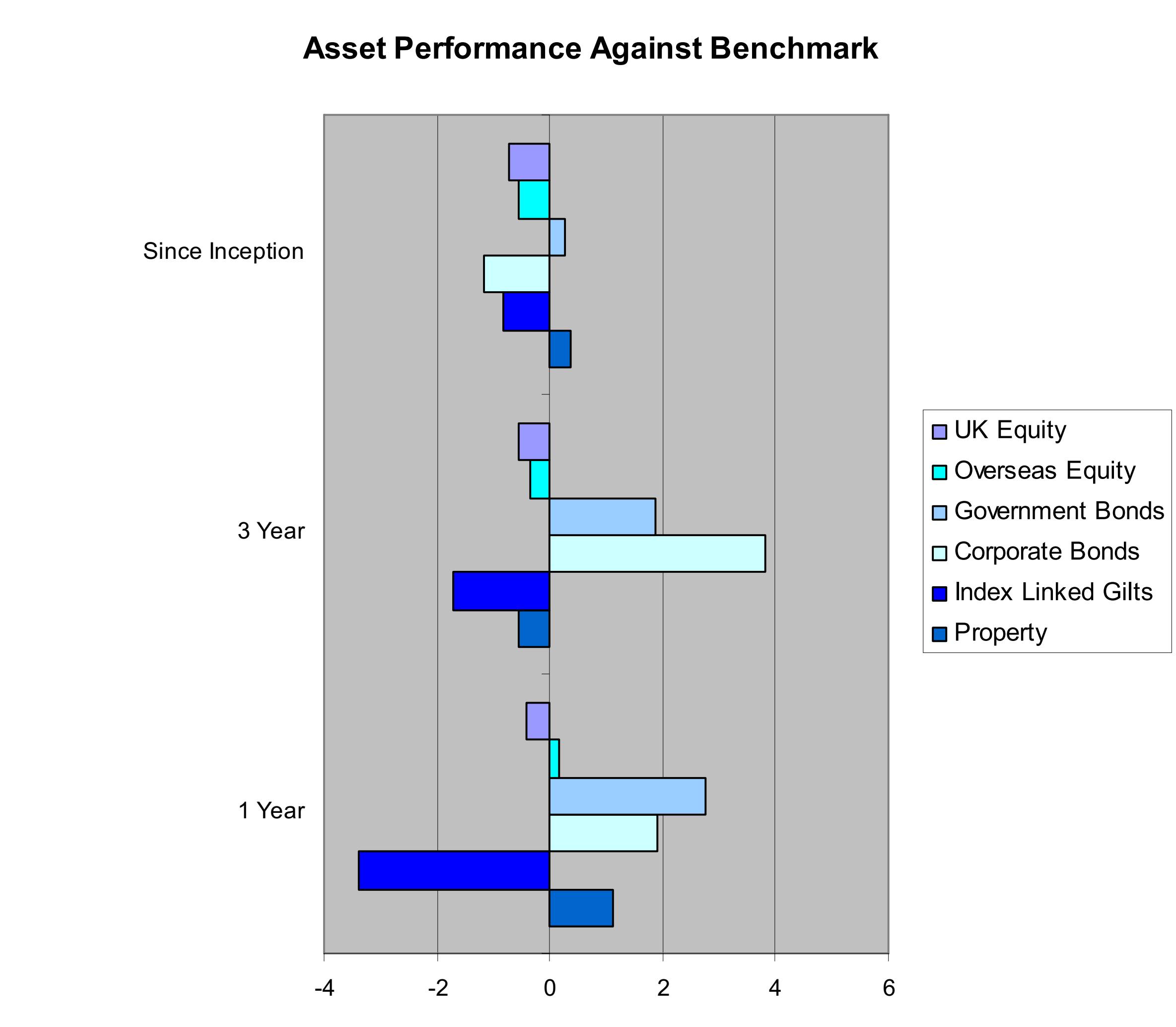
Investment Performance

Markets continued to make gains through 2011/12 which helped the fund produce an annual return of 3.64%. Although all fund managers except Marathon produced positive returns over the year, relative performance between the underlying managers was mixed with all but two of the managers outperforming their benchmarks. Marathon & SSgA Drawdown underperformed relative to their benchmarks. Outperformance by the remainder of the managers more than offset these results and the fund outperformed the plan benchmark and WM average by 0.49% and 1.05% respectively.

As a result of the fund restructuring over the last three years a full complement of returns is not available for all managers. M&G, Marathon, Ruffer and SSgA Drawdown are yet to accrue three years worth of performance returns, whilst JP Morgan have only been appointed for the last four months of the year under review.

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
M&G	5.76	4.98	0.78	-	-	-	4.43	4.89	(0.46)
Marathon	(0.16)	0.41	(0.57)	-	-	-	10.66	9.48	1.19
Ruffer	5.11	0.90	4.21	-	-	-	5.94	0.82	5.12
SSgA	2.66	2.45	0.21	16.60	16.43	0.17	14.26	14.11	0.15
SSgA Drawdown	4.13	4.61	(0.48)	-	-	-	5.28	5.25	0.03
UBS	2.14	1.39	0.76	18.54	18.85	(0.31)	9.75	8.78	0.97
UBS (Property)	5.96*	5.72	0.24	7.11	8.79	(1.68)	(1.08)	(0.49)	(0.59)
Total Portfolio	**3.64**	**3.15**	**0.49**	**13.93**	**14.46**	**(0.53)**	**6.45**	**6.51**	**(0.06)**

Over one year the fund has earned a 3.64% growth which is 49 basis points ahead of the benchmark figure of 3.15%. However, over a 3 year period the fund has underperformed with a relative return of -0.49% pa. Although since inception in September 1995 the returns come back into line with an annualised return of 6.45% just 6 basis points below the benchmark.



Performance	1 Year			3 Year			Since Inception		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	0.96	1.39	-0.43	16.29	16.85	-0.56	6.08	6.79	-0.71
Overseas Equity	-1.62	-1.79	0.17	15.59	15.94	-0.35	5.55	6.11	-0.56
Government Bonds	13.05	10.28	2.77	7.09	5.22	1.87	6.34	6.06	0.28
Corporate Bonds	10.69	8.79	1.9	14.04	10.23	3.81	4.39	5.57	-1.18
Index Linked Gilts	14.74	18.12	-3.38	9.82	11.53	-1.71	6.98	7.80	-0.82
Property	6.84*	5.72	1.12	8.25	8.79	-0.54	8.15	7.79	0.36
Total Portfolio	**3.64**	**3.15**	**0.49**	**13.93**	**14.46**	**(0.53)**	**6.45**	**6.51**	**(0.06)**

* Difference in Asset class and UBS Property portfolio fund returns are due to cash holdings reducing UBS' portfolio performance.

Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements. The contract for Custody was re-tendered during last year and Northern Trust was re-appointed from 1 April 2012.

Responsible Investing

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

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee are committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the fund managers and reported to Committee on a quarterly basis.

Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

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

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of LAPFF. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

PART C – SCHEME ADMINISTRATION

SCHEME ADMINISTRATION REPORT

Overview

The Council's Pensions Team was part of the Central Services Group and provided pension and compensation services to current and former employees and pensioners of the London Borough of Hillingdon Fund. These services included the full range of administrative duties for an employing and administering authority as follows:

Administer the Local Government Pension Scheme (LGPS) as an Employing and Administering Authority in accordance with relevant legislation and Committee decisions.

- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide advice to Scheme members, external scheme Employers and the Pensions Committee on options available under the Council's Pension Scheme.
- Prudently manage the budgets under the pension's team's control.
- Exploit information technology to improve service standards and efficiency.
- Train and develop staff to meet these service objectives.

The performance of the Pensions Administration Team is reported elsewhere within this report.

The team dealt with contributing members of the LGPS with London Borough of Hillingdon performing the duties of both an administering and employing authority. The main areas of work cover the deduction of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits. This team dealt with pensioners, retirement, re-employment, death benefits and calculations of redundancy and compensation benefits for non-teaching employees.

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Corporate Pensions Manager and at stage two to a Senior Officer of the Council not previously involved in the case.

On 1 April 2012 the administration function was transferred to Capita Hartshead, who can be contacted by telephoning 01737 366062 or by email to hillingdon.pensions@capita.co.uk.

The number of active scheme members that the Service deals with decreased year in year by approximately 1.0%. This can be seen in the table shown on page 4 detailing Fund Membership Data.

Information about the LGPS and the pensions administration service can be found on the Council's website at www.hillingdon.gov.uk/

Software

During 2011/12 the pensions administration system was AXISe and is currently being used by over 80 local authorities to administer the LGPS.

The new Local Government Pension Scheme, which was introduced on 1 April 2008, has continued to introduce changes to the way benefits and payments are calculated and in particular to the factors applied in the majority of calculations. This has meant that the administration system has had to undergo a number of updates and amendments in the last year.

Dispute Resolution

Occasionally disagreements between members and the London Borough of Hillingdon pensions Scheme arise. When disagreements do happen we endeavour to try to resolve them informally and reach an agreement. But this isn't always possible and the scheme provides a formal way for disagreements to be resolved as set out in the Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Corporate Pensions Manager at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to a Senior Officer of the Council, who has not previously been involved with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2011/12, there were two stage 1 appeals, neither of which have progressed to stage 2. No cases were referred to the Pensions Ombudsman.

Scheme Administration from 1 April 2012

In December 2011, Pensions Committee took the decision to transfer administration of the scheme to Capita Hartshead, through a pan London Pensions Administration framework.

INVESTMENT ADMINISTRATION

External Fund Managers are engaged to mange the investments of the fund. Administration of the investment arrangements is managed in house by a small team who also oversee the relationship with fund managers, monitor their performance, prepare the fund accounts and support Pensions Committee.

Officers participate in several networks and forums, in addition to undertaking regular formal training, to ensure their knowledge and awareness of initiatives and developments is kept up to date. In addition, the networking advantages of such forums ensure regular comparison of best practice processes and informed debate on the development of new working methods and improvements to investment strategy.

PENSION COMMITTEE TRAINING

Pensions Committee have reaffirmed their commitment to ongoing training and development. Suitable opportunities are offered to Committee alongside more formal specific training sessions arranged in house.

The CIPFA ‘Knowledge and Skills Framework’ covers the training needs of both Members of Committee and officers supporting Committee. All Pensions Committee members and officers have access to the framework.

Over the course of 2011/12, members of Pensions Committee attended training courses, seminars and several specific seminars were held in house, supported by the fund managers and advisors. Reports from managers on development issues are regularly circulated to Pension Committee Members.

PART D – ACTUARIAL REPORT

London Borough of Hillingdon ("the Fund")
Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the London Borough of Hillingdon Funding Strategy Statement (FSS), dated 16 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 25 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £564 million, were sufficient to meet 77.6% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £163 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Hillingdon, administering authority to the Fund.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

Method
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

- plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.8 years	24.1 years
Future Pensioners	22.3 years	25.7 years

Experience over the period since April 2010

The funding level is likely to have worsened since 31 March 2010. The reasons for this are that Total investment returns were lower than the long term assumption made at the 2010 valuation; and there has been a significant fall in Government bond yields (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the markets expectations for long term inflation (resulting in a decrease in the pension increase assumption) but overall there has been an increase in the real discount rate (the nominal discount rate net of inflation). This will have lead to an increase in the value placed on the liabilities.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Bryan T Chalmers, Fellow of the Institute and Faculty of Actuaries, For and on behalf of Hymans Robertson LLP,23 May 2012

Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2012 £000's	Year Ended 31 March 2011 £000's
Contributions	*4*	30,520	31,045
Transfers In	*5*	3,703	3,968
Less: Benefits	*6*	(32,007)	(30,084)
Less: Leavers	*7*	(3,509)	(3,673)
Less: Administrative expenses	*8*	(752)	(738)
Net additions from dealings with members		**(2,045)**	**518**
Investment income	*9*	9,936	9,853
Changes in market value of investments	*10*	14,213	22,872
Taxes on income		(48)	(91)
Investment management expenses	*12*	(3,539)	(3,109)
Net return on investments		**20,562**	**29,525**
Net Increase/(Decrease) in the fund during the year		**18,517**	**30,043**
Net Assets at start of year		**594,333**	**564,290**
Net Assets at end of year		**612,850**	**594,333**

		31 March 2011 £000's	31 March 2010 £000's
Investment Assets	*10*	612,095	596,505
Investment Liabilities	*11*	(544)	(1,911)
Current Assets	*13*	1,956	426
Current Liabilities	*14*	(657)	(687)
TOTAL NET ASSETS		**612,850**	**594,333**

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Annual Report on pages 21-23 and these accounts should be read in conjunction with this.

Paul Whaymand
Chief Finance Officer
20 September 2012

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

A) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

B) Membership: Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 01/04/2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Council, pension fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the Council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

Employers who contribute to the fund in addition to London Borough of Hillingdon are:

Admitted Bodies:

Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Look Ahead Housing & Care
Mitie Cleaning
Mitie FM
Yes Dining Ltd

Scheduled Bodies:

Bishop Ramsey School
Bishopshalt School
Douay Martyrs School
Guru Nanak Academy
Harefield Academy
Haydon School
London Housing Consortium
Northwood School
Rosedale Hewens Academy
Stockley Academy
Swakeleys Academy
Uxbridge College
Uxbridge High School
Vyners Academy
Willows Academy

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2012 there were 5,948 active employees contributing to the fund, with 5,378 in receipt of benefit and 5,492 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	**31 March 2012**	**31 March 2011**
Number of employers with active members	23	13
Number of employees in scheme		
London Borough of Hillingdon	4,987	5,170
Other employers	961	869
Total	**5,948**	**6,039**
Number of Pensioners		
London Borough of Hillingdon	4,969	4,818
Other employers	409	369
Total	**5,378**	**5,187**
Deferred pensioners		
London Borough of Hillingdon	4,363	4,305
Other employers	1,129	585
Total	**5,492**	**4,890**

The pension fund investments are managed externally by fund managers: Adams Street Partners, Fauchier Partners, JP Morgan Asset Management, LGT Capital Partners, Macquarie Investment, Marathon Global Investors, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by London Borough of Hillingdon Pension Fund Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2011/12:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth
Cllr Richard Lewis
Cllr David Simmons
Cllr Janet Duncan
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance the CIPFA code of practice on local authority accounting in the United Kingdom 2011/12 and following the guidance in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (revised May 2007) (“the SORP”). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis. Group transfers are accounted for under the agreement which they are made.

3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Equities and fixed income are valued at bid prices - where bid price is not available, the mid price is used. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) Interest on property developments - Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

i) Contributions - are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

j) Benefits - are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2012 was £37.07m (£34.93 million at 31 March 2011).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The items in the net assets statement at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the	The total private equity investments in the financial statements are £37 million. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2012 £000's	31 March 2011 £000's
Employers		
Normal	17,566	17,923
Deficit funding	4,954	4,764
Members		
Normal	7,877	8,229
Additional contributions	123	129
	30,520	**31,045**

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78%

Schedule of contributions by body	31 March 2012 £000's	31 March 2011 £000's
Employers		
LB Hillingdon	19,568	21,309
Scheduled Bodies	2,580	979
Admitted Bodies	372	399
Members		
LB Hillingdon	6,905	7,795
Scheduled Bodies	971	445
Admitted Bodies	124	118
	30,520	**31,045**

5. TRANSFERS IN

	31 March 2012 £000's	31 March 2011 £000's
Individual transfers in from other schemes	3,703	3,968

6. BENEFITS

	31 March 2012 £000's	31 March 2011 £000's
Pensions	24,874	23,243
Commutations and lump sum retirement	6,440	5,850
Lump sum death benefits	693	991
	32,007	**30,084**

Schedule of benefits by employer	31 March 2012 £000's	31 March 2011 £000's
LB Hillingdon	31,525	29,666
Scheduled Bodies	386	282
Admitted Bodies	96	136
	32,007	**30,084**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2012 £000's	31 March 2011 £000's
Refunds of contributions	4	8
State scheme premiums	1	2
Individual transfers out to other schemes	3,504	3,663
	3,509	**3,673**

8. ADMINISTRATIVE EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration and processing	683	630
Audit fee	37	37
Actuarial fee	32	71
	752	**738**

9. INVESTMENT INCOME

	31 March 2012 £000's	31 March 2011 £000's
Dividends from equities	6,132	5,507
Income from index-linked securities	737	461
Income from pooled investment vehicles	1,648	1,594
Interest on cash deposits	83	232
Other (for example from stock lending or underwriting)	1,336	2,059
	9,936	**9,853**

10. INVESTMENT ASSETS

	Value at 1 April 2011 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2012 £000's
Equities	190,121	75,379	(92,577)	(5,732)	167,191
Government Bonds	0	905	(904)	(1)	0
Index-linked securities	40,560	37,475	(46,277)	7,836	39,594
Pooled investment vehicles	350,726	121,937	(117,239)	7,791	363,215
	581,407	**235,696**	**(256,997)**	**9,894**	**570,000**
Other investment balances	1,459			3,055	4,217
Fund managers' cash	13,639			1,264	37,878
Total Investment Assets	**596,505**			**14,213**	**612,095**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £337k (£438k in 2010/11). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 20112 £000's	Market Value at 31 March 2011 £000's
Adams Street	20,791	19,321
Alliance Bernstein	0	62,177
Goldman Sachs Asset Management	0	65,974
Fauchier	0	25,519
JP Morgan Asset Management	72,012	0
LGT	17,011	16,555
M&G	11,149	5,314
Macquarie	1,205	1,277
Marathon	58,670	58,767
Ruffer	118,378	53,204
State Street Global Advisors	132,251	130,919
UBS	112,777	110,694
UBS (Property)	48,628	45,899
Other*	18,679	(1,026)
Total	**611,551**	**594,594**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency		Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust	GBP - JPY	12,743	11,511	1,232.00	10/01/2012	13/04/2012
Northern Trust	GBP - JPY	2,292	2,131	161.00	13/02/2012	13/04/2012
Northern Trust	GBP - JPY	2,406	2,298	109.00	17/02/2012	13/04/2012
Northern Trust	GBP - JPY	1,243	1,211	32.00	06/03/2012	13/04/2012
Northern Trust	GBP - EUR	26,458	26,397	61.00	08/02/2012	14/05/2012
Northern Trust	GBP - USD	5,324	5,262	62.00	13/02/2012	16/05/2012
Northern Trust	GBP - EUR	3,319	3,288	31.00	12/03/2012	15/06/2012
Total unrealised gains				**1,688**		

As at 31 March 2012 seven forward foreign exchange contracts were in place for £53,785k with unrealised gains of £1,688k respectively. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement underlying asset value if converted into the base currency.

Investment Assets by Asset Class

	31 March 2012 £000's	31 March 2011 £000's
Equities		
UK quoted	126,322	114,967
Overseas quoted	40,869	78,793
	167,191	**193,760**
Index Linked Securities		
UK Public Sector quoted	13,933	28,922
Overseas Public Sector Quoted	25,661	11,638
	39,594	**40,560**
Pooled Investment Vehicles		
UK Managed funds - other	107,174	122,187
UK Unit Trusts - property	48,076	44,793
Overseas Unit Trusts - other	170,893	145,181
Private Equity	37,072	34,926
	363,215	**347,087**
Other Investment balances		
Forward foreign exchange unrealised gain	1,688	72
Amount due from brokers	1,081	355
Outstanding dividend entitlements and recoverable withholding tax	1,448	1,032
	4,217	**1,459**
Cash deposits		
Sterling	37,878	13,639
	37,878	**13,639**

Note: There are no investments > 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

A full reconciliation of the AVC deductions and Prudential's records agree that the value of these funds as at 31 March 2012 were £5,440k, and as at 31 March 2011 £5,771k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Amount outstanding to brokers	544	470
Forward foreign exchange unrealised loss	0	1,441
	544	**1,911**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2012 £000's	31 March 2011 £000's
Administration, management and custody	3,412	3,070
Performance measurement services	4	4
Other advisory fees	123	35
	3,539	**3,109**

13. CURRENT ASSETS

	31 March 2012 £000's	31 March 2011 £000's
Employers' contributions due	151	179
Employees' contributions due	56	71
Debtor: London Borough of Hillingdon	858	52
Debtor: Other Entities	3	10
Cash balances	888	114
	1,956	**426**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2012 £000's	31 March 2011 £000's
Creditor: Other Entities	656	668
Creditor: London Borough of Hillingdon	1	19
	657	**687**

NB: A total of £656,000 is due to bodies external to government, being the investment managers, with all remaining amounts due to local government bodies.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

	31 March 2012	31 March 2011
Financial Assets	**£000's**	**£000's**
Fixed Interest Securities	39,594	40,560
Equities	167,191	193,760
Pooled Investments	276,863	266,091
Pooled Property Investments	48,076	44,793
Private Equity/Infrastructure	38,277	36,203
Derivative Contracts	1,687	72
Cash	37,878	13,639
Debtors	2,529	1,387
	612,095	596,505
Financial Liabilities		
Derivative Contracts	0	(1,441)
Creditors	(544)	(470)
	(544)	(1,911)
	611,551	**594,594**

b) Net Gains and Losses on Financial Instruments

	31 March 2012	31 March 2011
Financial Assets	**£000's**	**£000's**
Fair Value through profit and loss	30,589	27,085
Financial Liabilities		
Fair Value through profit and loss	(16,376)	(4,213)
	14,213	**22,872**

c) Fair Value of Financial Instruments and liabilities

	31 March 2012	31 March 2012	31 March 2011	31 March 2011
	£000's	**£000's**	**£000's**	**£000's**
Financial Assets	Fair Value	Carrying Value	Fair Value	Carrying Value
Fair Value through profit and loss	570,000	522,461	581,407	501,641
Loans and receivables	42,095	27,292	15,098	13,926
Total Financial assets	**612,095**	**549,753**	**596,505**	**515,567**
Financial Liabilities				
Fair Value through profit and loss	(544)	(544)	(470)	(470)
Loans and receivables	0	0	(1,441)	0
Total Financial Liabilities	**(544)**	**(544)**	(1,911)	(470)

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2012	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	484,187	48,075	49,404	581,666
Loans and Receivables	29,059	576	794	30,429
Total Financial Assets	**513,246**	**48,651**	**50,198**	**612,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(544)	0	0	(544)
Total Financial Liabilities	**(544)**	**0**	**0**	**(544)**
Net Financial Assets	**512,702**	**48,651**	**50,198**	**611,551**

Values as at 31 March 2011	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000s	Level 2 £000s	Level 3 £000s	Totals £000s
Financial assets at fair value through profit and loss	467,369	44,793	69,245	581,407
Loans and Receivables	12,983	1,127	988	15,098
Total Financial Assets	**480,352**	**45,920**	**70,233**	**596,505**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(1,911)	0	0	(1,911)
Total Financial Liabilities	**(1,911)**	**0**	**0**	**(1,911)**
Net Financial Assets	**478,441**	**45,920**	**70,233**	**594,594**

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. This fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk - The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each Fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	15.60%
Overseas quoted equities	14.70%
UK Public Sector quoted Index-Linked Securities	6.00%
Overseas Public Sector quoted Index-Linked Securities	6.00%
UK Managed funds - other	15.60%
UK Unit Trusts - property	4.70%
Overseas Unit Trusts - other	14.70%
Private Equity	3.30%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	Value as at 31 March 2012	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	37,878	0.00	37,878	37,878
Investment Assets				
UK quoted equities	126,322	15.60	146,027	106,617
Overseas quoted equities	40,869	14.70	46,877	34,861
UK Public Sector quoted Index-Linked Securities	13,933	6.00	14,769	13,097
Overseas Public Sector quoted Index-Linked Securities	25,661	6.00	27,201	24,121
UK Managed funds - Equities	56,402	15.60	65,201	47,603
UK Managed funds - Bonds	50,772	6.00	53,818	47,726
UK Unit Trusts - property	48,076	4.70	50,335	45,815
Overseas Unit Trusts - Equities	110,429	14.70	126,662	94,196
Overseas Unit Trusts - Bonds	59,259	6.00	62,815	55,703
Private Equity/Infrastructure	38,277	3.30	39,040	36,546
Net Derivative assets	1,688	0.00	1,688	1,688
Investment income due	1,448	0.00	1,449	1,449
Amounts receivable for sales	1,081	0.00	1,081	1,081
Amounts payable for purchases	(544)	0.00	(544)	(544)
Total Assets Available to pay benefits	**611,551**		**674,297**	**547,837**

Asset type	Value as at 31 March 2011	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	13,639	0.50	13,707	13,571
Investment Assets				
UK quoted equities	114,967	20.50	138,535	91,399
Overseas quoted equities	78,793	21.60	95,812	61,774
UK Public Sector quoted Index-Linked Securities	28,922	10.70	32,017	25,827
Overseas Public Sector quoted Index-Linked Securities	11,638	10.70	12,883	10,393
UK Managed funds - Equities	84,390	20.50	101,690	67,090
UK Managed funds - Bonds	37,797	10.70	41,841	33,753
UK Unit Trusts - property	44,793	12.00	50,168	39,418
Overseas Unit Trusts - Equities	97,985	21.60	119,150	76,820
Overseas Unit Trusts - Bonds	45,921	10.70	50,835	41,007
Private Equity/Infrastructure	36,201	4.90	37,975	34,427
Net Derivative assets	(1,369)	0.00	(1,369)	(1,369)
Investment income due	1,032	0.00	1,032	1,032
Amounts receivable for sales	355	0.00	355	355
Amounts payable for purchases	(470)	0.00	(470)	(470)
Total Assets Available to pay benefits	**594,594**		**694,161**	**495,027**

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in Bonds and cash. Based on interest received on Fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2012**	**31 March 2011**
	£000's	**£000's**
Cash and cash equivalents	11,667	6,743
Cash	26,211	6,896
Fixed Interest Securities	149,625	124,278
Total	**187,503**	**137,917**

Interest rate risk sensitivity analysis - The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	**Carrying amount as at 31 March 2012**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000s	**£000s**	**£000s**
Cash and cash equivalents	11,667	117	-117
Cash	26,211	262	-262
Fixed Interest Securities	149,625	1,496	-1,496
Total change in assets available	**187,503**	**1,875**	**-1,875**

Asset Type	**Carrying amount as at 31 March 2011**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000s	**£000s**	**£000s**
Cash and cash equivalents	6,743	67	-67
Cash	6,896	69	-69
Fixed Interest Securities	124,278	1,243	-1,243
Total change in assets available	**137,917**	**1,379**	**-1,379**

Currency Risk is the risk to which the Pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2012 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end.

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value as at 31 March 2012	Asset value as at 31 March 2011
	£000s	£000s
Overseas quoted Securities	40,869	78,793
Overseas Corporate Bonds	59,259	45,921
Overseas Index-linked Bonds	25,661	11,638
Overseas managed funds	110,429	97,985
Private Equity/Infrastructure	38,277	36,201
	274,495	**270,538**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data analysts and provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 10%, based on the data provided by WM. A 10% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 10% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

	Asset value as at 31 March 2012	Change in the net assets available to pay benefits	
		+10%	-10%
	£000s	£000s	£000s
Overseas quoted Securities	40,869	44,956	36,781
Overseas Corporate Bonds	59,259	65,185	53,333
Overseas Index-linked Bonds	25,661	28,227	23,095
Overseas managed funds	110,429	121,472	99,386
Private Equity/Infrastructure	38,277	42,105	34,449
	274,495	**301,945**	**247,045**

Currency exposure by asset type

	Asset value as at 31 March 2011	Change in the net assets available to pay benefits	
		+13%	-13%
	£000s	£000s	£000s
Overseas quoted Securities	78,793	89,036	68,550
Overseas Corporate Bonds	45,921	51,891	39,951
Overseas Index-linked Bonds	11,638	13,151	10,125
Overseas managed funds	97,985	110,723	85,247
Private Equity/Infrastructure	36,201	40,907	31,495
	270,538	**305,708**	**235,368**

16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank account is held with HSBC which holds a AA- long term credit rating (or equivalent) across three rating agencies and it maintains its status as a well capitalised and strong financial organisation. Deposits are placed in the AAAm rated Northern Trust Money Market Fund and SSgA Sterling Liquidity sub-Fund which offers the benefits of a diversified pool of underlying investments, ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £29.5million (31 March 2011: £6.8million) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2012	Rating	Balances as at 31 March 2011
Money market funds		**£000**		**£000**
Northern Trust Global Sterling Fund A	AAAm	17,494	AAAm	0
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	11,667	AAAm	6,743
Bank current accounts				
HSBC Plc	AA-	388	AA	114
Total		29,549		6,857

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations.
The Pension Funds holds a working cash balance in its own bank account and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments. At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2012 these assets totalled £532.2m, with a further £29.5m held in cash by fund managers.

17. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2010. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 78% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2010 was £564,290k. The value of the deficit at that date was £163,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 22.4% for the period of 1 April 2011 to 31 March 2014.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 3.30%
Gilt-based Discount Rate - 4.50%
Pay Increases - 5.30%
Funding Basis Discount Rate - 6.10%

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	**31 March 2012**	**31 March 2011**
	% P.a.	**% P.a.**
Inflation /Pensions Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter
**Salary increase are assumed to be 1% p.a. until 31 March 2013 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2012 by Hymans Robertson LLP with the following results:

Description	**31-Mar-12**	**31-Mar-11**
	£000	**£000**
Present Value of Promised Retirement Benefits	889,000	800,000
Assets	612,394	594,333
Deficit	276,606	205,667

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net asset Statement surrounding future liabilities of the fund.

19. RELATED PARTY TRANSACTIONS

It is required under International Accounting Standard 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (4) to the Pension Fund accounts. The Council provides administration services for the pension fund. In 2011/12 a charge of £683k (£630k in 2010/2011) was made for these services.

No senior officers or Pension committee member had any interest with any related parties to the pension fund.

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There are five members of the pension fund committee who are active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension as at 31 March 2012	Accrued pension as at 31 March 2011
Paul Whaymand, Chief Finance Officer	£657,921.03	£498,547.69
Nancy Leroux, Senior Service Manager - Corporate Finance	£442,102.60	£352,467.69

20. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2012, securities worth £19,575k were on loan by Northern Trust from our portfolio and collateral worth £28,285k was held within the pool including Hillingdon. In the same period, a net income of £44.4k was received.

21. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

22. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2011/12.

23. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2012 totalled £53.8m (31 March 2011: £65.5m).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

24. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

Statement of Responsibilities for the Statement of Accounts

1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Chief Finance Officer);

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- To approve the statement of accounts.

2. The Chief Finance Officer's

The Chief Finance Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2012 and its income and expenditure for the year then ended.

Paul Whaymand

Chief Finance Officer

September 2012

Pension Committee Certificate for the Approval of the Annual Report (excluding financial statements)

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2012, and approved by the Chairman on 19 September 2012.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

19 September 2012

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 20 September 2012.

Signed on behalf of the London Borough of Hillingdon

John Morley

CHAIRMAN (AUDIT COMMITTEE)

20 September 2012

PART F – POLICY STATEMENTS

Details of the following Statements can be found on the London Borough of Hillingdon website, using the links provided below.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2011.The statement is available at :
http://www.hillingdon.gov.uk/media/pdf/t/t/2008_FSS.pdf

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2011. The 2012 amended SoIP will be submitted to the September 2012 Pensions Committee, and will be added to the website following this meeting. The latest SoIP can be accessed at http://www.hillingdon.gov.uk/media/pdf/5/s/Statement_of_Investment_Principles_December_2011.pdf

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was approved by Committee in March 2006 and updated during 2011. It can be accessed at:
http://www.hillingdon.gov.uk/media/pdf/p/e/comm_policy.pdf

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/media/pdf/g/q/Governance_Policy_Statement_2008.pdf

PART G SCHEME BENEFITS

SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information can be obtained from our pensions administrator Capita Hartshead, telephone 01737 366062 or email Hillingdon.pensions@capita.co.uk .Further general scheme information regarding the LGPS is available from the website: www.hillingdon.gov.uk

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert within limits, pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

Based on average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any three consecutive years in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

Pension (Ill Health)

Based on average pensionable pay for the last year of service and the split of 80ths and 60ths accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee’s LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or age 65 if earlier, the employee’s LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement. There is an ill health review after benefits have been paid for eighteen months, and the benefits may be stopped, continued for a further maximum period of eighteen months or the level of ill health may be increased to Tier 2 from date of the review.

Lump Sum Retirement Grant

Based on average pensionable pay for the last year of service and total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as 3/80ths for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service
A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement
A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits
A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on 1/160 of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child: Child's pension is 1/320th of member's service, multiplied by the final pay.

Partner with more than one child: Child's pension is 1/160th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.

No partner and one child: Child's pension is 1/240th of the member's service, multiplied by the final pay.

No partner and more than one child: Child's pension is 1/120th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

AVCs

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

REGULATIONS

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

PART H AUDITORS' REPORT

AUDITOR'S REPORT TO A PENSION FUND IN RESPECT OF THE FINANCIAL STATEMENTS PUBLISHED WITH THE PENSION FUND ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON PENSION FUND

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Hillingdon Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012and the amount and disposition of the fund's assets and liabilities as at 31 March 2012*,* other than liabilities to pay pensions and other benefits after the end of the scheme year.; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Heather Bygrave
for and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
[*Date*]

RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	None

SUMMARY

This report summarises the number of Early Retirements in the year 2012/13. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

RECOMMENDATION

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 first quarter of 2012/13

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

	Redundancy	**Efficiency**	**Ill Health**	**Voluntary over 60**
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
2010/2011	20	0	11	34
2011/2012	65	0	12	24
Current Year				
1st Quarter 2012/13	6	0	3	4

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 <u>service is awarded up to age 65</u>
- 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 <u>25% of their potential service to age 65 is awarded</u>.

- The employee may be capable of obtaining gainful employment* within a reasonable period** of leaving local government employment***. In these cases no additional award of service is applied. The benefits payable are subject to the individual undergoing a medical review after 18 months to ascertain whether the medical condition is such that the employee is still unable to perform the duties of their previous employment. The maximum period that a third tier pension may be paid is 3 years. When the 3 year period has expired the pension will cease. Upon the employee attaining the age of 65, the pension is brought back into payment.

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

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

EARLY RETIREMENT COSTS MONITOR

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

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

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

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

MONITOR

Detail for Valuation Period 01.04.2011 to 31.03.2014:

	Capital Cost of early retirement to the fund	**Payroll Total**	**Cost as a % of payroll**
2011/12	£1,108k	£102,450k	1.08
2012/13 – Quarter 1	£202k	£102,450k	0.20
Average over previous valuation period			0.59

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

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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PENSIONS ADMINISTRATION PERFORMANCE

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Capita June Performance Report

SUMMARY

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

RECOMMENDATION

That the contents of the report be noted

INFORMATION

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

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

The April 2012 performance reports indicated an overall performance of 97.89%. Whilst this indicates a high standard of performance and is above what was regularly achieved by the in house team, it does fall short of the contractual requirement of 100%. As a result this was raised with the Capita team who have addressed this issue and since April there have been improvements in performance, albeit that 100% has not yet been attained.

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

As part of the overall management of the Capita contract, their services levels have been closely monitored. Unfortunately, there have been a number of queries regarding Capita’s service both from scheme members and HR Staff at Hillingdon, largely due to the transition of the service. These matters have been dealt with in a timely manner, and Capita have adapted their processes to rectify these operational problems. Monthly meetings are now taking place between Capita and the Corporate Pensions Manager to ensure service levels reach the required 100% level, in accordance with the Framework Agreement.

The performance report below shows a summary of monthly performance for the first quarter of 2012. Also attached is a copy of the June 2012 report from Capita to identify to Members the detail of reporting from Capita.

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	ACTION REQUIREMENTS	APRIL 2012		MAY 2012		JUNE 2012	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	8	100.00	13	100.00	12	100.00
Actual Retirement Benefits	3 Days	1	100.00	7	58.33	14	100.00
Letter notifying Dependants Benefits	5 Days	3	100.00	0		0	100.00
Process Refund	10 Days	0		0		0	
Transfers in Actual	10 Days	0		13	100.00	12	100.00
Transfers in quote	10 Days	0		2	100.00	0	
Answer General Letter	5 Days	50	98.00	136	99.26	130	96.92
Calc/Notify Deferred	15 Days	0		67	89.55	32	90.63
Estimate of Retirement Benefits	5 Days	23	95.65	50	98.00	39	89.74
Transfers Out Quote	5 Days	0		0		0	
Transfers Out Actual	9 Days	0		1	100.00	1	100.00
New Entrants	20 Days	8	100.00	28	96.55	43	100.00
Added Years	10 Days	0		1	100.00	9	100.00

CAPITA HARTSHEAD

TARGET	WORK TASK	ACTION DATES/REQUIREMENTS	Total to be processed	Actual performance	Percentage achieved against standard SLAs	Number of Cases Processed for Year
	GENERAL TASKS					
A	Pension Sharing on Divorce information dispatched	Within 10 working days from receipt of request for information	NIL	NIL	**N/A**	NIL
B	All Death Grant Expression of Wish creation/amendments to be recorded	Within 5 working days of written authority from Scheme member	11	11	**100.00**	31
C	Inform the Contracting Body and/or the employer of any payments which are unauthorised payments under HMRC tax rules	Within 15 working days of payment being made or sooner if statute requires	NIL	NIL	**N/A**	NIL
D	Assistance in the administration of new employers to the fund - Creation of employer record, employer identification number, distribution of Employer Guidance, file admission agreement and/or other relevant information relating to the employer	Within 5 working days from receipt of documentation from the Contracting Body	NIL	NIL	**N/A**	NIL
E	Notification of complaints received by the Provider	Notified to the Contracting Body same day - Response to complainant within 5 working days - Where complaint requires correction of records and/or payments: within 5 working days - The Provider will inform the Contracting Body of its remedial action to ensure that any error does not happen in the future	NIL	NIL	**N/A**	NIL
F	To provide employers or their auditors with any statistical Scheme information	5 working days	NIL	NIL	**N/A**	NIL
G	To provide full membership data required by the actuary for the triennial fund valuation	Latest 3 months following valuation date	NIL	NIL	**N/A**	NIL
H	All correspondence to be replied to (If Provider is unable to fully answer the correspondence , a holding letter to be sent)	Within 5 working days of receipt	130	126	**96.92**	316
I	Data matching exercise between the Provider's system and the Payroll (including pensions payroll) and HR systems	To take place quarterly	NIL	NIL	**N/A**	NIL
J	Provision of a Service Improvement Plan (SIP)	Proposals for Service Improvement Plan to be provided wuth the Providers tender - To become active from contract commencement date - Inclusion of proposals from the Joint Review meetings at least six monthly or as and when the service improvement is identified	NIL	NIL	**N/A**	NIL

NEW ADMISSIONS TO THE SCHEME (Some members may have multiple contracts of employments. The following tasks apply to all reveant employments)						
A	Create an electronic member record for all relevant information	Within 10 working days from the receipt of the starter information	43	43	**100.00**	79
B	An electronic (or paper if the employee does do not have access to a computer) statutory notification of Scheme admission to be issued to new Scheme members	Within 10 working days of receipt of relevant starter information including a payroll interface	43	43	**100.00**	51
C	Issue Personal Identification Number (PIN) and other login details in order that the member can access their online pension record	Within 10 working days of receipt of relevant starter information including a payroll interface	NIL	NIL	**N/A**	NIL
D	Request transfer value quotation from the member's previous provider	Within 10 working days from receipt of written request from member	8	8	**100.00**	21
E	Issue quotation of transfer value credit and all other relevant documentation/information to member	Within 10 working days of receipt of information from the previous provider	4	4	**100.00**	9
F	Request payment and final service credit from the previous scheme administrator	Within 10 working days of recept of member's authority to proceed with the transfer	NIL	NIL	**N/A**	2
G	Update the member's pension record and issue a statutory notification with the relevant details	Within 10 working days from receipt of payment	1	1	**100.00**	1
CURRENT (CONTRIBUTING) MEMBERS						
A	Where the employer or, where permissible, Scheme member authorises any change to the member's personal details all of this amendments will be made to the member's pension record (including payroll interface file)	Witihin 10 working days of request	57	55	**96.49**	78
B	Scheme member estimates that include but may not be limited to benefit, additional contributions and 'what if' screnarios	Within 5 working days from request from Scheme member	39	35	**89.74**	112
C	Allocation of a Personal Identification Number (PIN) in response to a request from a Scheme member to have access to their online pension record	PIN and other relevant login details issued within 10 working days of request	NIL	NIL	**N/A**	NIL
D	Estimates requested by employers	Within 3 working days of request	25	21	**84.00**	35
E	Bulk estimates for more than nine Scheme members to be provided to employer	Within 10 working days of request	NIL	NIL	**N/A**	NIL
F	Scheme member request for information relating to the Contracting Body's AVC scheme	Within 5 working days from request from Scheme member	1	1	**100.00**	2
G	Notify payroll of the applicable deductions for Additional Regular Contributions, AVC's or other additional contributions permitted under the Scheme	Within 5 working days from request from Scheme member	8	8	**100.00**	8
H	Advise the relevant payroll provider and, where applicable the AVC provider of a change in the members additional contribution arrangements	Within 5 working days of receipt of authorisation	NIL	NIL	**N/A**	NIL

	ANNUAL AND END OF YEAR TASKS					
A	Employee and employer pension contributions to be reconciled to the main accounts of the Contracting Bodies	Within 14 working days from receipt of employers end of year file	NIL	NIL	**N/A**	NIL
B	Year end contributions files received from employers to be checked and loaded on to member records	Within 28 working days following receipt of employer file	NIL	NIL	**N/A**	NIL
C	All exceptions, warnings and rejected records to be reported to employers	Within 28 working days following receipt of employer file	NIL	NIL	**N/A**	NIL
D	All required action taken to correct end of year rejections/queries	Update computer systems with relevant information: 5 working days	NIL	NIL	**N/A**	NIL
E	First batch of annual benefit statements for active members to be dispatched	By 31 August each year	NIL	NIL	**N/A**	NIL
F	Production and despatch of further and final annual benefit statements for active member, to include members who did not receive their statement by 31 August	By 30 November each year	NIL	NIL	**N/A**	NIL
	AVC annual benefit statements distributed	Within 28 days of receipt of benefit statements	NIL	NIL	**N/A**	NIL
	Provision of FRS17 data to the fund actuary of the Contracting Body	Within 10 working days of the relevant employer's accounting year end	NIL	NIL	**N/A**	NIL
I	Provision of SF3 data to the Contracting Body	By 31 May each year	NIL	NIL	**N/A**	NIL
J	Report of all retirements in the year ended 31 March to the Contracting Body, showing the retirement type and pension fund costs for each retirement	By 31 May each year	NIL	NIL	**N/A**	NIL
K	Annual Fund Report showing performance statistics and membership numbers by category and employer to be provided to the Contracting Bodies	By 31 May each year	NIL	NIL	**N/A**	NIL
L	A list of all Transfer values payable in year ended 31 March, but not yet actually paid, showing amounts and member/new scheme details	By 30 April each year	NIL	NIL	**N/A**	NIL
M	A list of all Transfer values receivable in year ended 31 March, but not yet actually paid, showing amounts and member/new scheme details	By 30 April each year	NIL	NIL	**N/A**	NIL
N	The Provider shall provide such information as required by the Contracting Bodies in order to conduct the annual review of pricing	Within 10 working days of request	NIL	NIL	**N/A**	NIL

	LEAVERS, RETIREMENTS AND REDUNDANCIES					
A	Notify the relevant payroll provider of the cessation of pension Scheme membership, including, where permissible, a refund of contributions	Within 10 working days of receipt of written notificatiion from the member	NIL	NIL	**N/A**	NIL
B	The Provider will calculate and despatch to the member a statement of their deferred benefits	Within 15 working days of receipt of written notification from the employee's option to leave the Scheme or the employer's written confirmation of the termination of employment	32	29	**90.63**	92
C	All deferred benefits annual benefit statements to be despatched	Within 28 days of the effective date of the Pensions Increase Order	NIL	NIL	**N/A**	NIL
D	Requests for early payment of deferred benefits including cases that require the agreement of the Contracting Body or where the Scheme member has requested that the payment is released on the grounds of ill health	Notified to the Contracting Body / employer within 2 working days of written request from member: Where the application is refused the Provider to notifiy the applicant within 10 working dats of confirmation from the Contracting Body	NIL	NIL	**N/A**	NIL
E	Contacting deferred beneficiaries in advance of their retirement date: The Provider shall despatch correspondence, providing the member with benefit calculations (including any reductions to the benefits), all forms and other documentation. Age criteria may vary in accordance with amendments to the regulations.	No later than 6 months before the member's 60th birthday or 65th birthday.	5	5	**100.00**	16
F	Transfer Values to a new pension scheme	Supply of quote and up to date calculation of deferred benefits to member: 5 working days	NIL	NIL	**N/A**	NIL
	Transfer Values to a new pension scheme	Payment of transfer value: within 5 working days of request for payment	1	1	**100.00**	1
	Redundancy and Severance Payments (where the Provider is providing this service)	within 3 working days of receipt of relevant information including the redundancy declaration form.	1	1	**100.00**	2
I	Process of Gratuity and Injury Allowance payments	within 3 working days of receipt of relevant information.	NIL	NIL	**N/A**	NIL
J	Process Retirement Benefits: Despatch of the retirement grant and either: Creation of the pensioner record (where the Provider is providing this service) or Notification to the relevant payroll department in order that the first pension payment is made. As prescribed in the preamble of this SLA	within 3 working days of receipt of relevant information	7	4	**57.14**	22
K	Scheme members approaching age 75	Removed from the Scheme no later than their 75th birthday. The Provider shall ensure that the pension and lump sum are paid in compliance with HMRC regulations so that there are no tax penalties/additional tax deductions.	NIL	NIL	**N/A**	NIL

PENSIONERS						
A	Pensions Increase payable on deferred retirement grants and death grants	within 15 working days of implementation of effective date of pension increase order	NIL	NIL	**N/A**	NIL
B	Age 55 Pensions Increase: Calculate the relevant increase to the pension and inform the payroll provider	within 10 working days before the close of the pension payroll for the relevant month	NIL	NIL	**N/A**	NIL
C	Calculation of Modification of pension: Calculate the relevant deduction to the pension and notify the payroll provider	within 10 working days before the close of the pension payroll for the relevant month in which the modification is to apply	NIL	NIL	**N/A**	NIL
D	Request details of the pensioner's Guaranteed Minimum Pension if unavailable	within two months prior to the pensioner's state retirement date or other date if specified under legislation	34	34	**100.00**	63
E	Calculation and notification to pension payroll of the pensioners Guaranteed Minimum Pension	within 10 working days before the close of the pension payroll for the relevant month in which the GMP is to apply	NIL	NIL	**N/A**	NIL
F	Issue of Life and Re-Employment Certificates to specified pensioners.	July Annually	NIL	NIL	**N/A**	NIL
	Participation in the National Fraud Initiative: Letter sent to relevant organisation where re employment indicated, Investigation into continued payment of pension where NFI indicates that the pensioner is deceased, Notify results to the Contracting Body	In all cases 10 working days of receipt of relevant information	NIL	NIL	**N/A**	NIL
	Abatement of pension	to be despatched to the relevant payroll provider within 10 working days before the close down of the pension payroll in the month in which the abatement is to apply from/cease.	1	1	**100.00**	2
I	Cessation of pension (other than death)	10 working days before the close down of the pension payroll in the month in which the pension is to cease.	NIL	NIL	**N/A**	NIL
DEATH						
A	If the informant directly contacts the Provider it will notify the employer's/Contracting Bodies payroll/pension payroll of the need to stop the members pay/pension & The Provider shall forward a condolence letter and request all relevant certificates/documents forward all relevant application forms to the relevant parties.	Same day & within 3 working days of notification of death	12	12	**100.00**	33
B	Dependents benefits shall be calculated, notified to the beneficiaries (or their parent/guardian) and submission to the pensions payroll	within 3 working days of receipt of the relevant information	NIL	NIL	**N/A**	3
C	Where the Provider is made aware of potential disputes or uncertainty regarding the payment of the death grant it will prepare a report to be sent to the the Contracting Body. The notification will include any information that may assist decision makers	within 3 working days of the issue coming to the Provider's attention	NIL	NIL	**N/A**	NIL
D	Payment of death grant following confirmation of correct recipients. Confirmation may include but may not be limited to: 1. A recent or valid Expression of Wish Form 2. Grant of probate of the will 3. Letters of Administration 4. Authorisation from the Contracting Body	within 3 working days of confirmation	NIL	NIL	**N/A**	NIL

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GOVERNANCE ISSUES

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	Appendices A & B

SUMMARY

This report is to provide an update on Pension Fund Governance issues. During the last quarter several policy documents have been updated and two are now brought to committee for approval.

RECOMMENDATIONS

That the Committee:

1. **approve the revised Governance Policy Statement;**
2. **agree the amendments to the Funding Strategy Statement; and**
3. **note the remaining contents of the report.**

1. Governance Policy Statement

In accordance with The Local Government Pension Scheme (Amendment) (No.2) Regulations 2005, the Council must publish and keep up to date a Governance Policy Statement. During the last quarter, Officers have reviewed this document specifically to:

- Include the Pensions Investment Sub-Committee, which is shown as a separate body reporting to the Pensions Committee and their Terms of Reference have been added, and
- The title of the Chief Finance Officer has replaced the previously shown Director of Finance and Business Services.

The revised Governance Policy Statement is attached at Appendix A. All amendments have been highlighted in bold italics. The Governance Policy Statement was last agreed by Committee in March 2008.

2. Funding Strategy Statement

The Funding Strategy Statement forms part of a framework covered by the Local Government Pension Scheme Regulations 1997 and the Local Government Pension Scheme (Administration) Regulations 2008. During the last quarter Officers have reviewed this statement specifically to:

- To amend Annex A to show the change of name of an admitted body from Yes Dinning to Genuine Dining Ltd and
- To amend individual Employer Contribution rates for schools which have converted to Academy status.

The revised Funding Strategy Statement is attached at Appendix B. All amendments have been highlighted in bold.

3. Statement of Investment Principles

The Statement of Investment Principles was updated at Appendix D to amend the comparative Indices for JP Morgan, M&G and the State Street Asia Pacific Equity Index sub-fund, to align with the current agreed indices.

4. Risk Report

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

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

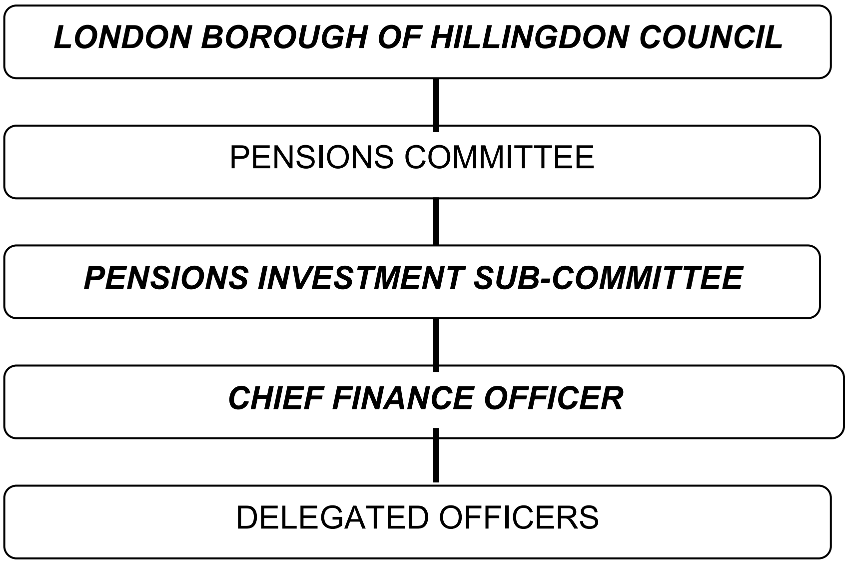
Governance Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO. 2) REGULATIONS 2005

Issued by: Pension Section, Finance and Property Department
Authorised by: Pensions Committee September 2012

CONSTITUTION

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.



The Constitution allows for the appointment of a Pensions Committee and a Pensions Investment Sub-Committee, which have the following Terms of Reference:

PENSIONS COMMITTEE

Membership

Councillor membership of the Committee will be politically balanced and have voting rights. Other members of the Committee do not have voting rights and will include 2 Trade Union members and 2 Non-Trade Union Scheme Members (1 Non-active Member and 1 active Member).

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.

2. To review the Statement of Investment Principles and amend it when necessary.

3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.

4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.

5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.

6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.

7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.

8. To authorise the admission of other bodies to the Fund.

9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.

10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.

11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers**.**

PENSIONS INVESTMENT SUB-COMMITTEE

Introduction

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

Membership

Membership of the Sub-Committee will consist of 3 Councillors from the Pensions Committee, politically balanced. The quorum for attendance will be 2 Councillors. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers.
Terms of Reference

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

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

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

   - *Increase or decrease the allocation to equities, bonds or property*
   - *Increase or decrease the amounts / proportions of assets in manager mandates*
   - *Increase or decrease the level of currency hedging in place*
   - *Select investments for, or dispose of existing investments in, the "opportunity fund" (10% of assets), using the feeder fund.*

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

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

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

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

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

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

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

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

The Sub-Committee keeps asset allocation within guidelines set by the Pension Committee. Within these guidelines, the Sub-Committee has delegated authority to:

- *Increase or decrease the allocation to equities, bonds or property*
- *Increase or decrease the amounts / proportions of assets in manager mandates*

- ***Increase or decrease the level of currency hedging in place***

Dates and Place of Meetings

The Council shall fix the day of the meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they think fit. The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach the funding of its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement was formally approved by the Pensions Committee on 12th March 2008. The Funding Strategy Statement (FSS) is published and has been issued to interested parties. The FSS is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding liabilities of the Pension Fund and copies are available from the Financial Planning Section, ***Central Services Directorate*** or on the Council's website.

The department for Community and Local Government (CLG) has stated that the purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best, met going forward.
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

It is in this context that the FSS has been compiled and sets out in detail the Fund's approach to meeting its individual funding requirements. The FSS is reviewed in detail at least every three years, with the next full review due to be completed by ***31st March 2014***.

STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund. The Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. Under Regulation 9A (3A) of the LGPS (Management and Investment of Funds) Regulations 1998 the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. Compliance with these principles is set out in detail in the Appendix to the Statement of Investment Principles (SOIP) and the Fund is fully compliant with 5 out of the 10 principles. Work is in progress with the intention of being compliant with the remaining 5 and the reasons for not being fully compliant are set out in the SOIP. The SOIP was formally reviewed by the Pensions Committee and approved for publication in September 2007 and is reviewed annually or when significant changes occur that require incorporation in the document.

SCHEME OF DELEGATION

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the ***Chief Finance Officer*** in the case of the Pension Fund. The ***Chief Finance Officer*** is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or ***Chief Finance Officer*** in certain circumstances. The ***Central Services Directorate*** has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the ***Chief Finance Officer*** and the Financial Planning Manager. The scheme of delegation is reviewed approximately every six months by the Council.

STANDING ORDERS

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for this. In Hillingdon the responsible officer is the ***Chief Finance Officer*** under the terms of Standing Order 76. Guidance on general financial procedures outline the regulatory framework for financial administration within the Council setting out the duties of the ***Chief Finance Officer*** and Chief Officers and identifying the financial decisions which require Executive or Council approval. The ***Chief Finance Officer*** Services is responsible for ensuring that the Council's financial affairs are administered in a proper manner, in accordance with all statutory obligations, and in compliance with all professional codes of practice. In particular he is responsible for making arrangements for the investment of Council monies, the security of any stock or share certificate or similar documents and the realisation of any investments.

The London Borough of Hillingdon Pension Fund - Funding Strategy Statement

1 Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Hillingdon Pension Fund ("the Fund"), which is administered by London Borough of Hillingdon ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser and is effective from ***September 2012***.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - FSS guidance produced by CIPFA
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Review of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact:-

Nancy le Roux (Senior Finance Manager – Corporate Finance) – nleroux@hillingdon.gov.uk

Ken Chisholm (Corporate Pensions Manager) - KChisholm@Hillingdon.gov.uK

2 Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business and to the Fund, in view of the employer's strength of covenant, where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions by implementing a stabilisation mechanism, reviewable after a 3 year period, which restricts the movement in employer contributions, where the Administering Authority considers it reasonable to do so;
- to use reasonable measures, such as obtaining bonds and guarantees from employers, to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3 Solvency issues and target funding levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment"*. If there is a surplus there may be a contribution reduction; if a deficit, a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 25 years.

[1] See Regulation 36(5) of LGPS (Administration) Regulations 2008

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which individual employers are actually required to pay. The types of "peculiar" factors which are considered are discussed in Section 3.7.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.9. Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. Please note, the contribution rate for London Borough of Hillingdon incorporates an additional 1% to cover early retirement strain costs.

For other Fund employers, any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision). Instalments can be paid up to a maximum of 3 years after the decision where the Administering Authority considers this appropriate.

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required under Regulation 36(1) of The Local Government Pension Scheme (Administration) Regulations 2008 to report on the "solvency" of the whole fund at least every three years,

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a "funding level".

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. Please refer to paragraph 3.9 (admission bodies ceasing) for the treatment of departing employers. The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe,

[2] See Regulation 36(7) of LGPS (Administration) Regulations 2008

The Administering Authority may vary the discount rate used to set the employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (eg using gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

3.3 Ongoing Funding Basis

a) Life Expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach, allows for people living around 0.75 years longer per decade. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

b) Investment Return

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

c) Salary Growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next three years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11,2011/12 and 2012/13. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

d) Pension Increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010. At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

e) General

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation. Demographic assumptions vary by member characteristics and so reflect the different profiles of the employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Asset Share Calculations for Individual Employers

Adjustments to individual employer contribution rates are applied through both the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits to date;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation").
- the use of extended deficit recovery periods.
- the phasing in of contribution increases / decreases.
- the pooling of contributions amongst employers with similar characteristics.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit the London Borough of Hillingdon's contribution rate changes to 1% of employer contributions per annum from 1 April 2011 to 31 March 2014, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

Heathrow Travel Care has been pooled with the London Borough of Hillingdon and will pay the same contribution rate over the period from 1 April 2011 to 31 March 2014, without the additional 1% to cover early retirement costs. The stabilisation approach for other specific Fund employers is set out below. To aid affordability, stable employers with no tax raising powers are us to use deficit recovery periods as follows:

Uxbridge College – 25 years

Hillingdon and Ealing Citizens Advice – 25 years

Stockley Academy – 20 years

Harefield Academy – 20 years

All new Academies – 20 years

The contribution rate increases are to be phased in over the three year period from 1 April 2011 to 31 March 2014 for Hillingdon and Ealing Citizens Advice, Uxbridge College and Harefield Academy. Stockley Academy will have no increase to their contribution rate from 1 April 2011 to 31 March 2014 and will pay the same rate as the year ending 31 March 2011.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a stable net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 25 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers and Resolution bodies	25 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 25 years
Academies	20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Deficit Recovery Periods

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is an admitted body with a relatively large deficit recovery contribution rate (eg 15% or more), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

3.7.5 Surplus Spreading Periods

As part of the overall Funding Strategy it was agreed to adopt a ‘stabilisation mechanism’ that limits increases and reductions in contribution rates for public sector bodies: see 4.1 below. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

Any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions **may** be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions

3.7.6 Phasing in of Contribution Rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be entitled to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

3.7.7 Phasing in of Contribution Reductions

Any contribution reductions will be put in place with immediate effect for employers not subject to stabilisation.

3.7.8 The Effect of Opting for Longer Spreading or Phasing-In

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

3.7.9 Pooled Contributions

The Administering Authority may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants would not be permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

3.8 Regular Reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administrating Authority.

The result of a review may be to require increased contributions payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

3.9 Admission Bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement (notwithstanding the provisions of the agreement):

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions applying at the end of the contract would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers.

It will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. In order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

As an alternative to (b) above, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security or guarantee to be held against any deficit, and would carry out the cessation valuation on an ongoing valuation basis: deficit recovery payments would be derived from this cessation amount. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

3.10 Early Retirement Costs

3.10.1 Non Ill-Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

The London Borough of Hillingdon's contribution rates, as shown in Annex A, incorporate an additional 1% to cover early retirement strain costs. Other Fund employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. Depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years.

3.10.2 Ill-Health Monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.10.3 Ill-Health Insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;

there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.11 New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields
- allowance for unpaid contributions

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis. This is included within the Fund's risk register.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but the Fund has a policy to formally review the asset allocation, following the completion of the triennial valuation of the Fund, or perhaps more frequently to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 79% of the total Fund assets.

The investment strategy of lowest default or volatility risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on fixed interest gilts. This resulted in a return on the Fund's assets of 6.1% p.a. to be adopted for the 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted.

5 Key risks and controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place including a Fund specific risk register. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations subject to market experience*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices*

Risk	Summary of Control Mechanisms
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.* *This could be supplemented with an analysis of absolute returns against those under-pinning the valuation.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.Mitigate impact through deficit spreading, phasing in of contribution rises and possible pooling.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*
A company admitted to the Fund as an admission body may become financially unviable	*A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this is reviewed regularly to ensure it provides adequate cover for the financial risks involved.*
Ill-health retirements significantly more than anticipated	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.*
Reductions in payroll causing insufficient deficit recovery payments	*In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:* *For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increase).* *For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*
Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification, budget changes for higher earners and the Hutton Review of public sector pensions.	*It considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact*

Risk	Summary of Control Mechanisms
	of such changes. *The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.*

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* *Vetting prospective employers before admission.* *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of*

	early retirements on redundancy if the employer failed. *Reviewing bond or guarantor arrangements at regular intervals.* *Reviewing contributions if thought appropriate.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are as follows:

Employer	**2011/12**	**2012/13**	**2013/14**
London Borough of Hillingdon	18.1%	20.1%	21.1%
MITIE	21.0%	21.0%	21.0%
Uxbridge College	14.2%	15.5%	16.8%
Genuine Dining Ltd	21.0%	21.0%	21.0%
Hillingdon & Ealing Citizens Advice	15.5%	16.6%	17.6%
Greenwich Leisure Ltd	16.8%	16.8%	16.8%
Heathrow Travel Care	18.1%	19.1%	20.1%
Stockley Academy	18.5%	18.5%	18.5%
Harefield Academy	13.3%	13.7%	14.0%
London Housing Consortium	15.6%	16.35%	17.1%
Look Ahead Housing & Care	23.0%	23.0%	23.0%
Academies			
Guru Nanak Sikh VA School	***16.6%***	***16.6%***	***16.6%***
Haydon School	***16.4%***	***16.4%***	***16.4%***
Swakeleys School for Girls	***17.8%***	***17.8%***	***17.8%***
Queensmead School	***20.0%***	***20.0%***	***20.0%***
Uxbridge High School	***19.8%***	***19.8%***	***19.8%***
The Rosedale Hewens Academy	***21.5%***	***21.5%***	***21.5%***
Bishop Ramsy CofE VA Secondary School	***20.7%***	***20.7%***	***20.7%***
Bishopshalt School Academy	***25.1%***	***25.1%***	***25.1%***
Vyners School	***27.2%***	***27.2%***	***27.2%***
The Willows School	***21.6%***	***21.6%***	***21.6%***
Barnhill Community High School	***19.8%***	***19.8%***	***19.8%***
Northwood School	***25.1%***	***25.1%***	***25.1%***
The Douay Martyrs Catholic School	***18.1%***	***18.1%***	***18.1%***

For all employers that are in deficit, the deficit recovery period is 25 years and the increase in their contribution rate is being phased in over 3 years. For all other employers the future service rate is being paid. The London Borough of Hillingdon rate includes the additional 1% to cover the costs of early retirements.

Annex B – Responsibilities of the key parties

The **Administering Authority should**:

- collect, account and reconcile employer and employee contributions from the employer bodies;
- invest monies not required for the immediate payment of benefits, transfers and administration costs in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The **Individual Employer should**:

- deduct contributions from employees' pay correctly.
- pay all contributions (employees and employers), including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework and inform the Administering Authority of their individual policies on discretions;
- make additional contributions in accordance with agreed arrangements, for example, augmentation of scheme benefits, early retirement strain;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- engage with the Administering Authority in all required consultation processes; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

The **Fund Actuary should**:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and

The **Pensions Committee** should:

- carry out statutory functions relating to local government pensions under regulations made under Sections 7, 12 and 24 of the Superannuation Act 1972. Broadly this enables them to oversee the general framework within which the Fund is managed;

- monitor investment and administration performance;
- carry out regular reviews of investments and investment strategy;
- determine and keep under constant review, an overall asset allocation policy for the Fund, including appointment and termination of fund managers;
- consider appropriate professional advice on all matters with a material impact on the Fund;
- approve significant internal decisions and documents for the Fund including the valuation, Annual Report and Accounts and the FSS; and
- determine and keep under constant review, all policies and strategies of the Fund.

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