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HILLINGDON
LONDON

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Pensions Committee

Date: WEDNESDAY, 27 MARCH 2013

Time: 5.30 PM

Venue: COMMITTEE ROOM 3 A, CIVIC CENTRE, HIGH STREET, UXBRIDGE, MIDDLESEX 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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This Committee

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

Terms of Reference

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

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

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

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

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

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

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

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

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

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

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

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

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

Agenda

CHAIRMAN'S ANNOUNCEMENTS

1	Apologies for Absence	
2	Declarations of Interest in matters coming before this meeting	
3	Minutes of the meeting -12 December 2012	1 - 4
4	To confirm that items marked Part I will be considered in public and those marked Part II will be considered in private	

PART I - Members, Public and Press

5	Review on Performance Measurement of the Pension Fund	5 - 62
6	Retirement Performance Statistics and Cost of Early Retirements Monitoring	63 - 66
7	Pensions Administration Performance	67 - 70
8	Revision to the Statement of Investment Principles	71 - 94
9	Pension Fund Investment and Council's Public Health Responsibilities	**TO FOLLOW**
10	Governance Issue and 2014 Scheme Proposals	95 - 96
11	Deloitte - 2012/13 Annual Audit Plan	97 - 118

PART II - Members Only

12	Report from Investment Sub-Committee & Update on Investment Strategy	119 - 122

Minutes

PENSIONS COMMITTEE

12 December 2012

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

HILLINGDON
LONDON

	Committee Members Present: Councillors Philip Corthorne (Chairman), Beulah East, Raymond Graham and Richard Lewis. **Advisory Members/Co-optee Members Present:** John Holroyd and Andrew Scott. **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Harry Lawson, Nancy LeRoux, Paul Whaymand and Khalid Ahmed. **Also Present:** John Hastings (Advisor)	
26.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Councillors Janet Duncan, Paul Harmsworth and David Simmonds. Councillor Beulah East was present as a substitute.	**Action by**
27.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Philip Corthorne and Richard Lewis both declared pecuniary interest in all agenda items, they were members of the Local Government Pension Scheme, and remained in the room during the consideration thereof.	**Action by**
28.	**MINUTES OF THE MEETING – 19 SEPTEMBER 2012** Agreed as an accurate record.	
29.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** That Agenda Items Items 10 and 11 be considered in private for the reasons stated on the agenda and the rest of the items be considered in public.	**Action by**
30.	**REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND** Consideration was given to the report on the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 30 September 2012. The total value of the	**Action by**

	fund's investments as at 30 September 2012 was £618.8m which represented an increase of £16.8m over the value of fund's assets at the end of June 2012. Members noted the positive figures. Reference was made to Absolute Returns for the Quarter and that the net investment received from SSgA Drawdown showed a deficit. This was caused by the withdrawal of cash holding in the money market. **RESOLVED: That the report and the performance of the Fund Managers be noted.**	
31.	**RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR** Consideration was given to the report which summarised the number of early retirements in the year 2012/2013. The report also provided Members with an update on the current situation on the cost to the fund of early retirements. Members were informed that figures continued to be low and within the parameters. The Committee noted that the costs as a percentage of payroll for the valuation period (April 2011 – 31 March 2014) was 0.59% **RESOLVED: That the contents of the report be noted.**	**Action by**
32.	**PENSIONS ADMINISTRATION PERFORMANCE** Consideration was given to the report which summarised the pension administration performance across key areas of work for the period 1 July 2012 to 30 September 2012. It was noted that performance targets were agreed as part of the service level agreement with Capita and conformed to national targets set for England and Wales. Members were reminded that Pensions Administration was outsourced to Capita Hartshead as part of the pan London Framework Agreement. This had delivered annual savings in administration costs of 27% to the Pension Fund. Capita Hartshead's performance was reported monthly to the Corporate Pensions Manager who monitored performance against the service level agreement contained within the Framework Agreement. The 2nd quarter performance reports indicated an overall average performance of 96.26% per month over the quarter. The three areas of underperformance were reported. **RESOLVED: That the report be noted.**	**Action by**
33.	**PENSION FUND FRAUD** Members were informed that at the Audit Committee meeting in June 2012, reference was made to an article which had been published in the Financial Times regarding Pension Fund Fraud. The Committee	**Action by**

	asked a report be submitted to Pensions Committee on the implications of this on the Hillingdon Pension Fund. Reference was made to the stringent controls which were in place to mitigate any attempt of fraud on the Pensions Fund. Members were informed that the Council was involved in the National Fraud Initiative which was an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. All controls and routines were checked annually as part of the audit of the pensions function and to date there had been no concerns regarding the administration processes, although the first audit with Capita had not yet been undertaken. **RESOLVED: That the information contained in the report be noted.**	
34.	**REVIEW ON LIMITS ON INVESTMENT** The Committee was informed that as a result of continuing drawdowns into Private Equity Investments and the investment of monies transferred from Marathon to SSgA, the Fund was in breach of investment limits within the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009. Under Regulation 15 of those regulations, an administering authority has the power to increase those limits and the report was requesting that the Pensions Committee exercised that authority to increase the limits. **RESOLVED: That approval be given under Regulation 15 of the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009, for the period from 13 December 2012 to 12 December 2013 to:** **1. Increase in the limit of contributions to any single partnerships from 2% of Fund value to 5%;** **2. Increase in the limit of contributions to partnerships from 5% of Fund value to 15%;** **3. Increase in the limit of any single insurance contract from 25% of Fund value to 35%; and** **4. Approve the amendment to Appendix B of the Statement of Investment Principles to reflect these decisions.**	**Action by**
35.	**REPORT FROM INVESTMENT SUB-COMMITTEE & UPDATE ON INVESTMENT STRATEGY** This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).	

36.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).	**Action by**
	The meeting, which commenced at 5.30 pm, closed at 6.00 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	Tunde Adekoya, 01895 556350

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

SUMMARY

This report reviews the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 31 December 2012. The total value of the fund's investments as at the 31 December was £631.7m. This represents an increase of £12.9m over the value of fund's assets at the end September 2012.

RECOMMENDATION

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

1. INFORMATION

The performance of the Fund for the quarter to 31 December 2012 showed an outperformance of 0.84%, with a return of 3.12% compared to the benchmark of 2.28%. All Managers except UBS Property outperformed their relative benchmark during the quarter. One year figures show returns of 9.07%, an outperformance of 0.96%.

Performance Attribution Relative to Benchmark

	Q4 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
UBS	6.73	17.76	7.78	3.84	9.83
UBS Property	(1.36)	(0.09)	6.07	(2.76)	(1.06)
SSgA	3.80	11.40	7.59	-	12.83
SSgA Drawdown	0.97	4.11	4.28	-	5.12
Ruffer	2.49	3.36	-	-	4.43
M&G	1.05	5.00	-	-	4.55
JP Morgan	1.69	7.23	-	-	6.83
Total Fund	**3.12**	**9.07**	**6.62**	**1.74**	**6.41**

Market Commentary

'Cautiously optimistic' perhaps best captures the market's sentiment over Q4 2012. Issues within the Eurozone took a back seat, while events in the US moved to the fore. Investors increasingly focused their attention on the US presidential election and, more importantly, the fiscal cliff. Markets moved both in anticipation of, and reaction to the political deadlock.

While a convincing November election victory for President Obama reduced immediate political uncertainty, the US ultimately returned the governing landscape to its status quo leaving markets vulnerable to after-shocks of brinkmanship. Unease was compounded by a weak US earnings season. Market nerves calmed in December, with the Federal Reserve cementing its commitment to accommodative monetary policy provided inflation expectations remain moderate.

In Europe, an overhaul of Greece's floundering bailout plan in November, and agreement on ECB banking supervisory powers suppressed the sovereign debt concerns of Q3 2012, however prevailing economic conditions have been weak. That said, aversion of further sovereign debt headwinds, and, attractiveness on a valuation basis keeping Europe on a solid footing.

Equities

Markets in aggregate were higher over the period but with some sizeable differences in returns between countries and regions. There was also a reversal between the laggards and leaders, e.g. the US equity market, having led gains through Q1 - Q3 2012, underperformed the market over the quarter, suffering a slight negative return. The hype surrounding Japan's Liberal Democratic Party turned into market euphoria following a landslide election victory. Japan, the perennial underperformer, with a Q4 return of around 17% (in local terms), finished the year as one of the best performing markets. Emerging markets, which outperformed their developed market counterparts, and many European markets (aggregate return 7% in Q4) were no different.

2. MANAGER PERFORMANCE

2.1 Manager: JP Morgan
Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have outperformed since inception (Nov 2011) by 2.96% and in the quarter under review, outperformed by 0.82 % with a return of 1.69% against benchmark return of 0.88%.

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
During fourth quarter of 2012, M&G investments underperformed its' benchmark of 3 Month LIBOR +4% p.a. target by (0.07)% with a portfolio return of 1.05% against benchmark figure of 1.12%. For one year the returns regressed to 5.00% compared to 5.21% in Q3 2012, but still outperforming the benchmark return of 4.86% by 0.14%. Since inception at the end of May 2010, the portfolio registers a 4.55% pa return against the benchmark of 4.86% pa, underperforming by (0.31)%. The since inception Internal Rate of Return for this portfolio is now 5.10%.

2.3 Manager: MARATHON (Assets transitioned during October, but manager retained for future investments)

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 2.49% during the quarter and against the return of 0.15% for LIBOR 3 Month GBP delivers an outperformance of 2.33%. This further consolidates outperformance of the previous quarter and means that the year to date and 1 year numbers are now ahead of target by 2.39%. This culminates in a since inception return from May 2010 of 4.43% pa, which translates as an excess return of 3.59% against the benchmark of 0.84% pa.

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

The SSGA passively managed portfolio produced a return of 3.80% in the quarter, just 0.01% ahead of the benchmark. However, the year to date return of 11.40% is just behind target of 11.48%, same as the one year figure. Positive absolute performance in line with the benchmark is seen in longer periods; with the since inception return of 12.83% pa only 0.06% above the benchmark.

2.6 Manager: UBS

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

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

Performance:

	Q4 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	6.73	17.76	7.78	3.84	9.83
Benchmark	3.82	12.30	7.48	4.12	8.75
Excess Return	2.91	5.46	0.30	(0.28)	1.08

The UK equity market continued its' recent resurgence from previous quarter and the FTSE All Share returned 3.82%, in this environment UBS UK Equity posted the highest absolute return of all mandates with 6.73%, leading to outperformance of 2.91% against the benchmark. Looking into the attribution the largest positive contributors amongst overweight positions were Lloyds Banking Group, Dixons and Barclays over both the quarter and 2012 as a whole. Lloyds Banking Group and Barclays shares continued to recover as investors became more willing to look through regulatory and Euro problems and look instead at the large discounts to asset value at which banks trade. Dixons successfully refinanced their borrowings and generated positive like-for-like sales performance despite difficult economies.

The largest negative contributors were overweight positions in the more defensive holdings, notably Vodafone and GlaxoSmithKline, and also the impact of being underweight in HSBC, as it rose through the quarter along with other financial stocks.

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:

	Q4 2012 %	1 Year %	3 Years %	5 Years %	Since Inception %

Performance	(1.36)	(0.09)	6.07	(2.76)	(1.06)
Benchmark	(0.40)	1.10	6.62	(1.97)	(0.39)
Excess Return	(0.96)	(1.19)	(0.55)	(0.80)	(0.67)

The UBS Property portfolio broke the run of positive returns with a figure of -1.36%, the lowest of all mandates, and although the IPD UK PPFI All Balanced Funds index also was in the red, at (0.40) % this translates as an underperformance of (0.96) % (also the lowest of all mandates). This also feeds into the one year as the portfolio now shows a loss of-0.09%, which is (1.19) % behind the IPD. All long periods also demonstrate underperformance and with the exception of the 6.07% pa return over three years, absolute returns are also negative. Since inception, in March 2006, these losses stand at -1.06% and while the benchmark also falls with (0.39) %, the underperformance is now 67 basis points.

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	115,726	6,754	1,032	0	123,512	3,387
UBS Property	49,629	(1,189)	512	(1)	48,951	(481)
SSgA	118,833	4,515	0	0	123,348	8
SSgA Drawdown	10,621	82	0	(4,600)	6,103	(11)
Ruffer	116,286	2,490	401	0	119,177	2,713
M&G	12,782	156	0	1,991	14,929	0
Marathon	59,991	593	0	(60,584)	0	0
SSgA Temporary	0	1,778	0	60,346	62,124	(181)
JP Morgan	73,462	1,243	0	0	74,705	599
Adams Street	20,882	309	6	(114)	21,083	314
LGT	16,580	697	0	(200)	17,077	693
Macquarie	5,840	(6)	0	470	6,304	(7)
Cash	17,027	0	10	(3,418)	13,619	0
Nomura	16	(173)	18	186	47	(36

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 five I fund managers had a positive impact on the appreciation of holdings contributing £7,714k in total. Whilst underperformance by the rest, reduced overall appreciation by £716k.

4. M&G Update

M& G UK Companies Fund

The NAV was valued at £939 million on December 31, 2012 compared with £847 million at the end of the previous quarter. The increase resulted from the earned income, fees, and a new loan for £100m to Drax Finance Ltd, which was offset by the change in market value of the interest rate swap. The fund's return since inception was 5.10%, compared to 5.07% the previous period. The loans are performing in line with expectations and remain marked at par.

M&G Debt Opportunities Fund IV
During the quarter under review, two draw-downs totalling £531k for the M&G Debt opportunities fund was made in October 2012, representing 3.54% of our commitments (£15m) to the fund and total drawdown to date of £1.8m. The fund’s NAV as at 31 December 2012 was £37.7m with a total return since inception of 11.87%. The Fund is currently trying to increase its stake in one of the leverage loan names in which it is already invested. They are actively involved in sourcing the relevant loan and are hopeful that further purchases will be made in the next two quarters. In addition, they are conducting final due diligence on more than five other leveraged loans.

5. Macquarie Update

Overall cost of investment in Infrastructure by the fund was £6.7m as at 31 December 2012. This is spread across three Macquarie funds.

MSIF – Macquarie SBI Infrastructure Fund
The Net Asset Value (“NAV”) of the Fund was USD 471.4 million as at 31 December 2012, an increase of USD 3.7 million from USD 467.7 million as at 30 September 2012. MSIF issued capital call notices totalling USD 40 million in October and November 2012 to fund MSIF’s commitments to Ashoka Concessions Limited, Adhunik Power and Natural Resources and for payment of management fees. The total capital drawn from MSIF investors as at 31 December 2012 increased to USD 584.8 million from USD 544.8 million as at the previous quarter-end.

MEGCIF
Macquarie Everbright Greater China Infrastructure Fund (MEGCIF) issued two capital call notices to investors during the quarter ended 31 December 2012 totalling US$106.44 million. The first capital call during the quarter was made in October 2012 to fund the acquisition of Project Spinnaker (US$26.00 million) and to cover the base management fee for the quarter ended 31 December 2012 (US$2.10 million). The second capital call during the quarter ended 31 December 2012 was made during December. The call comprised US$77.06 million to fund purchase consideration for Zhejiang Wanna and US$0.56 million for budgeted due diligence costs. The Net Asset Value (‚NAV‘) of the Fund was US$182.94 million as at 31 December 2012, an increase of US$102.91 million from US$80.03 million as at 30 September 2012.

MEIF4 - Macquarie European Infrastructure Fund 4
The Manager’s valuation of the Fund’s net assets at 31 December 2012 was €270.1 million, a 4.5 per cent increase from €258.4 million at 30 September 2012. The major valuation movement was the roll forward of OGE from the previous quarter. There were no investments or disposals during the quarter. The investment in Czech Gas Holdings, described in the Fund Overview, was completed post quarter-end and a call notice was sent to investors on 22 January 2013.

OGE
The transition of Open Grid Europe (OGE) to the Fund's ownership continued during the quarter, with many key integration objectives now complete. Major milestones included the signing of a major contract with Hewlett Packard to manage IT infrastructure which is being transferred from the internal system of the previous owner, E.On, agreement with the Works Council and union for an efficiency programme and initiation of the rating process.

Czech Gas Holdings
In December 2012, MEIF4 announced its second acquisition, a Czech gas distribution network. A MEIF4-led consortium acquired a 35 per cent interest (through Czech Gas Holdings1) in RGH, a gas distribution business owning a network covering 80 per cent of the Czech Republic's gas distribution system. The Network consists of 63,700km of pipeline and 2.3 million connection points and has a regulated asset base in excess of €1.5 billion. Czech gas distribution was privatised in 2002 and is supported by an incentive-based regulatory system similar to that found in the UK and Germany.

6. Other Items

At the end of December 2012, £28.8m (book cost) had been invested in private equity, which equates to 4.56% of the fund against the target investment of 5.00%. In terms of cash movements over the quarter, Adams Street called £1.3m and distributed £1.5m, whilst LGT called £756k and distributed £1.1m. 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 £16.2k. Offset against this was £5.7k of expenses leaving a net figure earned of £10.5k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 December 2012 the average value of assets on loan during the quarter totalled £31.8m representing approximately 15.3% of this total.

The passive currency overlay agreed by Committee was put in place at in May 2010 with 100% Euro and 50% Australian dollars (June 2012) hedges. The latest quarterly roll occurred on the 6 February 2013 and resulted in a realised loss of £1.8m, with hedged Euro position accounting for £1.757m of the overall loss. Since inception, the programme has made a net loss of £110k.

For the quarter ending 31 December 2012, Hillingdon returned 3.12%, underperforming against the WM average of 3.60% by (0.48) %. The one year figure shows an underperformance of 4.2%, returning 9.07% against the WM average return of 13.3%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

NIL

London Borough of Hillingdon

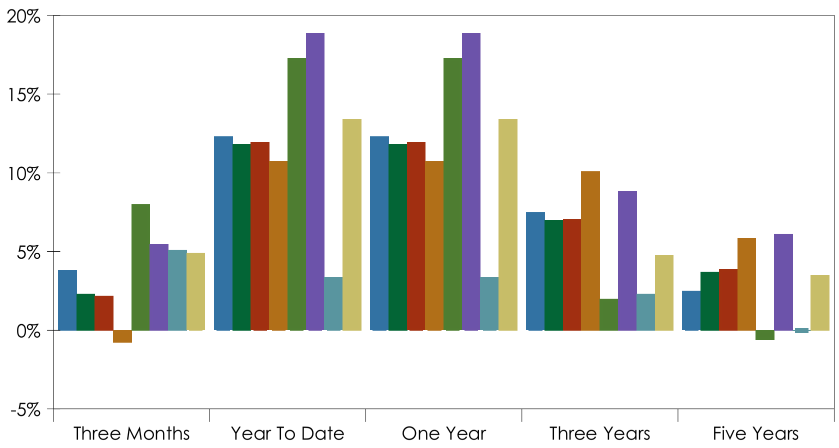
4th Quarter, 2012

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	3.8	12.3	12.3	7.5	2.5
FT: World	2.3	11.8	11.8	7.0	3.7
FT: World ex UK	2.2	11.9	11.9	7.0	3.9
FT: AWI North America	-0.8	10.7	10.7	10.1	5.8
FT: Developed Europe ex UK	8.0	17.3	17.3	2.0	-0.6
FT: Developed Asia Pac x Jp	5.4	18.9	18.9	8.8	6.1
FT AW: Japan	5.1	3.3	3.3	2.3	-0.0
MSCI Emerging Markets GD	4.9	13.4	13.4	4.8	3.5

The Fiscal Cliff dominated headlines leading up to the end of the year. The deal that was eventually achieved could have been much worse and may have led to recession in the US had both sides stuck to their guns. The moral credibility of the financial services industry was further tarnished when it was revealed that certain traders at UBS had manipulated the LIBOR Yen rate by "spoofing" false trades. The abuse was described as epic in scale by the US regulator and resulted in fines totalling $1.5bn. Siegmund Warburg would not have been impressed by a terrible year that included the jailing of a rogue trader and a $377m loss on the botched Facebook IPO. US and UK regulators are making plans to ensure that creditors can cover the losses of any future failing global banks in which taxpayers will be protected and shareholders should expect to be wiped out. The only red numbers for quarter four from the major indexes were seen in North America as the European indexes led the way. Apple shares fell more than 20% over the quarter amid fears that such growth as previously seen is unsustainable. The OECD reduced its growth forecast for the world's advanced economies from 2.2% to 1.4% for 2013. Globally, Financials was the strongest sector over both the last quarter and 2012. Telecoms was the biggest loser over Q4 and Utilities lost most over the year. The price of crude oil futures ended the quarter steady at $111 per barrel. The FTSE World was up by 2.3% (GBP) over quarter four 2012 and is ahead by 11.8% over one year (GBP).

UK GDP increased by 1% in the third quarter of 2012. Monetary policy was kept on hold amid expectations that the economy will contract in quarter four. Unemployment was down at 2.5m, a rate of 7.8%. George Osborne is considering following the continental example and imposing levies on trunk routes to unlock investment in the highway network. He also approved 30 gas fired power stations in an attempt to boost private sector infrastructure investment. RBS is to slash bonuses to cover the cost of a potential £350m fine for its part in the LIBOR rate rigging scandal. HSBC and Standard Chartered have agreed to pay over $2.5bn in fines to US authorities over alleged money laundering. JP Morgan is close to a £500m settlement with the government over tax avoided through an offshore trust for bonus payments. Technology was the strongest sector over the quarter once again and Telecoms continued to be the weakest. The FTSE All Share was up 3.8% (GBP) over the fourth quarter and remains ahead over one year, now by 12.3% (GBP).

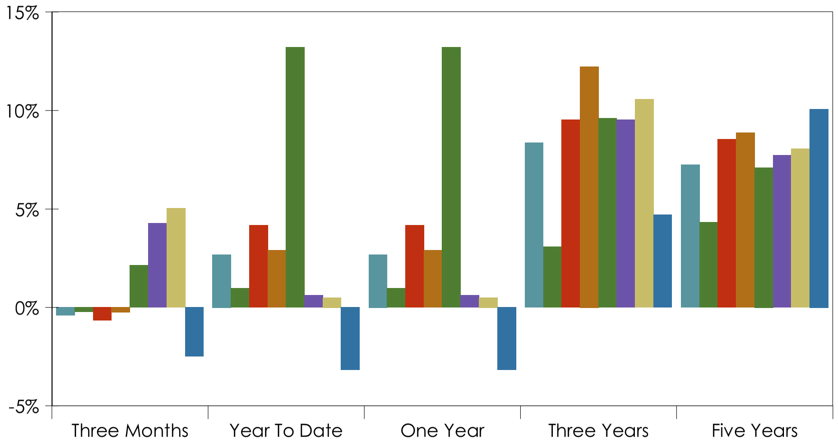
The EU fell into recession over Q3 and looks set to remain there through the start of 2013 as France and Germany are expected to release figures confirming Q4 contraction. The ECB cut its growth forecast for 2013 from +0.5% to a further contraction averaging -0.3% amidst already record unemployment figures. New car sales in Europe slowed to a 15 year low during 2012 and those conditions are expected to continue throughout 2013. Peugeot expects to cut a further 1.5k jobs by the end of 2014 to reduce overcapacity at home, welcome news to investors. Carlos Slim, the world's richest man, experienced a loss close to EUR 2bn on investments in struggling telecoms companies Telekom Austria and Holland's KPN after the values fell by more than 40%. Boris Johnson urged the industrialist Lakshmi Mittal to "Venez a Londres!" (Come to London) following the allegations made of lying and blackmail at ArcelorMittal by the governing Socialist party in France. Eurozone GDP contracted by 0.1% in quarter three following the 0.2% decrease in quarter two and unemployment increased again to a record 11.8%. The FTSE Developed Europe ex UK index returned 8% (GBP) over quarter four and 17.3% (GBP) over the year.

The deal that brought the US back from the edge of the Fiscal Cliff is likely to have an economic impact further into 2013. A fiscal drag of 1.5% on GDP will follow the expiry of the tax holiday adding $1000 to the average family bill. 155,000 jobs were added to US payrolls in December as the economy continued its modest growth. The unemployment rate dropped from the previous quarter to 7.8% (12.2m). The Fed said that it plans to keep interest rates at close to zero until unemployment drops below 6.5%. Car sales jumped by 13% last year, the fastest growth witnessed in over 20 years. GM, Ford and Chrysler all posted sales gains for December 2012 over the same month in 2011. BP agreed a record breaking criminal penalty of $4.5bn for the 2010 Deepwater Horizon catastrophe. Financials was by far the strongest sector over the quarter, Technology beating Telecoms to being the weakest. The FTSE North America index returned -0.8% (GBP) over the fourth quarter and 10.7% (GBP) for the year.

Japan slipped into a recession in the six months to the end of quarter three. Exports dropped for a sixth straight month in December; to China by 14.5% and to the EU by 20%. The incoming Liberal Democrat government will borrow to boost the economy and take a much tougher line than the ousted Democrats in all matters including dealings with China. The FTSE Japan returned 5.1% (GBP) for quarter four and the FTSE Developed Asia Pacific ex Japan returned 5.4% (GBP). Only in the west is 13 viewed as an unlucky number and Asian markets are expected to continue onwards and upwards throughout the year of the snake. The World Bank improved its forecast for Chinese growth up from 8.1% to 8.4% based on stimulus measures and infrastructure projects and backed by a return to manufacturing growth. Xi Jinping, the new Chinese president addressed his subjects for the first time on 15th November. Indian GDP dropped to 5.3% from 5.5% over the previous quarter. Argentina was ordered to pay $1.3bn to hedge funds that refused to restructure their debts following the 2001 default making the possibility of a second default more real. Gold finished down quarter on quarter ending the year at $1,660 per ounce. The MSCI Emerging Markets index returned 4.9% (GBP) for the fourth quarter and 13.4% (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	-0.4	2.7	2.7	8.4	7.2
FTSE All Stock 0-5 Yr. Gilts	-0.2	1.0	1.0	3.1	4.3
FTSE All Stock 5-15 Yr. Gilts	-0.7	4.2	4.2	9.5	8.5
FTSE All Stock > 15 Yr. Gilts	-0.2	2.9	2.9	12.2	8.9
ML STG N-Gilts All Stocks	2.2	13.2	13.2	9.6	7.1
FTSE Index Linked	4.3	0.6	0.6	9.5	7.7
FTSE Index Linked 5+ yrs	5.0	0.5	0.5	10.6	8.1
JPM GBI Global	-2.5	-3.2	-3.2	4.7	10.1

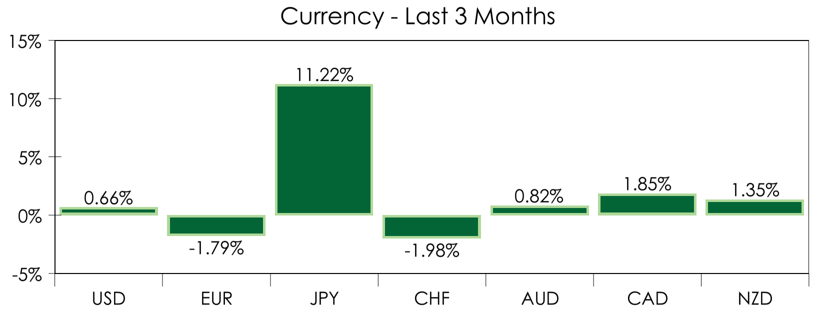
The OECD urged policymakers to consider further easing to stimulate growth, as it revised down its growth forecast. The global economy is expected to grow by only 2.9% in 2012 and 3.4% in 2013, down from the 3.4% and 4.2% predictions made earlier this year. However global private sector output expanded at the fastest pace for nine months in December, according to the JPMorgan Global Manufacturing & Services Purchasing Managers Index (PMI). At 53.7 in December, the services sector led the growth with strongest rates of increase from the US and India. The Eurozone and Japan were the principal drags on the global economy, both seeing output contracting further while UK economic output stagnated. Japan's economy shrank by 0.9% in the third quarter, entering recession for the fifth time in 15 years. The newly elected Liberal Democrat party called for substantial increase in fiscal stimulus to tackle deflation and revive the economy. China's growth appears to have stabilised as December's final Manufacturing PMI, posted 51.5, the highest index reading since May 2011. Central bank interventions continue to hold core government bond yields at historic lows. This saw investors chasing better yielding assets and resulted in global high yield corporate bond issuance at a record high in 2012. Over the quarter and year to date the JPM Global Govt Bond index declined -2.5% and -3.2% while the Barclays Capital Global Aggregate Corporate Bond index delivered +1.2% and +6.3% (all GBP).

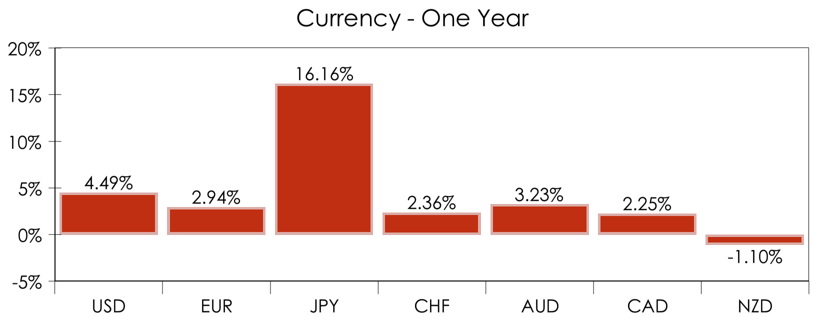
In the UK the Monetary Policy Committee (MPC) held the Bank rate at 0.5%, and QE unchanged at £375bn. Minutes of the MPC November meeting indicated that they view the Treasury's decision to transfer £37bn of coupons from the APF, as a form of QE while starting to question the effectiveness of more monetary loosening. Data showed an increase in mortgage approvals in November and the BoE's Q4 survey reveals a noticeable easing in credit conditions, signs that it's Funding for Lending Scheme (FLS) may be starting to feed down to households. The Office for Budget Responsibility (OBR) cut their economic growth forecasts, revising 2012 to contract by 0.1% instead of growing by 0.8% as forecast in March. The Chancellor's Autumn Statement proved to be fiscally neutral, recognising that it will require another year of austerity to meet his fiscal mandate of eliminating the structural deficit over the next 5 years as borrowing projections were increased. Official data showed UK GDP grew by 1.0% in Q3, buoyed by higher consumer spending and service sector activity resulting from the Olympics. The latest PMI for the services sector registered 48.9 in December, the lowest since April 2009. Given that the sector accounts for two thirds of UK business activity, fears that output contracted in the 4th quarter and the prospect of a "triple dip" recession have arisen. In spite of these concerns, improved global risk sentiment saw UK bond yields rise over Q4. The benchmark 10-year gilt yield rose over the quarter from 1.72% to close at 1.85%. The FTSE All Stock Gilt index returned -0.4% for the quarter and +2.7% year to date while the ML Sterling Non Gilts gained +2.2% and +13.2% (all GBP) over the same periods.

The ECB left interest rates unchanged at 0.75% and revised down its growth forecasts as "economic weakness extends into 2013". Pressure on periphery debt markets eased considerably towards year end, due to the ECB's statement to do "whatever it takes" accompanied by the launch of the Outright Monetary Transactions (OMT) programme. Yields on government debt in Italy, Spain and particularly in Greece are well down from levels seen earlier this year. Italy's 2-year borrowing costs fell, successfully selling EUR11.75bn of government debt at the end of December even amid political uncertainty as PM Monti resigned. Greek bond yields plunged to their lowest since March 2011 after the ECB accepted their eligibility as collateral. This was on top of the rally caused by S&P's credit rating upgrade from "selective default" to -B. France's weakening economic outlook convinced Moody's to downgrade to Aa1 from Aaa. 10-year yields on Spanish, Italian and Greek bonds have fallen over the quarter from 6.0%, 5.2% and 19.7% to 5.3%, 4.5% and 11.8% respectively. The Eurozone economy has continues to contract, albeit at a slower rate as the December Eurozone Composite PMI came in at 47.2, a nine month high. Unemployment in the Eurozone increased for a fourth consecutive month to hit a record high of 11.8% in November. The benchmark German Bund 10-year yield fell from 1.46% in September to 1.32% at the end of the year. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities, tightened from 136.2 at the end of September to close the quarter at 117.5. The JPM European Govt Bond index returned +1.8 and +9.4% for Q4 and the year to date respectively, while the Barclay Capital Euro Aggregate Credit index was up at +2.8% and +13.1% (all EUR) for the same periods.

US GDP growth in Q3 was revised up to 3.1% (annualised) following higher exports and consumer spending. That and the Markit Composite PMI average of 58.0 in the 4th quarter, suggest the economy continued to expand towards the end of 2012. However the political backdrop - the Presidential election with the re-election of President Obama and the fractious negotiations on averting the US 'fiscal cliff', ensured uncertainty in the markets throughout the last quarter of the year. Unemployment was unchanged from last quarter at 7.8%. In an effort to drive the recovery forward, the US Federal Reserve has tied its interest rate policy to the state of the economy. At the December meeting the FOMC announced that interest rates would be kept exceptionally low until unemployment falls below 6.5% and would not increase as long as inflation forecast 1-2 years ahead is not higher than 2.5%. The Fed's asset purchase programme was increased to $85bn of Treasury and mortgage backed securities a month, essentially open-ended as also linked to substantial improvement in the labour market. In the bond markets, the record low borrowing costs and demand for higher yielding alternatives to governments pushed US corporate debt sales to a record $1.4trn in 2012, according to Dealogic data. The 10-year benchmark Treasury yield at 1.64% at the beginning of the quarter, closed the year at 1.76%. This saw the JPM US Govt Bond index down for the quarter at -0.1% and up for the year at +2.2% while the Barclay Capital US Aggregate Corporate Bond index gained +1.1% and +9.8% (all USD) over the same periods.

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	0.66	4.48	4.48	0.22	-4.05
European Union euro	-1.79	2.94	2.94	3.04	-1.98
Japanese yen	11.22	16.12	16.12	-2.24	-9.17
Swiss franc	-1.98	2.35	2.35	-3.83	-8.29
Australian dollar	0.82	3.22	3.22	-4.56	-7.40
Canadian dollar	1.85	2.25	2.25	-1.50	-3.87
New Zealand dollar	1.35	-1.10	-1.10	-3.96	-5.44

The fourth quarter of 2012 saw a strengthening of the EURO against the Dollar, Sterling and Yen. Sterling strengthened against the Dollar and Yen. In the same period, the Dollar weakened against the Euro and Sterling. The Yen was the big story of the quarter, seeing large losses against all the major currencies. Japan has seen a sharp decline in exports to China over the three months to 31-December-2012, reflecting a slowdown in Chinese growth and the lingering damage of a territorial dispute in the East China Sea. In November, the falling exports to China helped to push the Japan's trade deficit to \$11.3bn, the third largest monthly deficit in more than 30 years and the fifth consecutive monthly decline. The deteriorating trade balance will put pressure on Japan's new prime minister, Shinzo Abe, to fulfil his campaign promise to inflate the economy, weaken the currency and return the country to a growth path. Mr Abe, the seventh prime minister in as many years, has vowed to fight deflation by easing monetary policy and weakening the yen. The Bank of Japan has resumed its asset purchasing, adding a further Y10tn to the easing programme. In late December, Australia's government abandoned a long-held pledge to return its budget to surplus, blaming a painfully high Australian Dollar, low export earnings and lower company profits for generating a large hole in tax takings. Treasurer Wayne Swan said cutting spending further to achieve its pledge of a small surplus in the fiscal year, to June 2013, would threaten economic growth and be self defeating.

In the UK, Q4 2012 saw Sterling strengthen against the Dollar and Yen and weaken against the Euro. Minutes from the latest Monetary Policy Committee meeting, held in early December, showed that only one member (David Miles) preferred to increase the size of the asset purchase programme, by a further £25 billion, to a total of £400 billion. However, all nine MPC members voted to keep rates at the historic low of 0.5%. The annual rate of inflation in the UK, as measured by the consumer price index, rose to 2.7% in November, up 0.2% from the August figure of 2.5%. The largest price rises were seen in the cost of fruit, bread and cereals, as well as in energy bills. CPI inflation is now expected by many investors and economists to creep up further in 2013 as further increases in electricity and gas prices take effect. Unemployment in the UK fell by 82,000 to 2.51 million in the 3 months to October 2012. This was the biggest quarterly fall in unemployment since 2001. The jobless rate fell to 7.8%, down 0.3% from the previous quarter. Employment rose by 40,000 to 29.6 million, the highest figure since records began in 1991. House prices fell 0.1% in December and ended 2012 down 1.0% according to figures from Nationwide building society. The average price of a home at is now quoted at £162,262. Sterling closed the quarter up against the Yen and Dollar by 11.2%, 0.7% respectively and down against the Euro by 1.8%.

In the US, much attention has been focused on the November 6 election, which saw Barack Obama re-elected for a second term, and the fiscal cliff at the end of December. In the run up to the end-of-year deadline to avert the fiscal cliff - swooping tax rises and spending cuts that threatened to derail the US economy - businesses pulled back on their spending until a resolution was found. Factory activity also stagnated on the back of weaker consumer confidence levels in the US as well as slowing growth in China and a weak Europe. The US manufacturing sector rebounded slightly in December even as slowing domestic demand and global growth momentum stalled activity in the final months of 2012. Without a doubt, the US housing market has been the most successful sector of the US economy this year. Prices rose in 18 of 20 US cities in October compared to a year ago, pushed up by rising sales and a decline in the supply of available homes. The Case Stiller home-price index, increased 4.3% in October compared to a year ago. Rising home prices allow lenders to be more generous with home financing, which allows even more prospective home buyers to access the market, further driving up home prices. Higher values give consumers more confidence to go out and spend money which stimulates the real estate market and the broader economy. The US un-employment rate has remained steady at 7.8% in December. The US economy needs to add 90,000 jobs per month to keep up with population growth. The number of unemployed in the US now stands at 12.2 million. The US trade deficit stood at \$42.2bn in October 2012. Exports stood at \$180.5 billion and imports at \$222.8 billion. The goods deficit with China increased from \$29.1 billion in September to \$29.5 billion in October with exports increasing by \$2.0 billion (primarily soybeans) to \$10.8 billion, and imports increasing by \$2.4 billion (primarily computers and toys, games and sporting goods) to \$40.3 billion. The Dollar ended the quarter down against the Euro and Sterling by 2.5% and 0.7% respectively and up against the Yen by 11.7%.

In the Euro area, the Euro strengthened against the Sterling, Dollar and Yen this quarter. The governing council of the European Central Bank left interest rates unchanged at 0.75% in December. President Mario Draghi provided a gloomy assessment of the euro-zone economy, acknowledging that some members of the bank's governing council pushed for a rate cut and opened the door to such a move if conditions do not improve. In the 17-nation eurozone, inflation rate fell in November to a 2-year low of 2.2% and estimated to remain at this level in December. The lower inflation rate would make it easier for the central bank if it were to decide to cut its interest rate. Unemployment in the eurozone hit a fresh high of 18.8 million in November. The jobless in the 17-country region reached a new high of 11.8% in November, the highest since the launch of Europe's monetary union in 1999. The highest unemployment rate was recorded in Spain (26.6%) and Greece (26.0%). The lowest rates were recorded in Austria (4.5%) and Germany at (5.4%). Much of the increase in the overall unemployment rate is being directly attributed to the austerity measures that have been imposed over much of Europe. The Euro ended the quarter up against the Dollar, Sterling and Yen by 2.5%, 1.8% and 13.0% respectively.

Scheme Performance

Global equity markets, with the exception of the US, pushed on during the final quarter of 2012 and Japan aside finished the year with double digit growth; while UK Gilts fell, but Index-linked regained ground and Corporates continued to grow. Against this backdrop the London Borough of Hillingdon returned 3.12% beating the Total Plan benchmark of 2.18% by 93 basis points. In monetary terms this is a growth in assets of £19.2 million and the value of the combined scheme now stands at £631.72 million as at 31st December 2012. During this period £6.4 million was withdrawn from the scheme, specifically from SSGA Drawdown and the cash account, while Marathon was terminated and the £60 million was moved into an SSGA Global Equity Fund. Looking further into the analysis the main drivers were the outperformance of Ruffer and UBS, who between them make up over a third of the fund, although this was offset by UBS Property. In allocation terms most mandates are in line with the neutral position with the only notable impact coming from SSGA Global Equity due to the investment in this fund.

The good result this period feeds into the longer numbers, producing an outperformance of 1.09% in 2012 with returns of 9.07% versus 7.89%. Over the year Ruffer and UBS continue to be the main drivers coupled with positive effects from Marathon while the main detractor was Private Equity assets. Once again allocation is fairly balanced with just a small negaitve impact coming from underweighting UBS and the exposure to the unbenchmarked Macquarie fund. The 3 year numbers show a 0.64% relative return, but then underperformance is still seen for the 5 year and since inception, although since September 1995 this is just 2 basis points with an annualised return of 6.41% against 6.44%.

Manager Performance

JP Morgan

In the latest quarter JP Morgan investments grew a further 1.69% which compared to the 0.88% target of the 3 Month LIBOR + 3% translates as a 0.81% relative outperformance. This means they finish the year with a return of 7.23% which compares favourably with the benchmark of 3.26%, while since inception (November 2011) the return drops to 6.83%, but this is still 2.85% ahead of target on a relative annualised basis.

Macquarie

Macquarie portfolio was in the red again in the fourth quarter, with a return of -0.10%, which means for the last twelve months they are the worst performers with -15.37%. Since inception in September 2010 they've delivered six negative quarterly returns out of nine, leading to an annualised loss of -11.60%.
At present no benchmark has been applied to this mandate.

M&G Investments

Over the fourth quarter of 2012, M&G produced a 1.05%, which was just 7 basis points behind the 3 Month LIBOR +4% p.a. target. Over the last year the account registers exactly 5% against 4.86% whilst since inception at the end of May 2010, the portfolio return falls to 4.55% pa return whilst the benchmark remains 4.86% pa. While the since inception Internal Rate of Return for this portfolio is now ahead of the target with a figure of 5.17% opposed to the comparator of 5.06%.

Ruffer

The Ruffer portfolio returned 2.49% during the quarter and against the return of 0.15% for LIBOR 3 Month GBP delivers an outperformance of 2.33%. This culminates in a 2012 return of 3.36% against 0.97% for the target, resulting in the 2.36% outperformance. While since inception (May 2010) seven out of ten quarters show positive returns and lead to figures of 3.83% versus 0.84% per annum, which translates as a relative return of 3.56%.

Manager Performance

Private Equity

The private equity assets, consisting of funds with Adam Street and LGT, regained some of the losses seen in the previous period returning 1.51% and 4.22% respectively in the latest quarter. This results in the one year figures demonstrating positive absolute returns with Adam Street on 6.73% and LGT with 6.46%. Over the longer periods, the outlook over which private equity investments should be measured, improvements in the absolute returns are seen over three years with Adam Street increasing to 12.07% and LGT with 10.21% for the same period. However, since their respective inceptions in May 2004 and January 2005, while LGT posts 8.19% pa, Adam Street drops to just 0.76% pa.

At present no benchmark has been applied to these mandates.

SSGA

The SSGA passively managed portfolio produced a return of 1.10% in the quarter which was a mere 1 basis point over the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So for 2012 they produce an 11.40% return, which is still just behind target, while over 3 years the per annum return falls to 7.59% which sits just 5 basis points above the benchmark. Since inception (November 2008) a return of 12.83% pa is only 6 basis points above the benchmark, but the passive nature is best demonstrated by the 3 year R squared and beta figures of 1, while the tracking error is just 0.16.

SSGA Drawdown

The SSGA Drawdown fund posted 0.97% in the latest period with the blended benchmark showing 1.08%, the fourth quarter in a row of underperformance. Which mean for the year they demonstrate the lowest relative return with -2.33%, however, these results are entirely due to the mandate being over 60% in the liquidity fund for much of the year as opposed to the 50/50 split of the benchmark. The results seen in 2012 feed into all longer periods, although since inception the weights average out over time and the gap over longer periods closes slightly with the funds annualised return of 5.12% against 5.60% for the benchmark.

SSGA Global Equity

During October 2012, the Marathon mandate was terminated and the funds temporarily moved into an SSGA Global Equity account measured against the FTSE All World Index. In the short time they have been invested they post a return of 2.98% since 23rd October, while the index for the same period is 1.86%, resulting in an outperformance of 1.09%.

UBS

The UBS UK Equity again posted the highest absolute return of all mandates with 6.73%, which also means they demonstrated the biggest relative return of 2.80% when compared to the FTSE All Share figure of 3.82%. Looking into the attribution analysis, stock selection was the main driver with outperformance in all but two sectors, but the most notable being Consumer Services (0.92%) and Financials (0.82%). Whilst asset allocation detracted from these gains with the positive decision of overweighting Consumer Services (0.24%) more than offset by underweighting Financials (-0.23%) and overweight in Telecoms (-0.16%). These results are mirrored over one year, with UBS again delivering the highest absolute and relative figures, with returns of 17.76% vs. 12.30%. This 4.86% relative return is also attributable to selection effects in Financials (2.63%) and Consumer Services (1.75%) which is offset by negative asset allocation with the main impact being underweighting Financials (-0.58%). UBS maintain this outperformance over three years but across longer periods they start to fall below the benchmark, although they still demonstrate outperformance since inception with figures of 9.83% versus 8.75% on an annualised basis.

UBS Property

The UBS Property portfolio broke the run of positive returns with a figure of -1.36%, the lowest of all mandates, and although the IPD UK PPFI All Balanced Funds index also was in the red, at -0.40% this translates as an underperformance of -0.97% (also the lowest of all mandates). This also feeds into the one year as the portfolio now shows a loss of-0.09%, which is -1.17% behind the IPD. All long periods also demonstrate underperformance and with the exception of the 6.07% pa return over three years, absolute returns are also negative. Since inception, in March 2006, these losses stand at -1.06% and while the benchmark also falls with -0.39%, the underperformance is now 68 basis points.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 10/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 11/12	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 12/12	Active Contribution 4Q 2012
Adam Street	0.36	-	0.36	-	74,590.75	0.53	-	0.53	-	109,316.63	0.62	-	0.62	-	129,984.40	313,891.78
JP Morgan	0.66	0.29	0.37	0.36	268,986.94	0.47	0.29	0.18	0.18	131,374.76	0.56	0.29	0.27	0.27	198,870.73	599,232.44
LGT	1.58	-	1.58	-	262,219.07	1.48	-	1.48	-	244,582.04	1.10	-	1.10	-	186,144.10	692,945.21
Macquarie	-2.31	-	-2.31	-	-135,162.42	2.47	-	2.47	-	141,014.63	-0.20	-	-0.20	-	-12,366.87	-6,514.66
Marathon	0.76	-	0.76	-	0.00	0.00	-	0.00	-	0.00	0.00	-	0.00	-	0.00	0.00
M&G Investments	0.04	0.37	-0.33	-0.33	-45,034.88	0.00	0.37	-0.37	-0.37	-50,140.95	1.01	0.37	0.64	0.64	94,755.49	-420.34
Nomura	-0.50	-	-0.50	-	-6,830.09	-42.89	-	-42.89	-	-37,112.84	19.47	-	19.47	-	7,679.61	-36,263.32
Ruffer	-0.76	0.06	-0.82	-0.82	-955,807.79	1.48	0.04	1.44	1.44	1,658,703.91	1.76	0.05	1.72	1.72	2,010,361.65	2,713,257.77
SSGA	0.60	0.60	-0.00	-0.00	-2,360.59	2.06	2.06	-0.00	-0.00	-690.33	1.10	1.09	0.01	0.01	10,863.24	7,812.32
SSGA Drawdown	0.26	0.34	-0.08	-0.08	-6,987.56	0.53	0.63	-0.10	-0.09	-8,270.00	0.17	0.10	0.07	0.07	4,036.37	-11,221.18
SSGA Global Equit	-	-	-	-	0.00	1.92	1.86	0.06	0.06	37,773.55	0.62	0.98	-0.35	-0.35	-219,216.16	-181,442.61
UBS	1.20	1.03	0.17	0.16	193,020.79	2.84	1.75	1.09	1.07	1,295,264.05	2.55	0.99	1.56	1.55	1,898,971.11	3,387,255.95
UBS Property	0.26	0.25	0.01	0.01	4,405.96	-0.80	0.01	-0.81	-0.81	-403,153.05	-0.83	-0.66	-0.17	-0.17	-81,912.16	-480,659.25

Total Fund Market Value at Qtr End: £631.7 M

Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	631.7	100.00	3.12	2.18	0.95	0.93	9.07	7.89	1.18	1.09	9.07	7.89	1.18	1.09

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	21.1	3.34	1.51	-	-	-	6.73	-	-	-	6.73	-	-	-
JP Morgan	74.7	11.83	1.69	0.88	0.82	0.81	7.23	3.85	3.38	3.26	7.23	3.85	3.38	3.26
LGT	17.1	2.70	4.22	-	-	-	6.46	-	-	-	6.46	-	-	-
Macquarie	6.3	1.00	-0.10	-	-	-	-15.37	-	-	-	-15.37	-	-	-
Marathon	0.0	0.00	0.76	-	-	-	14.88	-	-	-	14.88	-	-	-
M&G Investments	14.9	2.36	1.05	1.12	-0.07	-0.07	5.00	4.86	0.14	0.13	5.00	4.86	0.14	0.13
Ruffer	119.2	18.87	2.49	0.15	2.33	2.33	3.36	0.97	2.39	2.36	3.36	0.97	2.39	2.36
SSGA	123.3	19.53	3.80	3.79	0.01	0.01	11.40	11.48	-0.08	-0.07	11.40	11.48	-0.08	-0.07
SSGA Drawdown	6.1	0.97	0.97	1.08	-0.11	-0.11	4.11	6.60	-2.49	-2.33	4.11	6.60	-2.49	-2.33
SSGA Global Equity	62.1	9.83	-	-	-	-	-	-	-	-	-	-	-	-
UBS	123.5	19.55	6.73	3.82	2.91	2.80	17.76	12.30	5.46	4.86	17.76	12.30	5.46	4.86
UBS Property	49.0	7.75	-1.36	-0.40	-0.96	-0.97	-0.09	1.10	-1.19	-1.17	-0.09	1.10	-1.19	-1.17

Total Fund Market Value at Qtr End: £631.7 M

Scheme Performance

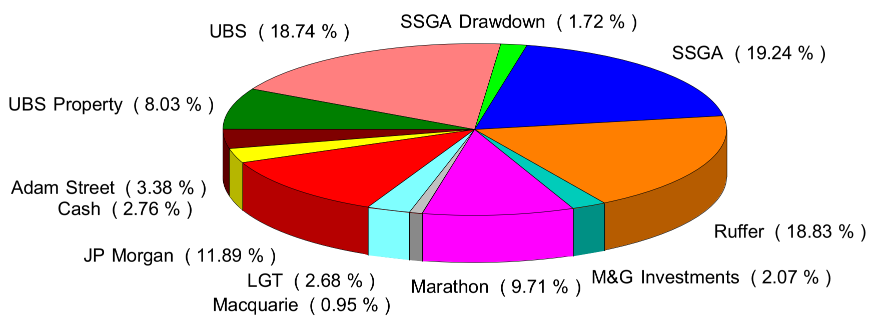
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	6.62	5.94	0.67	0.64	1.74	2.57	-0.82	-0.80	30/09/95	6.41	6.44	-0.03	-0.02

By Manager

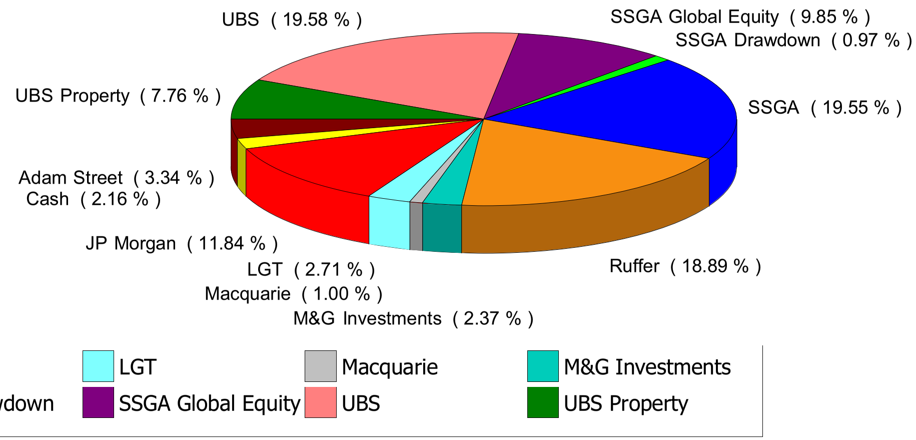
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	12.07	-	-	-	7.11	-	-	-	31/01/05	0.76	-	-	-
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	6.83	3.87	2.96	2.85
LGT	10.21	-	-	-	6.60	-	-	-	31/05/04	8.19	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	-11.60	-	-	-
Marathon	-	-	-	-	-	-	-	-	09/06/10	8.68	-	-	-
M&G Investments	-	-	-	-	-	-	-	-	31/05/10	4.55	4.86	-0.31	-0.30
Ruffer	-	-	-	-	-	-	-	-	28/05/10	4.43	0.84	3.59	3.56
SSGA	7.59	7.54	0.05	0.05	-	-	-	-	30/11/08	12.83	12.77	0.06	0.06
SSGA Drawdown	4.28	4.90	-0.62	-0.59	-	-	-	-	30/06/09	5.12	5.60	-0.48	-0.46
SSGA Global Equity	-	-	-	-	-	-	-	-	23/10/12	2.98	5.44	-2.46	-2.33
UBS	7.78	7.48	0.30	0.28	3.84	4.12	-0.28	-0.27	31/12/88	9.83	8.75	1.08	0.99
UBS Property	6.07	6.62	-0.55	-0.52	-2.76	-1.97	-0.80	-0.81	31/03/06	-1.06	-0.39	-0.67	-0.68

Total Fund Market Value at Qtr End: £631.7 M

Weighting at Beginning of Period



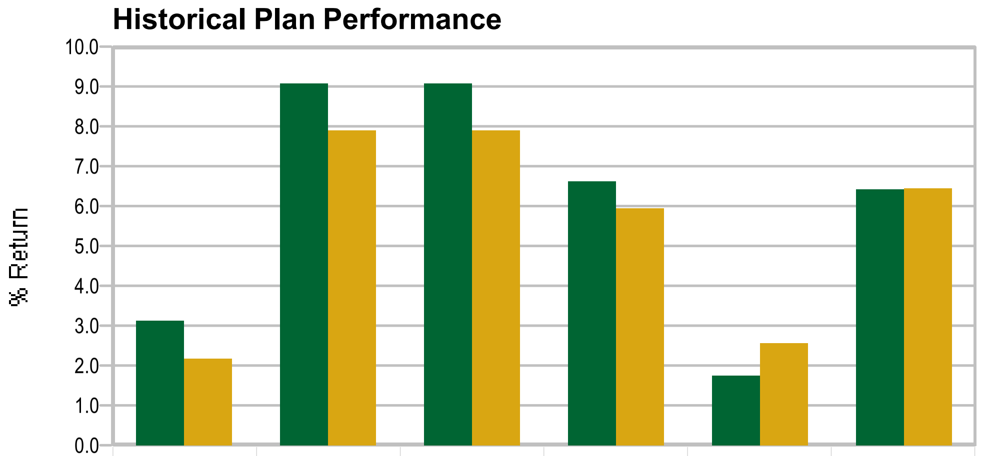
Weighting at End of Period



Page 23

	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	618,846	100.00	-6,367	17,261	1,978	631,719	100.00
Adam Street	20,882	3.37	-114	309	6	21,082	3.34
Cash	17,027	2.75	-3,418	0	10	13,618	2.16
JP Morgan	73,462	11.87	0	1,243	0	74,704	11.83
LGT	16,580	2.68	-200	697	0	17,077	2.70
Macquarie	5,840	0.94	470	-6	0	6,304	1.00
Marathon	59,991	9.69	-60,584	593	0	0	0.00
M&G Investments	12,782	2.07	1,991	156	-0	14,930	2.36
Nomura	16	0.00	186	-173	18	47	0.01
Ruffer	116,286	18.79	0	2,490	401	119,176	18.87
SSGA	118,833	19.20	0	4,515	0	123,348	19.53
SSGA Drawdown	10,621	1.72	-4,600	82	-0	6,102	0.97
SSGA Global Equity	-	-	60,346	1,778	0	62,124	9.83
UBS	115,726	18.70	0	6,754	1,032	123,512	19.55
UBS Property	49,629	8.02	-1	-1,189	512	48,951	7.75

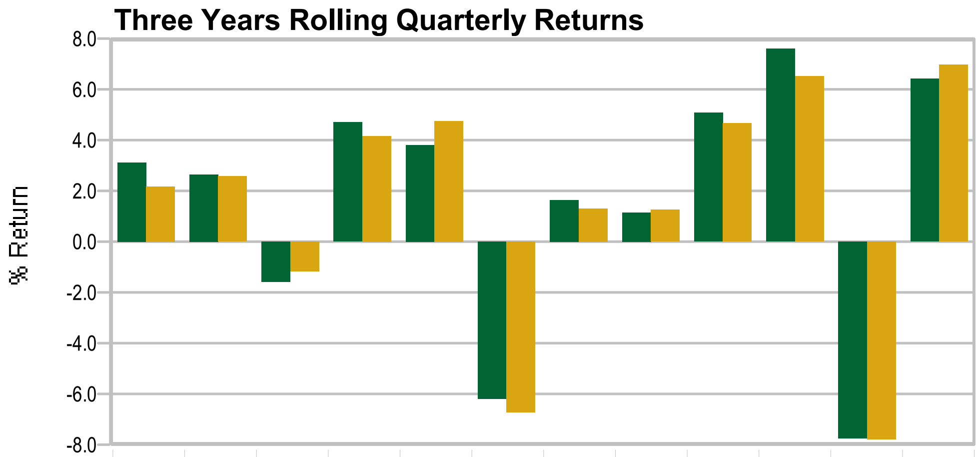
London Borough of Hillingdon



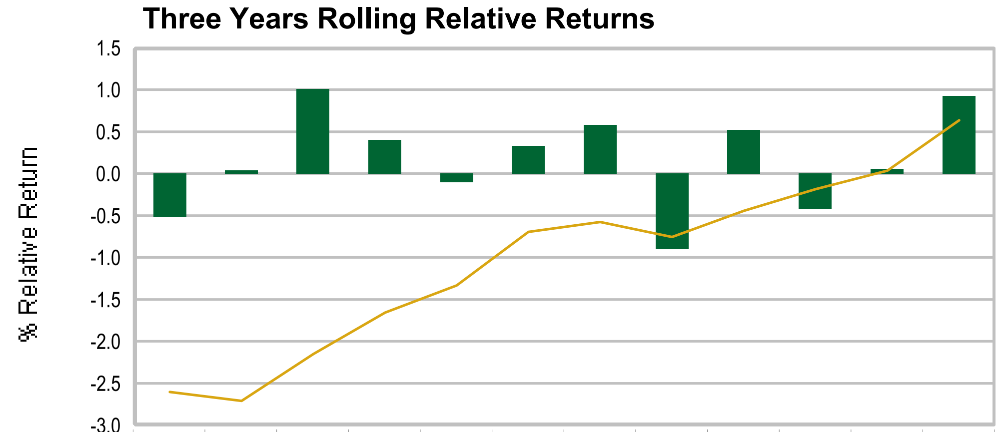
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.12	9.07	9.07	6.62	1.74	6.41
Benchmark	2.18	7.89	7.89	5.94	2.57	6.44

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	6.62	5.94
Standard Deviation	7.66	7.45
Relative Return	0.64	
Tracking Error	1.27	
Information Ratio	0.53	
Beta	1.02	
Alpha	0.58	
R Squared	0.97	
Sharpe Ratio	0.71	0.64
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	618,846	
Net Investment £(000)	-6,367	
Income Received £(000)	1,978	
Appreciation £(000)	17,261	
Closing Market Value (£000)	631,719	



	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	3.12	2.64	-1.59	4.71	3.82	-6.20	1.64	1.15	5.08	7.60	-7.77	6.41
Benchmark	2.18	2.58	-1.18	4.16	4.76	-6.74	1.31	1.26	4.67	6.52	-7.81	6.97

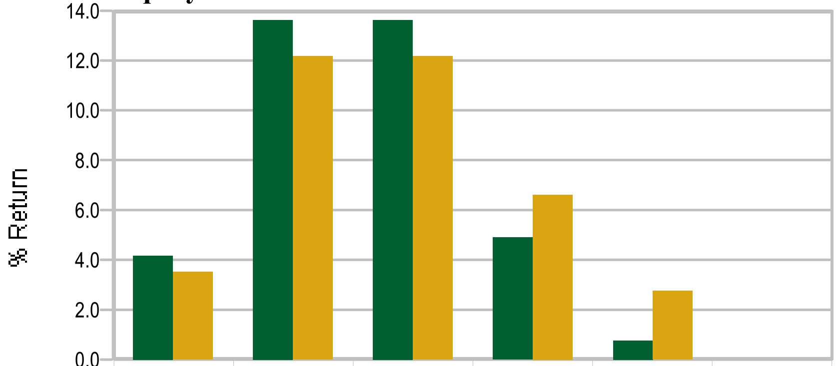


	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-0.52	0.04	1.01	0.40	-0.11	0.33	0.58	-0.90	0.52	-0.42	0.06	0.93
3Y Relative	-2.60	-2.71	-2.15	-1.66	-1.34	-0.70	-0.58	-0.75	-0.45	-0.19	0.04	0.64

London Borough of Hillingdon

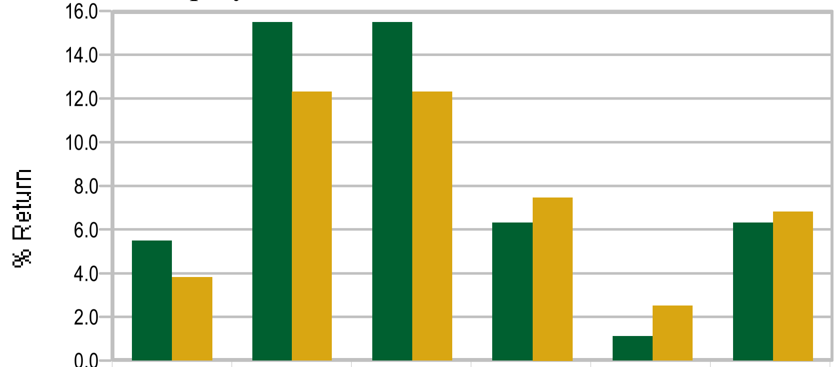
Page 25

Equity



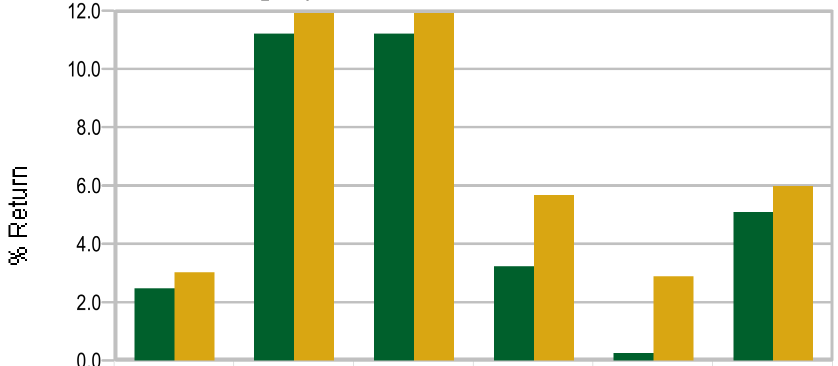
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.17	13.62	13.62	4.90	0.77	-
B'Mark	3.52	12.19	12.19	6.62	2.77	-

UK Equity



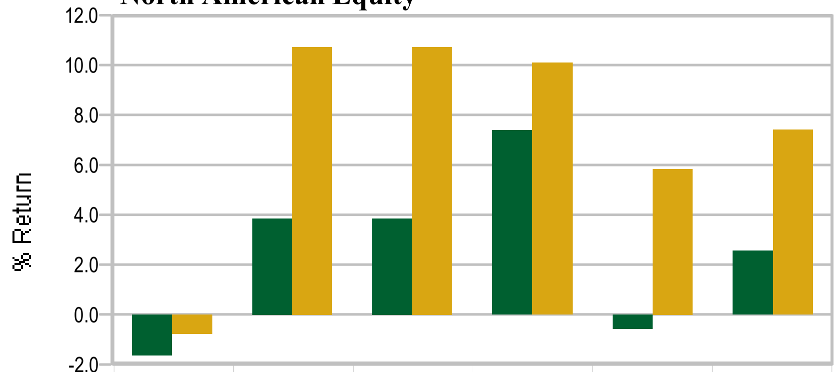
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.49	15.49	15.49	6.32	1.11	6.33
B'Mark	3.82	12.30	12.30	7.48	2.51	6.83

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.46	11.21	11.21	3.23	0.26	5.10
B'Mark	3.02	11.91	11.91	5.67	2.89	5.96

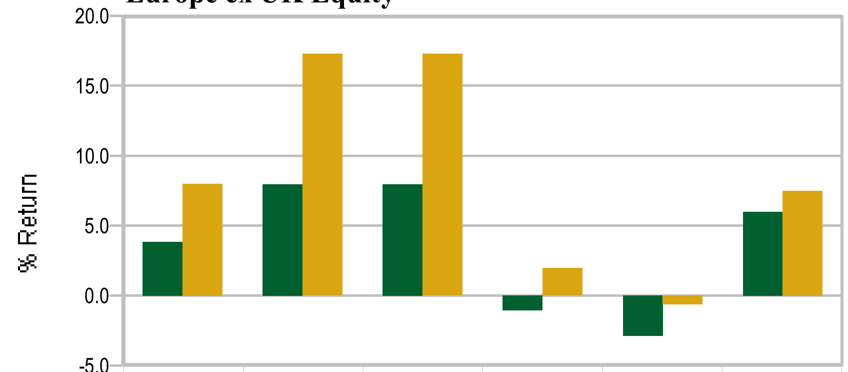
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.64	3.86	3.86	7.39	-0.58	2.55
B'Mark	-0.78	10.72	10.72	10.10	5.84	7.40

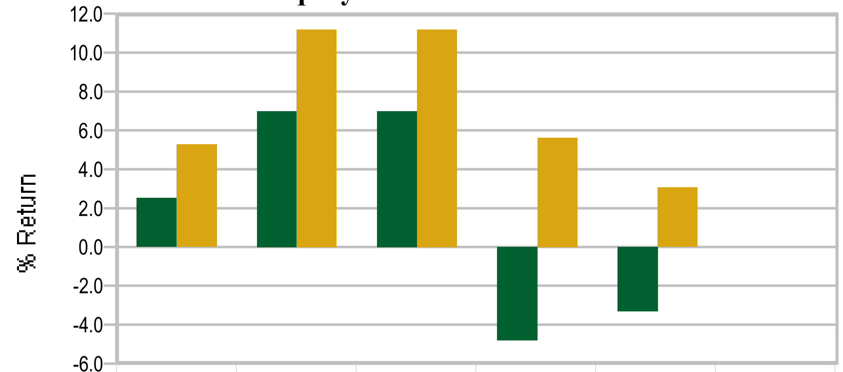
London Borough of Hillingdon

Europe ex UK Equity



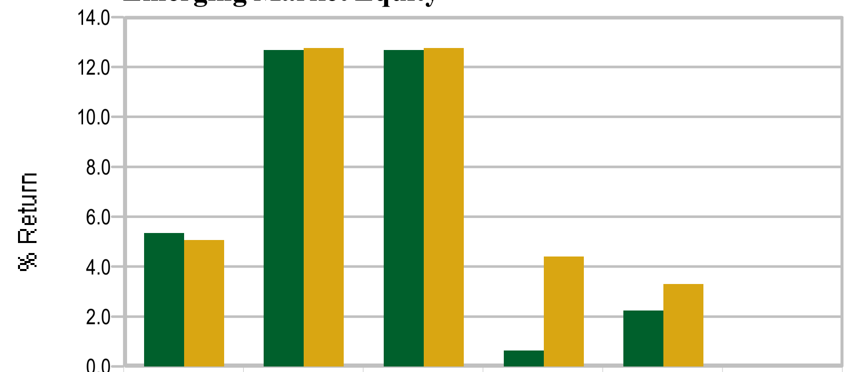
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.84	7.95	7.95	-1.05	-2.88	5.98
B'Mark	8.00	17.27	17.27	1.98	-0.62	7.49

Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.52	6.98	6.98	-4.80	-3.33	-
B'Mark	5.28	11.18	11.18	5.63	3.06	-

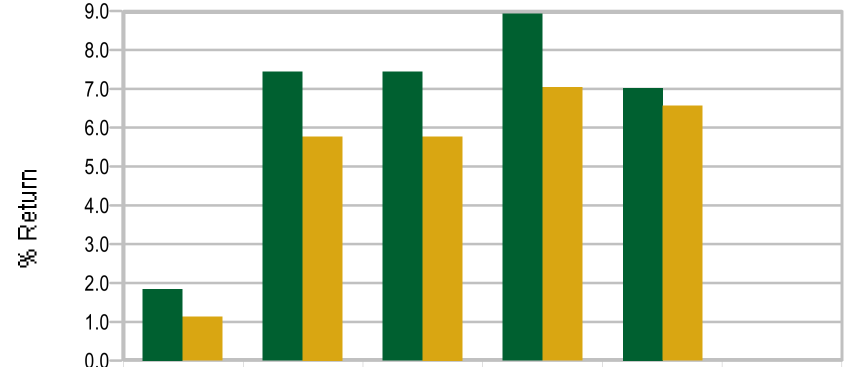
Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.35	12.68	12.68	0.63	2.25	-
B'Mark	5.06	12.76	12.76	4.40	3.29	-

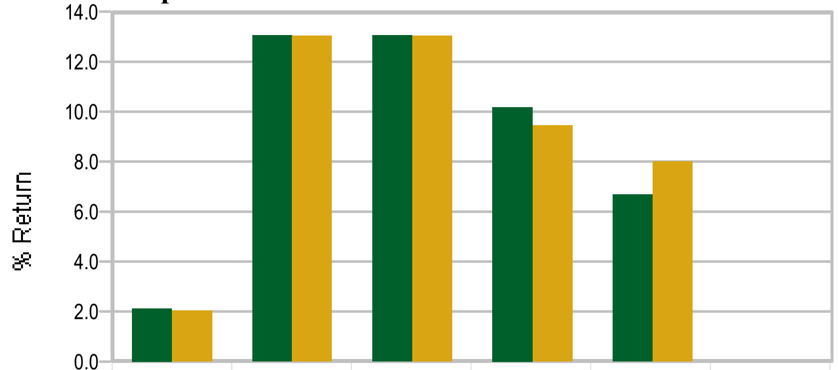
London Borough of Hillingdon

Fixed Income



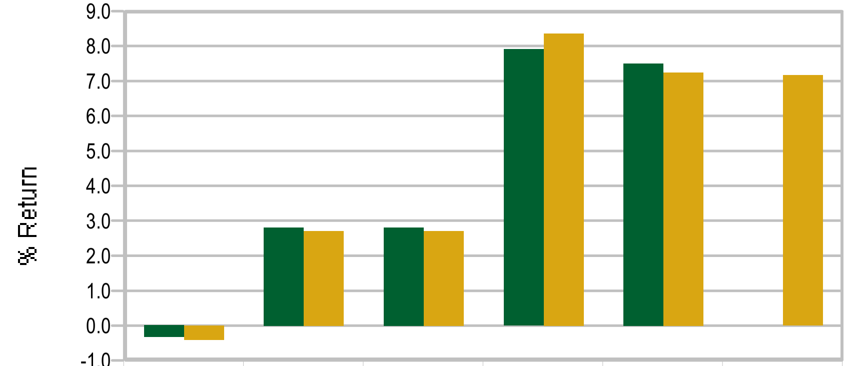
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.84	7.44	7.44	8.93	7.03	-
B'Mark	1.12	5.78	5.78	7.04	6.57	-

Corporate Bonds



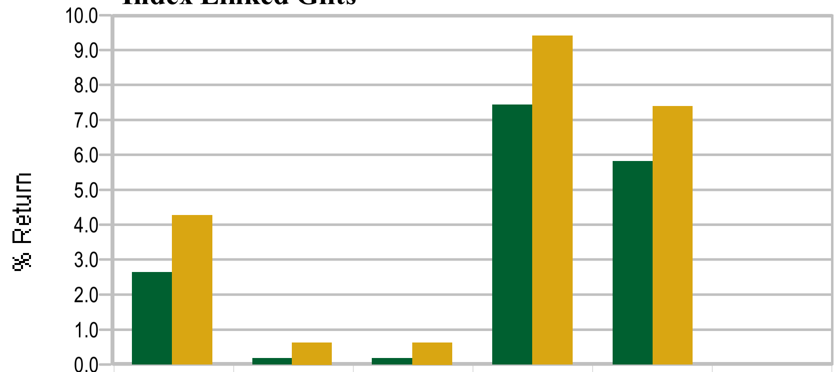
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.14	13.06	13.06	10.18	6.70	-
B'Mark	2.04	13.04	13.04	9.46	8.01	-

Government Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.34	2.80	2.80	7.91	7.50	-
B'Mark	-0.41	2.70	2.70	8.36	7.25	7.17

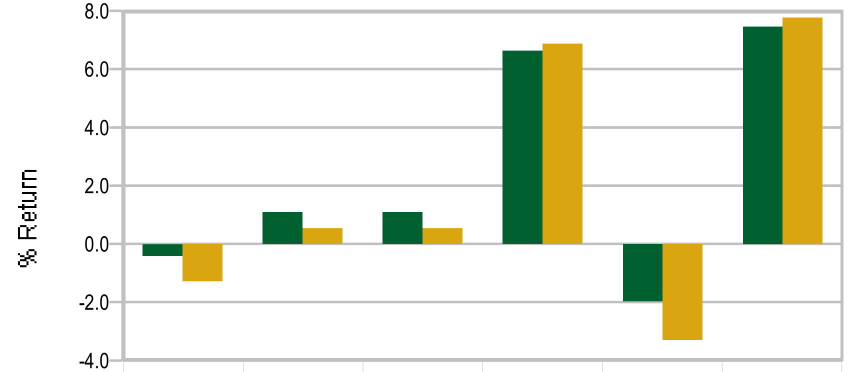
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.64	0.18	0.18	7.44	5.81	
B'Mark	4.27	0.63	0.63	9.42	7.40	

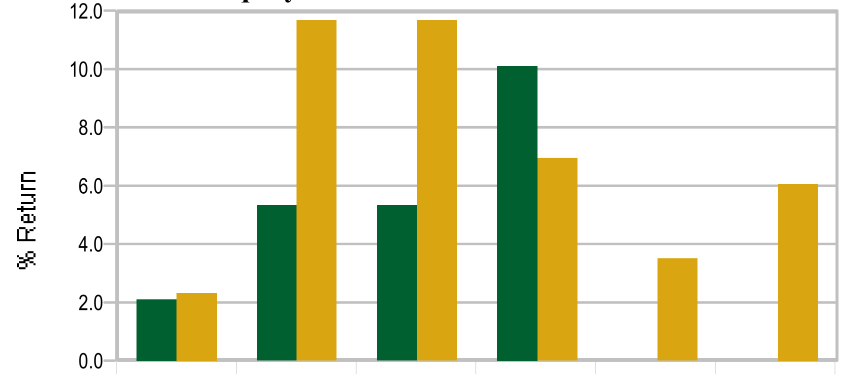
London Borough of Hillingdon

Real Estate



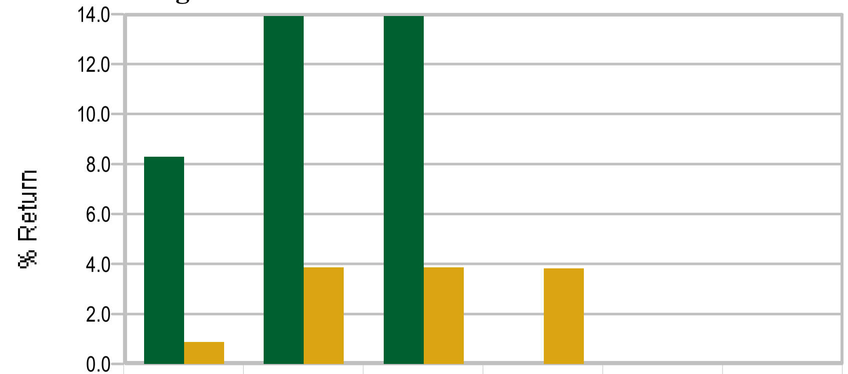
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.27	0.53	0.53	6.87	-3.29	7.77
B'Mark	-0.40	1.10	1.10	6.62	-1.97	7.46

Private Equity



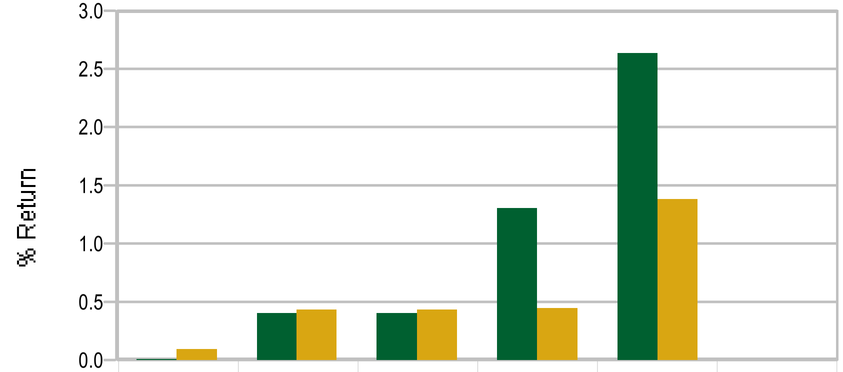
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.10	5.34	5.34	10.10	-	-
B'Mark	2.33	11.67	11.67	6.96	3.50	6.05

Hedge Funds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.28	13.92	13.92	-	-	-
B'Mark	0.88	3.85	3.85	3.83	-	-

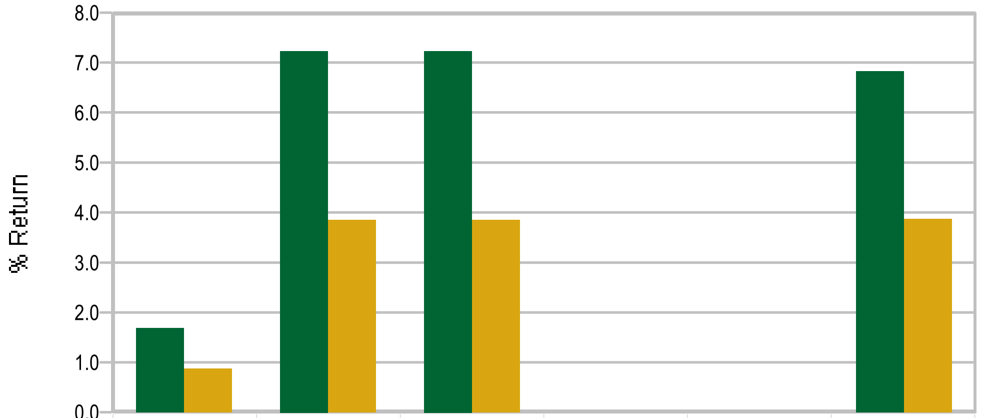
Cash



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.01	0.40	0.40	1.30	2.63	-
B'Mark	0.09	0.43	0.43	0.45	1.38	-

JP Morgan

Historical Plan Performance

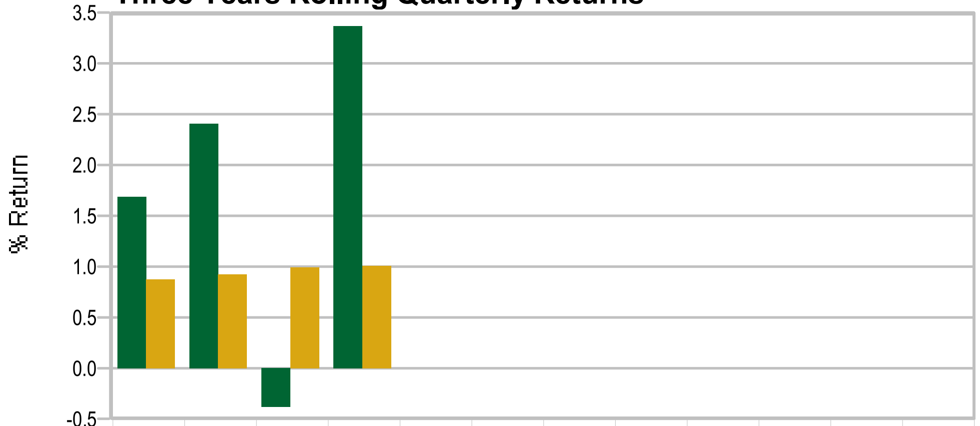


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.69	7.23	7.23	-	-	6.83
Benchmark	0.88	3.85	3.85	-	-	3.87

Risk Statistics - 3 years

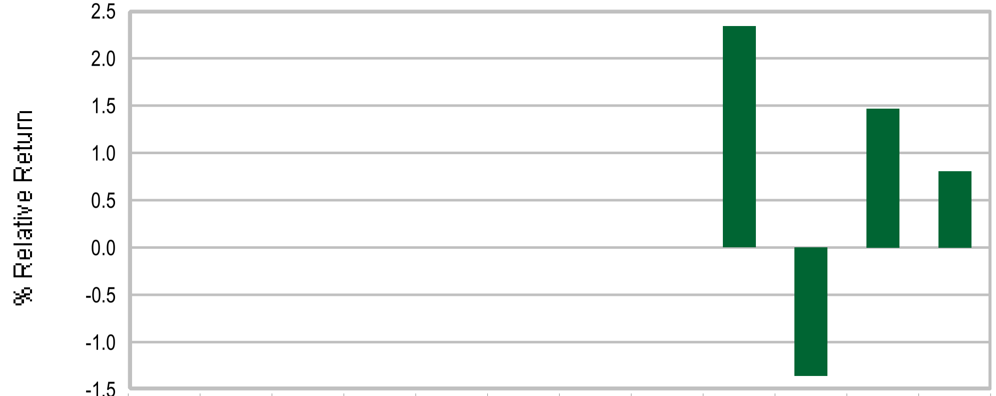
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	11.8	
Inception Date	Nov-2011	
Opening Market Value (£000)	73,462	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	1,243	
Closing Market Value (£000)	74,704	

Three Years Rolling Quarterly Returns



	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	1.69	2.41	-0.38	3.37	-	-	-	-	-	-	-	-
Benchmark	0.88	0.93	0.99	1.01	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

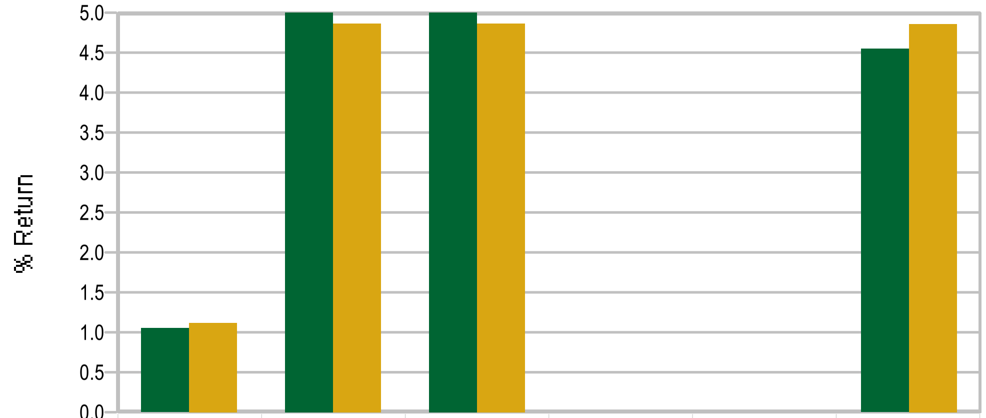


	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-	-	-	-	-	-	-	-	2.34	-1.36	1.47	0.81
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Page 29

M&G Investments

Historical Plan Performance



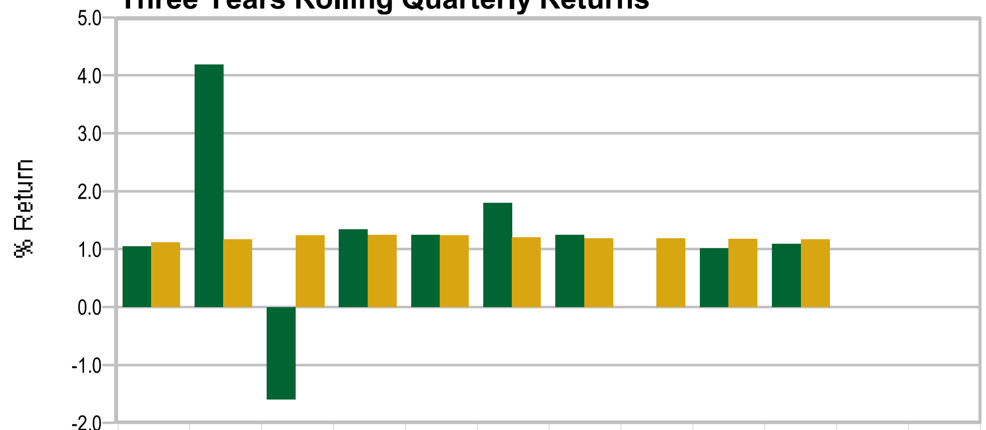
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.05	5.00	5.00	-	-	4.55
Benchmark	1.12	4.86	4.86	-	-	4.86

Page 30

Risk Statistics - 3 years

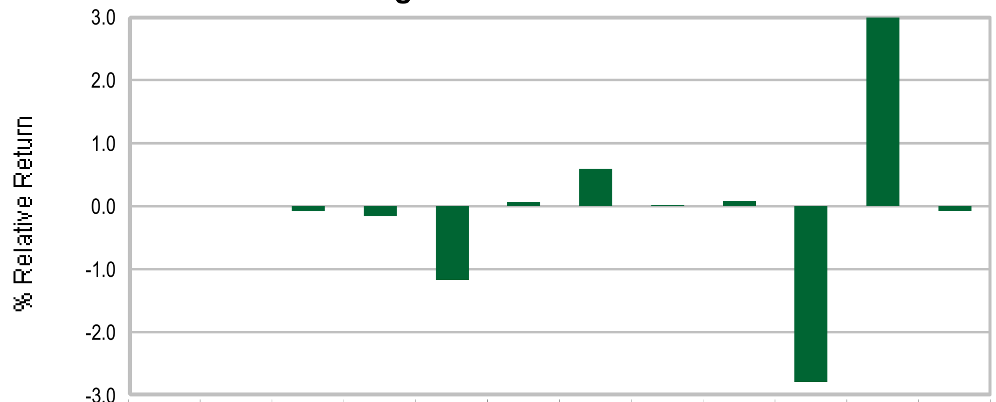
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.4	
Inception Date	May-2010	
Opening Market Value (£000)	12,782	
Net Investment £(000)	1,991	
Income Received £(000)	-0	
Appreciation £(000)	156	
Closing Market Value (£000)	14,930	

Three Years Rolling Quarterly Returns



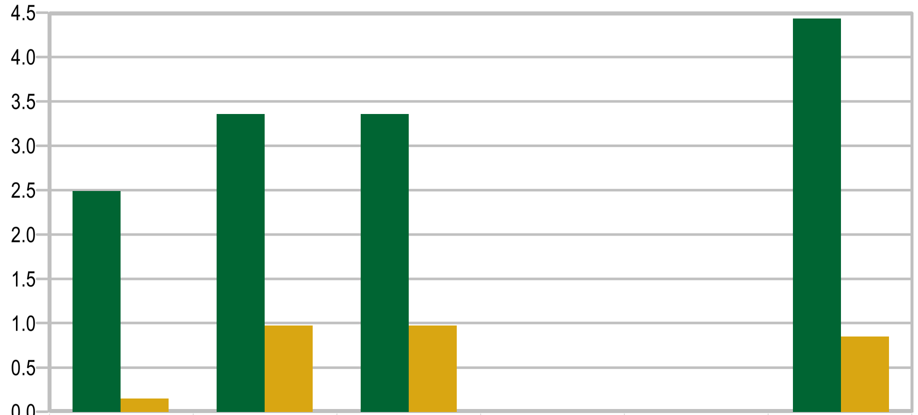
	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	1.05	4.19	-1.59	1.34	1.25	1.80	1.25	0.00	1.01	1.09	-	-
Benchmark	1.12	1.17	1.23	1.25	1.24	1.21	1.19	1.18	1.17	1.17	-	-

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-	-	-0.08	-0.16	-1.17	0.06	0.59	0.01	0.08	-2.79	2.99	-0.07
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

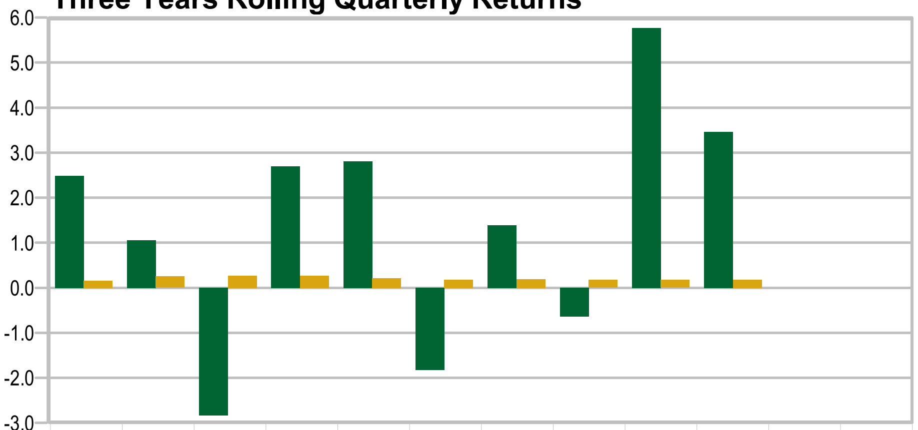
Ruffer



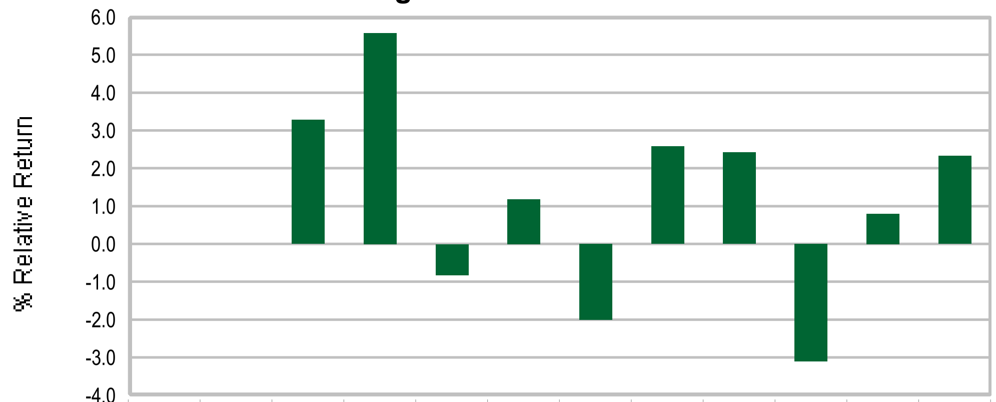
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.49	3.36	3.36	-	-	4.43
Benchmark	0.15	0.97	0.97	-	-	0.84

Page 31

Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	18.9	
Inception Date	May-2010	
Opening Market Value (£000)	116,286	
Net Investment £(000)	0	
Income Received £(000)	401	
Appreciation £(000)	2,490	
Closing Market Value (£000)	119,176	



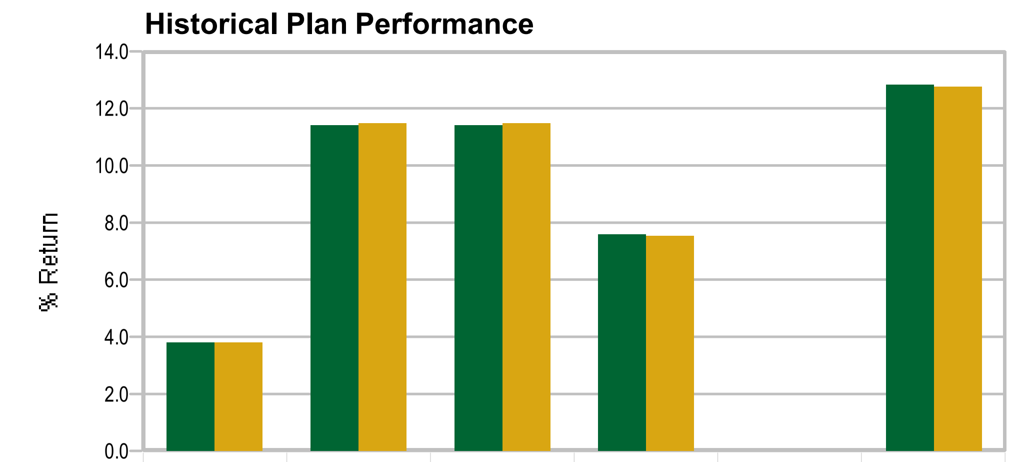
	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	2.49	1.06	-2.83	2.70	2.81	-1.82	1.39	-0.64	5.77	3.47	-	-
Benchmark	0.15	0.26	0.28	0.28	0.22	0.19	0.20	0.18	0.18	0.18	-	-



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-	-	3.28	5.58	-0.82	1.18	-2.01	2.58	2.42	-3.10	0.80	2.33
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

SSGA

Historical Plan Performance

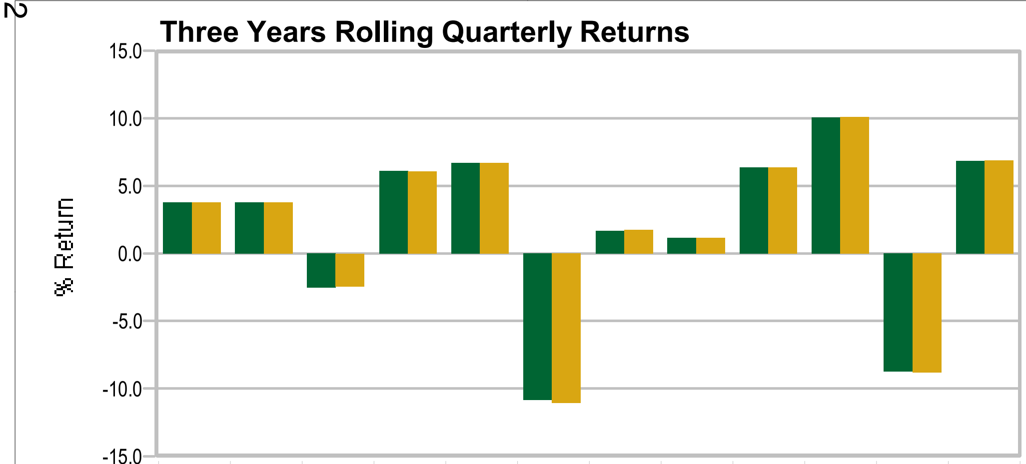


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.80	11.40	11.40	7.59	-	12.83
Benchmark	3.79	11.48	11.48	7.54	-	12.77

Risk Statistics - 3 years

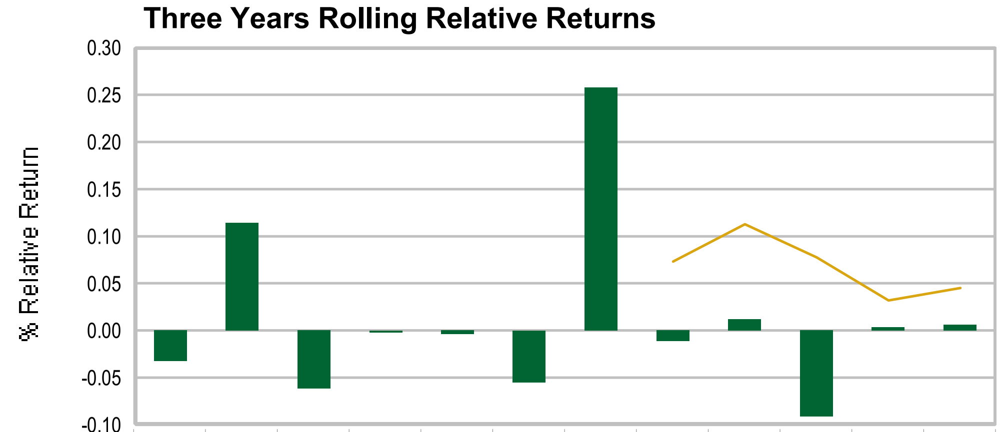
	Fund	B'mark
Performance Return	7.59	7.54
Standard Deviation	10.24	10.32
Relative Return	0.05	
Tracking Error	0.16	
Information Ratio	0.30	
Beta	0.99	
Alpha	0.09	
R Squared	1.00	
Sharpe Ratio	0.63	0.62
Percentage of Total Fund	19.5	
Inception Date	Nov-2008	
Opening Market Value (£000)	118,833	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	4,515	
Closing Market Value (£000)	123,348	

Three Years Rolling Quarterly Returns



	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	3.80	3.77	-2.53	6.11	6.71	-10.84	1.69	1.19	6.36	10.06	-8.72	6.85
Benchmark	3.79	3.77	-2.44	6.09	6.73	-11.07	1.75	1.20	6.36	10.13	-8.82	6.89

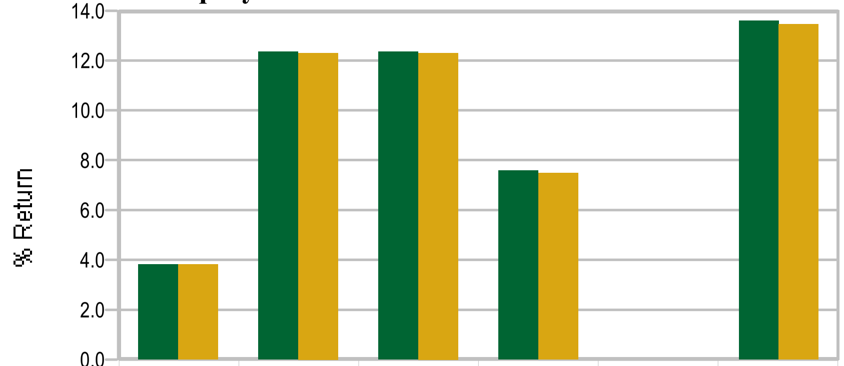
Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-0.03	0.11	-0.06	-0.00	-0.00	-0.06	0.26	-0.01	0.01	-0.09	0.00	0.01
3Y Relative	-	-	-	-	-	-	-	0.07	0.11	0.08	0.03	0.05

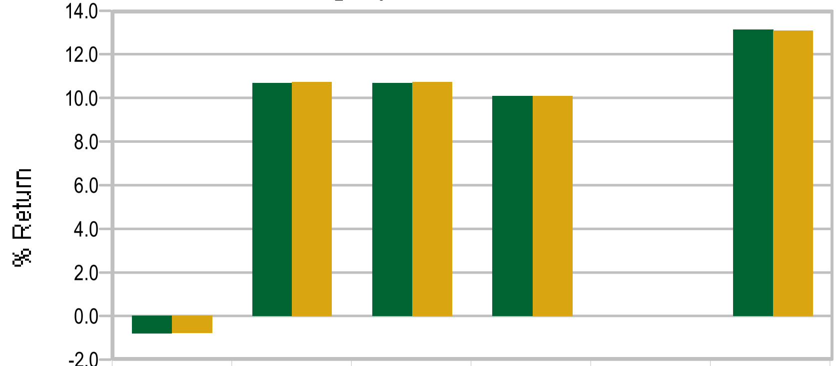
SSGA

UK Equity



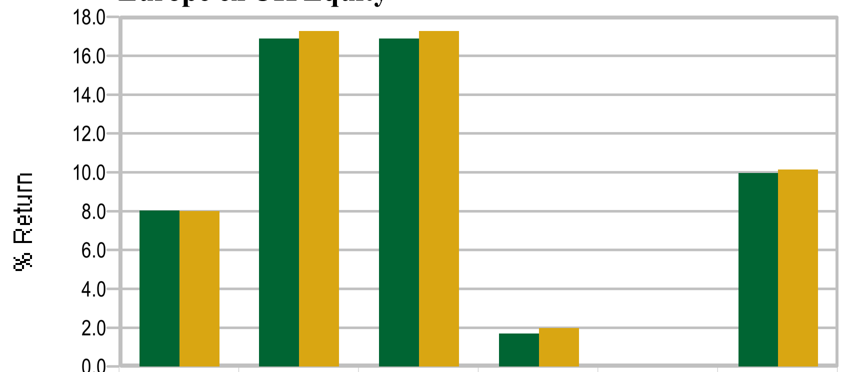
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.83	12.36	12.36	7.59	-	13.60
B'Mark	3.82	12.30	12.30	7.48	-	13.46

North America Equity



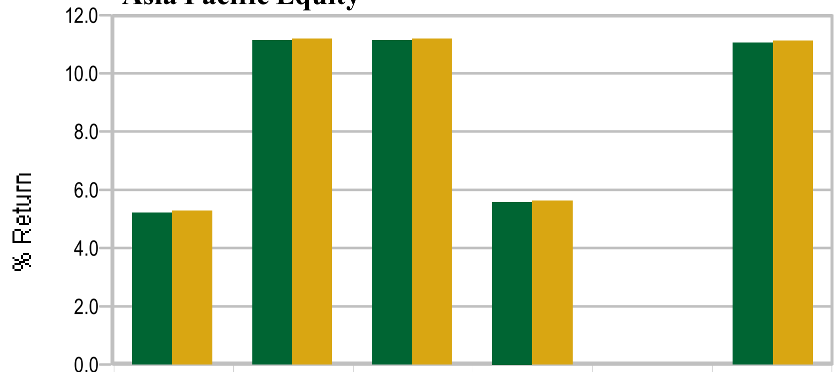
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.80	10.67	10.67	10.09	-	13.13
B'Mark	-0.79	10.73	10.73	10.09	-	13.08

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.03	16.87	16.87	1.68	-	9.96
B'Mark	8.00	17.27	17.27	1.98	-	10.15

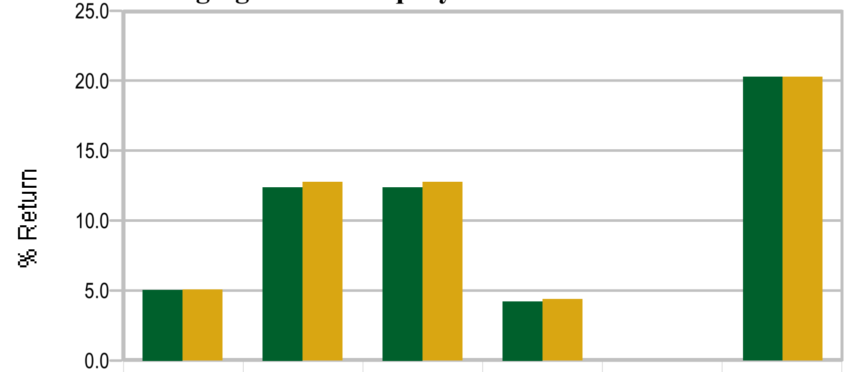
Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.22	11.14	11.14	5.58	-	11.06
B'Mark	5.28	11.18	11.18	5.63	-	11.12

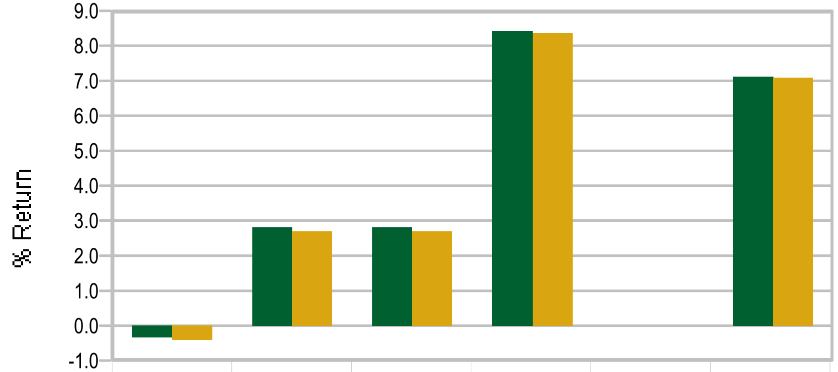
SSGA

Emerging Markets Equity



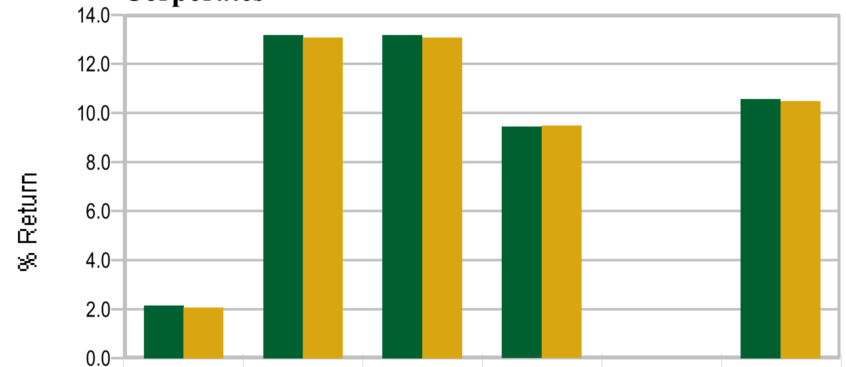
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.05	12.37	12.37	4.23	-	20.26
B'Mark	5.06	12.76	12.76	4.40	-	20.26

Government Bonds



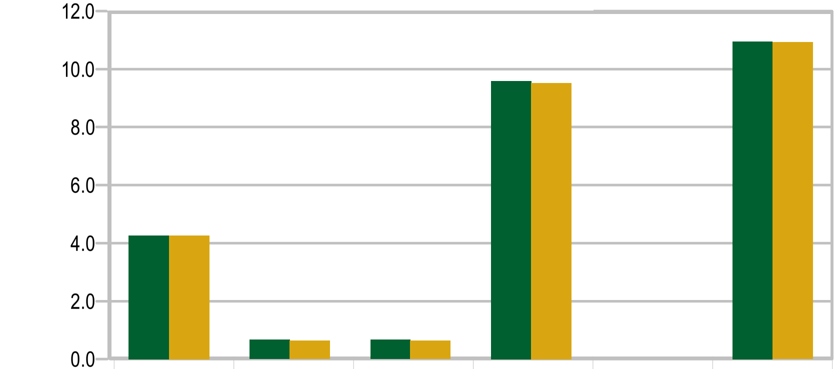
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.34	2.80	2.80	8.43	-	7.12
B'Mark	-0.41	2.70	2.70	8.36	-	7.09

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.15	13.17	13.17	9.44	-	10.56
B'Mark	2.07	13.07	13.07	9.48	-	10.48

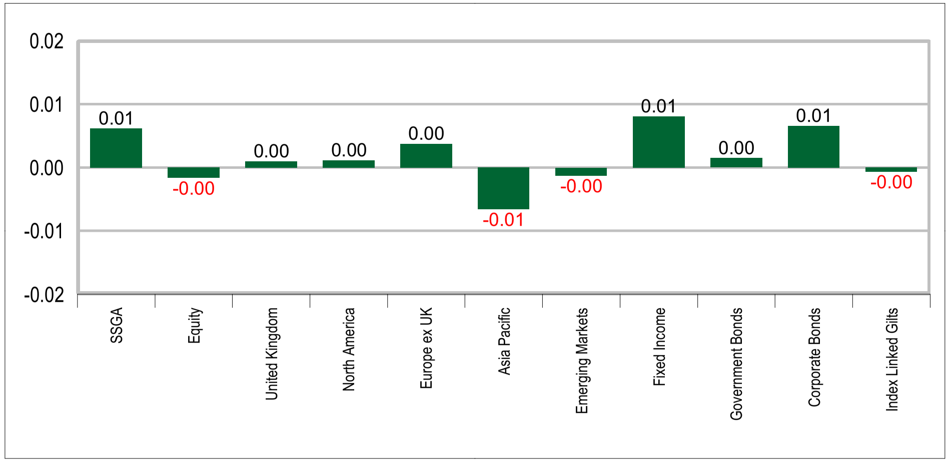
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.26	0.67	0.67	9.59	-	10.96
B'Mark	4.27	0.63	0.63	9.53	-	10.92

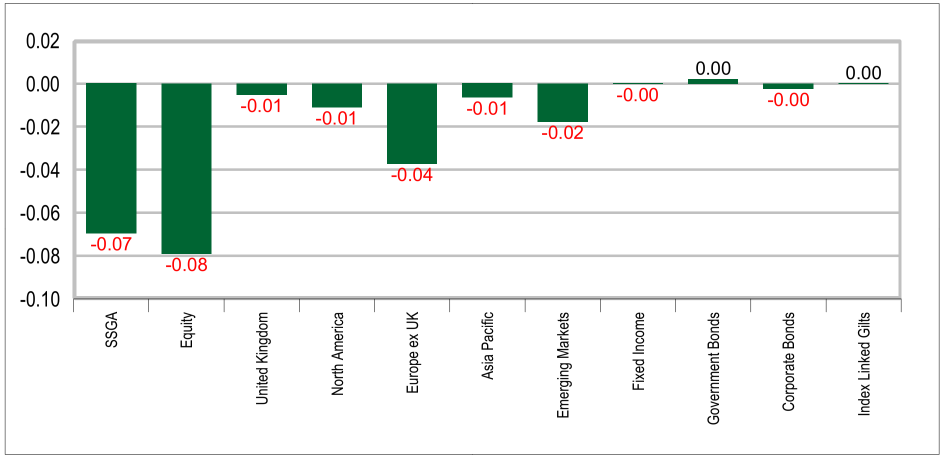
SSGA

Relative Contribution - Three Months



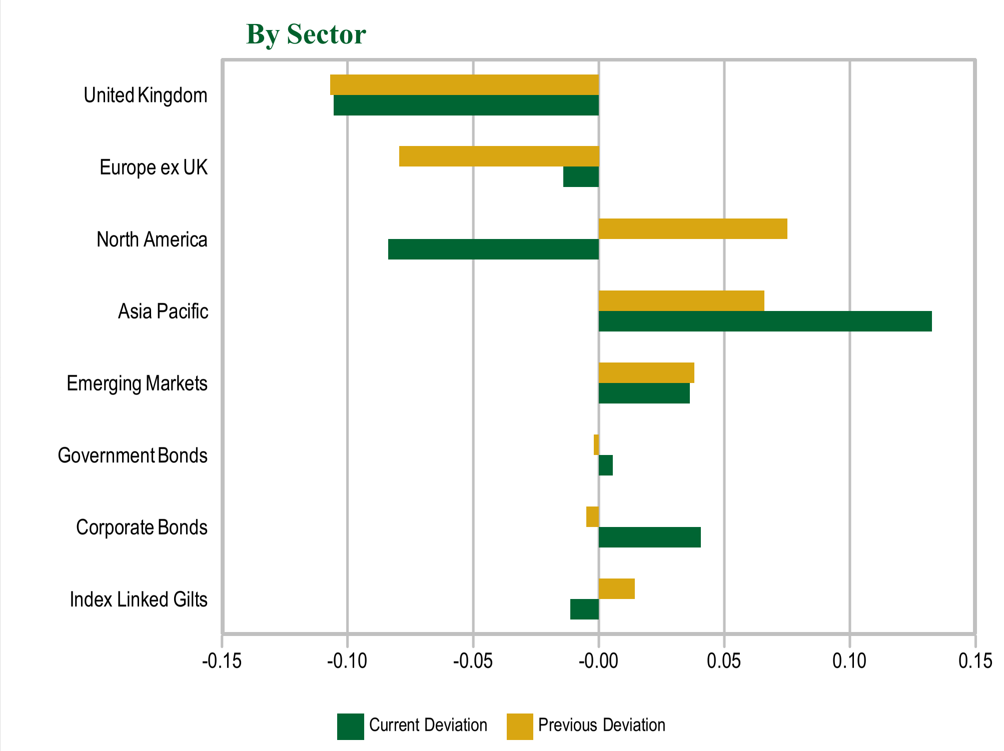
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Currency Effect	Relative Contribution
SSGA	3.80	3.79	0.01	0.00	0.60	-0.59	0.01
Equity	4.00	-	4.00	0.00	0.65	-0.65	-0.00
United Kingdom	3.83	3.82	0.00	-0.00	0.00	-0.00	0.00
North America	-0.80	-0.79	-0.02	0.00	-0.01	0.01	0.00
Europe ex UK	8.03	8.00	0.03	0.00	-0.01	0.01	0.00
Asia Pacific	5.22	5.28	-0.06	-0.00	0.71	-0.71	-0.01
Emerging Markets	5.05	5.06	-0.02	-0.00	-0.04	0.04	-0.00
Fixed Income	1.78	-	1.78	0.00	-0.05	0.06	0.01
Government Bonds	-0.34	-0.41	0.07	0.00	0.00	-0.00	0.00
Corporate Bonds	2.15	2.07	0.08	-0.00	-0.05	0.06	0.01
Index Linked Gilts	4.26	4.27	-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	11.40	11.48	-0.07	-0.01	0.49	-0.55	-0.07
Equity	12.63	-	12.63	-0.01	0.84	-0.89	-0.08
United Kingdom	12.36	12.30	0.05	-0.02	0.02	-0.00	-0.01
North America	10.67	10.73	-0.05	0.00	0.01	-0.02	-0.01
Europe ex UK	16.87	17.27	-0.35	-0.00	0.02	-0.05	-0.04
Asia Pacific	11.14	11.18	-0.03	0.01	0.96	-0.97	-0.01
Emerging Markets	12.37	12.76	-0.35	-0.00	-0.17	0.15	-0.02
Fixed Income	11.59	-	11.59	-0.00	-0.35	0.35	-0.00
Government Bonds	2.80	2.70	0.10	0.00	0.00	-0.00	0.00
Corporate Bonds	13.17	13.07	0.09	-0.00	-0.35	0.35	-0.00
Index Linked Gilts	0.67	0.63	0.04	0.00	0.00	-0.01	0.00

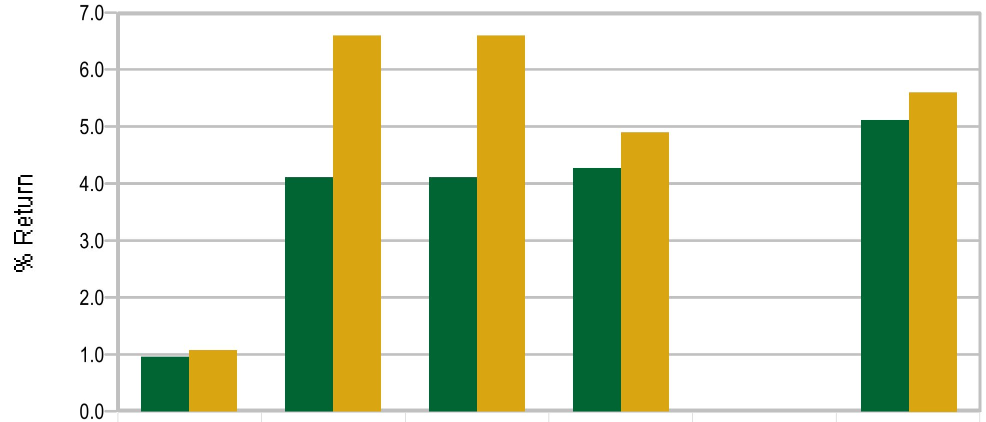
SSGA



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
United Kingdom	43.89	43.89	44.00	-0.11	44.00	-0.11
Europe ex UK	10.99	10.92	11.00	-0.01	11.00	-0.08
North America	10.92	11.07	11.00	-0.08	11.00	0.07
Asia Pacific	11.13	11.07	11.00	0.13	11.00	0.07
Emerging Markets	3.04	3.04	3.00	0.04	3.00	0.04
Government Bonds	1.51	1.50	1.50	0.01	1.50	-0.00
Corporate Bonds	8.54	8.50	8.50	0.04	8.50	-0.00
Index Linked Gilts	9.99	10.01	10.00	-0.01	10.00	0.01

SSGA Drawdown

Historical Plan Performance

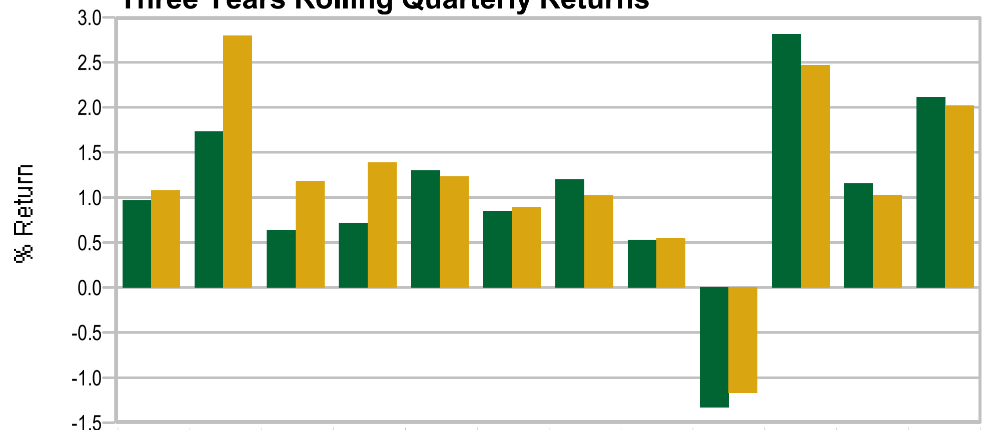


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.97	4.11	4.11	4.28	-	5.12
Benchmark	1.08	6.60	6.60	4.90	-	5.60

Risk Statistics - 3 years

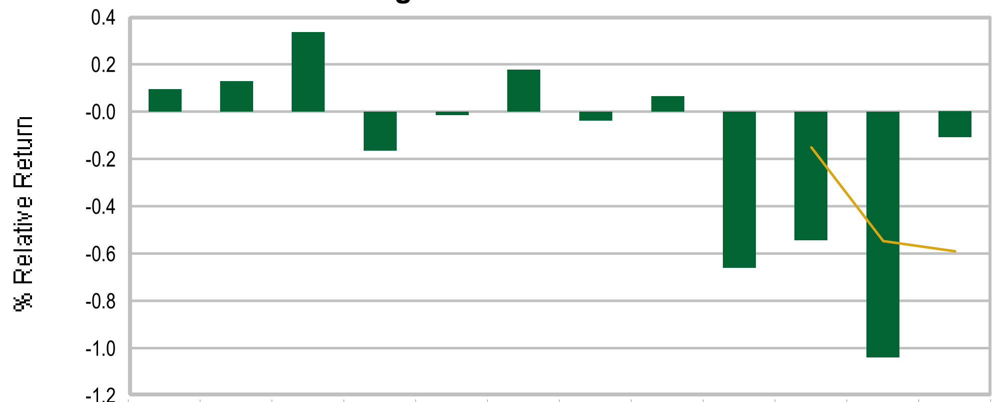
	Fund	B'mark
Performance Return	4.28	4.90
Standard Deviation	2.30	2.36
Relative Return	-0.59	
Tracking Error	0.77	
Information Ratio	-0.81	
Beta	0.93	
Alpha	-0.34	
R Squared	0.89	
Sharpe Ratio	1.35	1.58
Percentage of Total Fund	1.0	
Inception Date	Jun-2009	
Opening Market Value (£000)	10,621	
Net Investment £(000)	-4,600	
Income Received £(000)	-0	
Appreciation £(000)	82	
Closing Market Value (£000)	6,102	

Three Years Rolling Quarterly Returns



	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	0.97	1.73	0.64	0.72	1.30	0.85	1.20	0.53	-1.34	2.81	1.16	2.12
Benchmark	1.08	2.80	1.19	1.39	1.23	0.89	1.02	0.55	-1.17	2.47	1.03	2.02

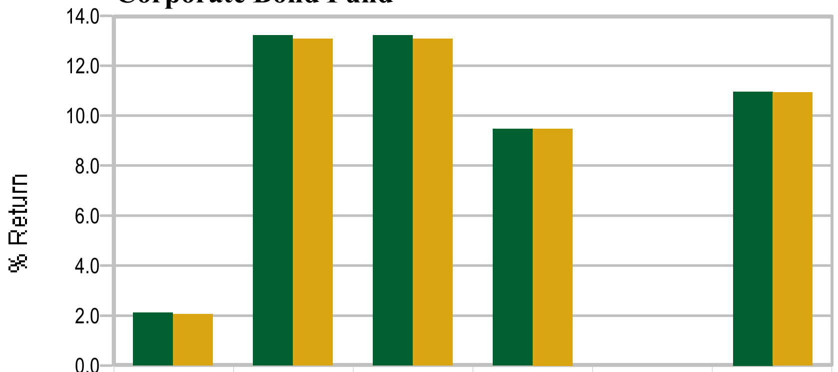
Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	0.09	0.13	0.34	-0.17	-0.01	0.18	-0.04	0.07	-0.66	-0.54	-1.04	-0.11
3Y Relative	-	-	-	-	-	-	-	-	-	-0.15	-0.55	-0.59

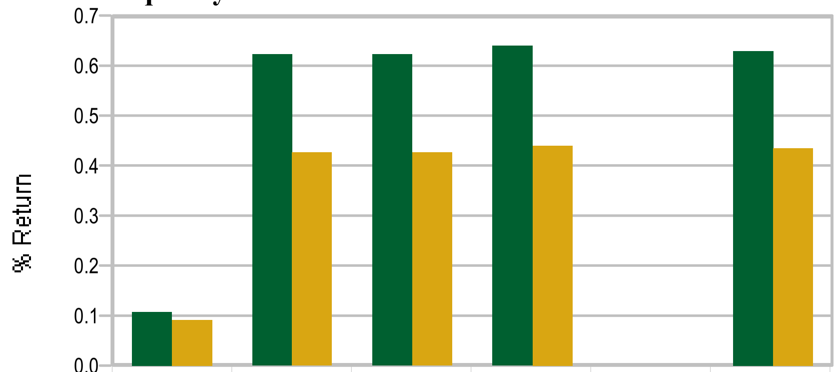
SSGA Drawdown

Corporate Bond Fund



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.13	13.21	13.21	9.47	-	10.97
B'Mark	2.07	13.07	13.07	9.48	-	10.94

Liquidity Fund

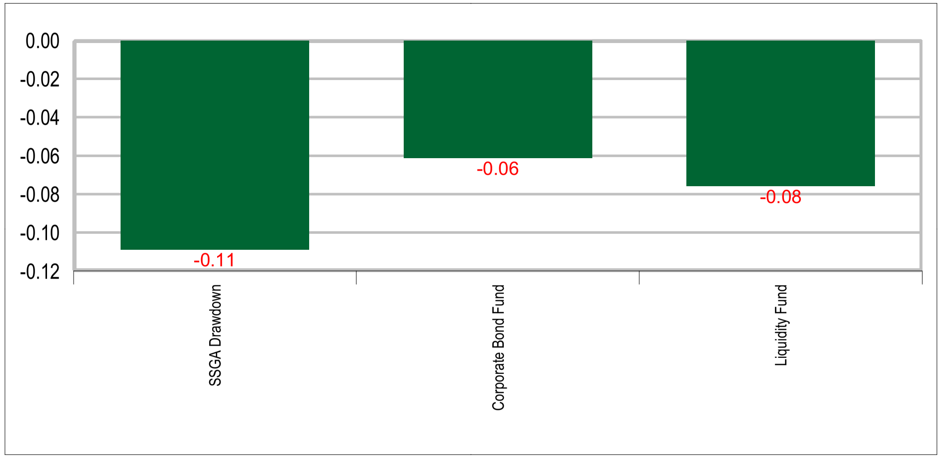


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.11	0.62	0.62	0.64	-	0.63
B'Mark	0.09	0.43	0.43	0.44	-	0.43

Page 39

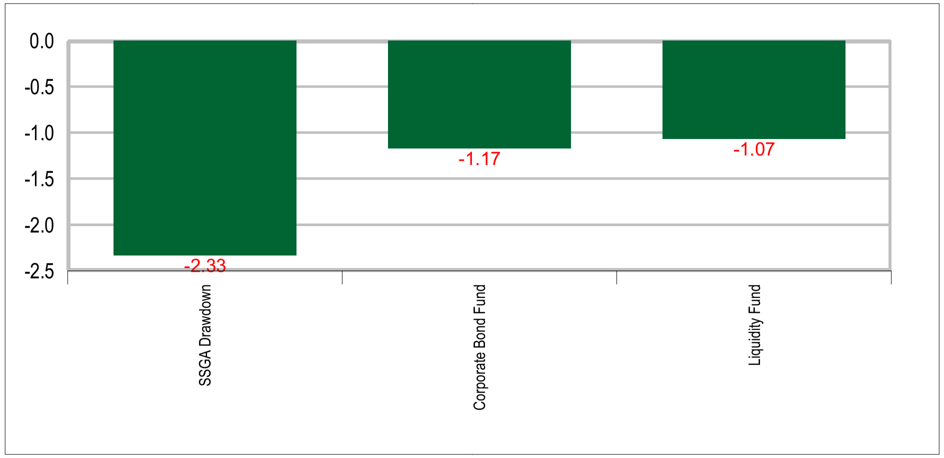
SSGA Drawdown

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	0.97	1.08	-0.11	-0.18	0.04	-0.11
Corporate Bond Fund	2.13	2.07	0.06	-0.09	0.03	-0.06
Liquidity Fund	0.11	0.09	0.02	-0.09	0.01	-0.08

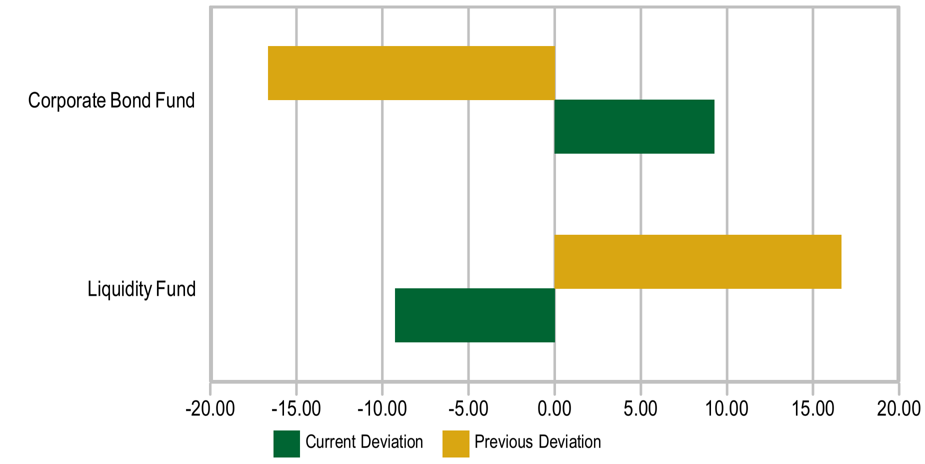
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
SSGA Drawdown	4.11	6.60	-2.33	-2.41	0.19	-2.33
Corporate Bond Fund	13.21	13.07	0.13	-1.21	0.04	-1.17
Liquidity Fund	0.62	0.43	0.20	-1.21	0.15	-1.07

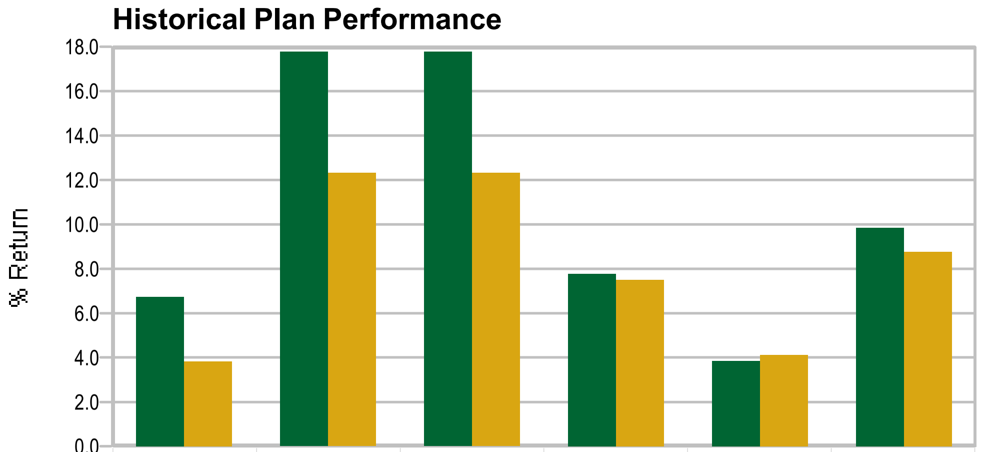
SSGA Drawdown

By Sector



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Corporate Bond Fund	59.27	33.35	50.00	9.27	50.00	-16.65
Liquidity Fund	40.73	66.65	50.00	-9.27	50.00	16.65

UBS

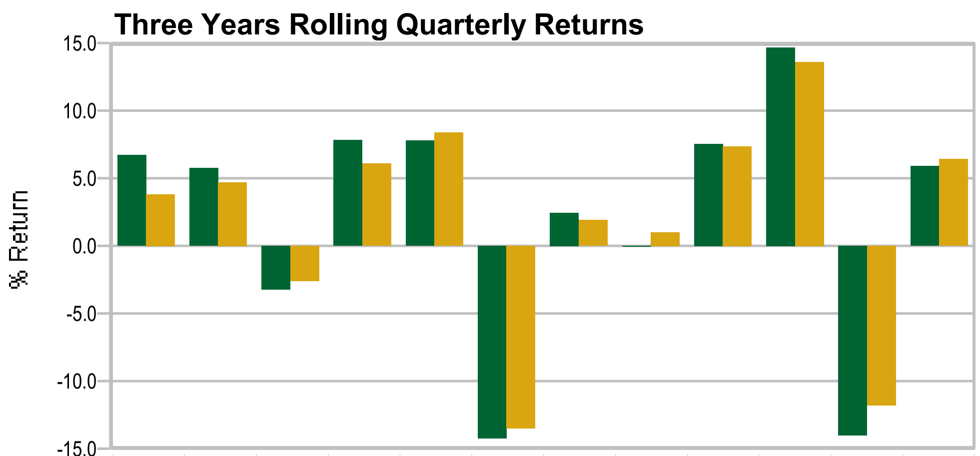


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.73	17.76	17.76	7.78	3.84	9.83
Benchmark	3.82	12.30	12.30	7.48	4.12	8.75

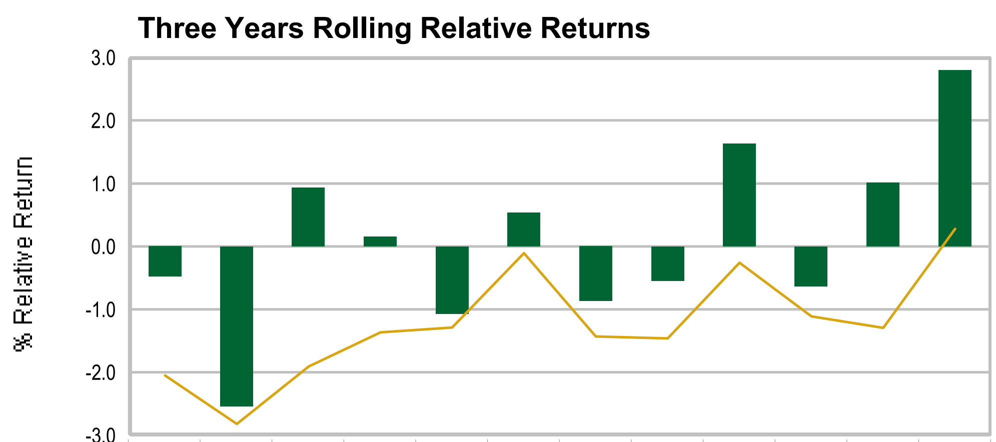
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	7.78	7.48
Standard Deviation	15.17	13.35
Relative Return	0.28	
Tracking Error	3.58	
Information Ratio	0.08	
Beta	1.11	
Alpha	-0.22	
R Squared	0.95	
Sharpe Ratio	0.43	0.47
Percentage of Total Fund	19.6	
Inception Date	Dec-1988	
Opening Market Value (£000)	115,726	
Net Investment £(000)	0	
Income Received £(000)	1,032	
Appreciation £(000)	6,754	
Closing Market Value (£000)	123,512	

Page 41



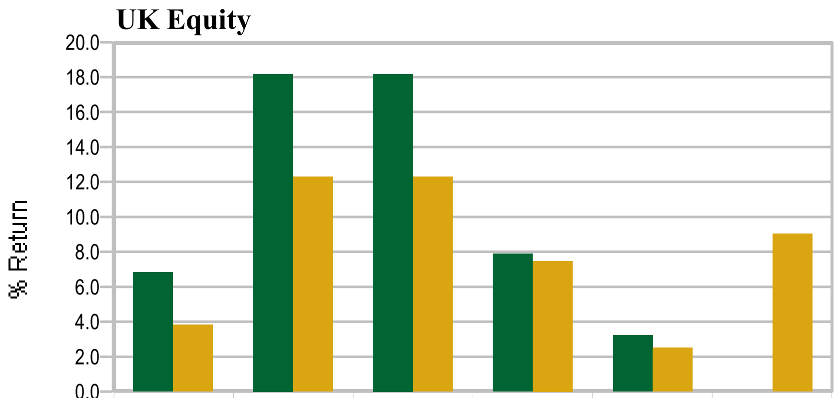
	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	6.73	5.75	-3.25	7.84	7.80	-14.25	2.46	-0.05	7.55	14.69	-14.05	5.91
Benchmark	3.82	4.70	-2.63	6.10	8.39	-13.50	1.91	1.03	7.38	13.63	-11.80	6.42



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	-0.48	-2.54	0.93	0.16	-1.07	0.54	-0.87	-0.54	1.63	-0.64	1.01	2.80
3Y Relative	-2.05	-2.82	-1.91	-1.37	-1.29	-0.11	-1.43	-1.46	-0.26	-1.11	-1.29	0.28

UBS

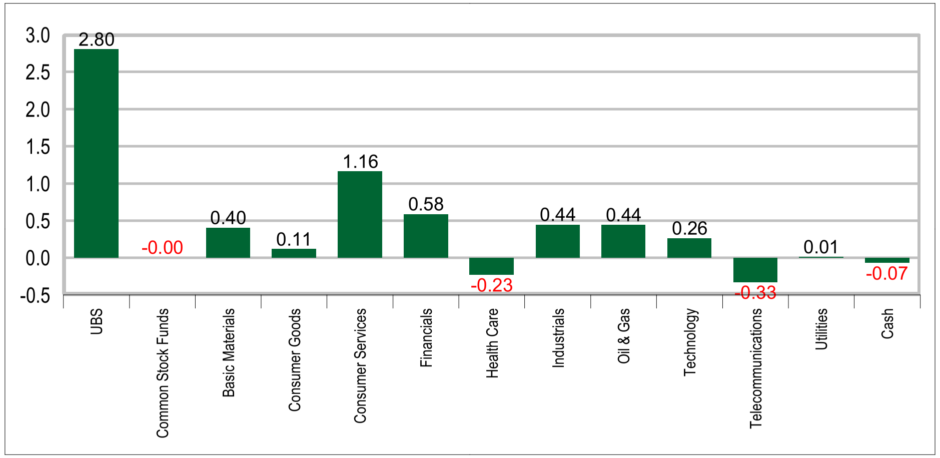
UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.84	18.19	18.19	7.89	3.22	-
B'Mark	3.82	12.30	12.30	7.48	2.51	9.03

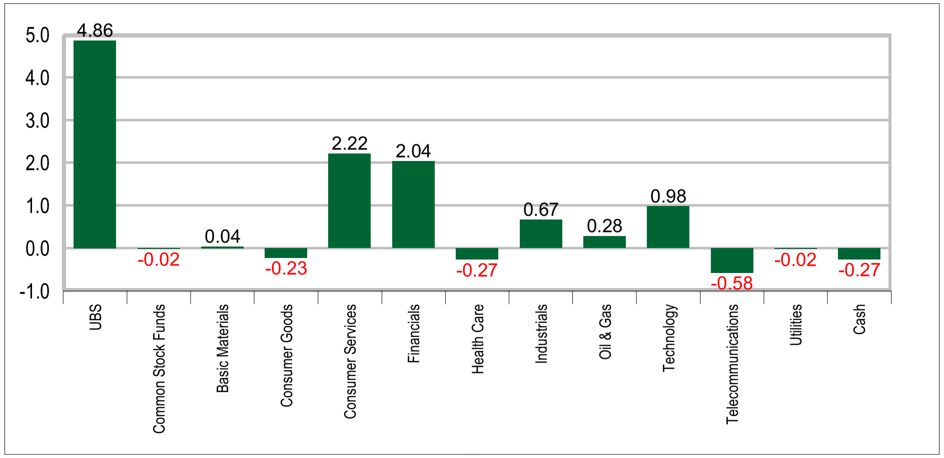
UBS

Relative Contribution - Three Months



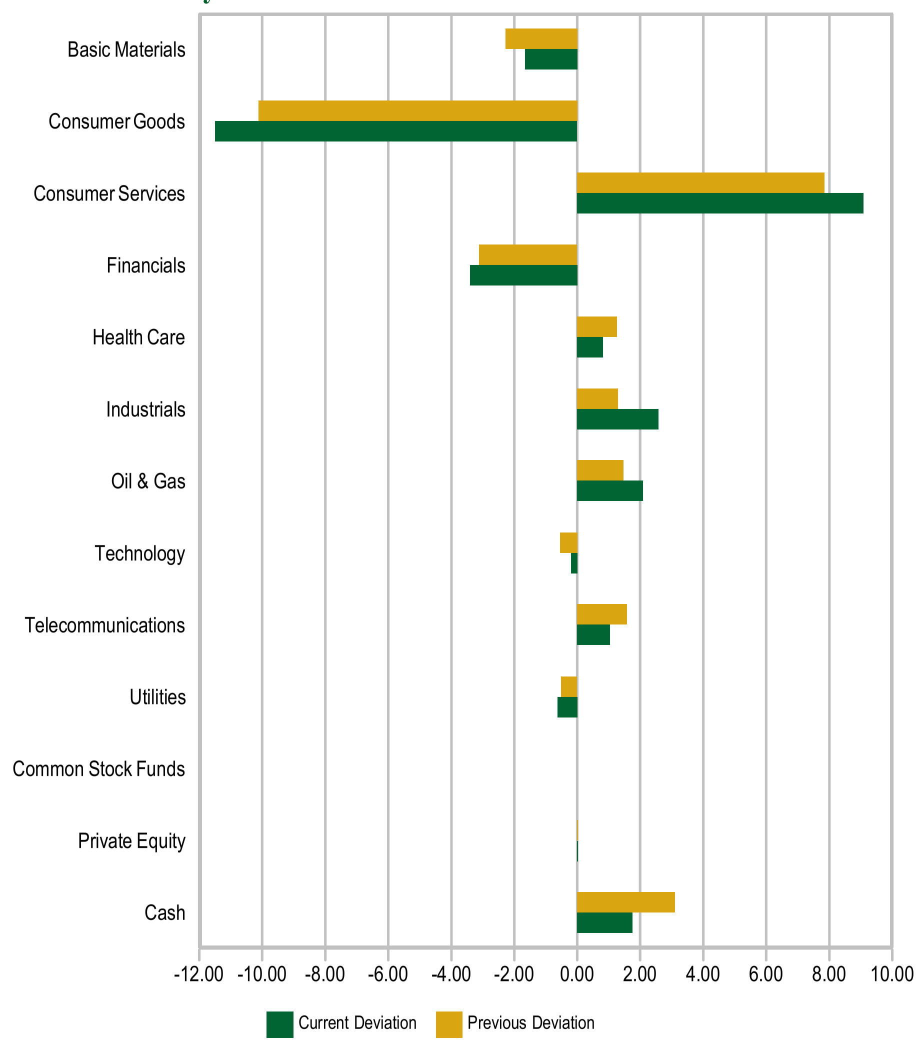
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	6.73	3.82	2.80	-0.60	3.42	2.80
Common Stock Funds	-20.00	-	-20.00	-0.00	0.00	-0.00
Basic Materials	14.51	8.16	5.87	-0.08	0.49	0.40
Consumer Goods	10.51	4.57	5.69	-0.03	0.15	0.11
Consumer Services	12.04	6.69	5.02	0.24	0.92	1.16
Financials	16.73	11.92	4.30	-0.23	0.82	0.58
Health Care	-4.70	-2.87	-1.88	-0.07	-0.16	-0.23
Industrials	7.84	3.77	3.92	-0.00	0.45	0.44
Oil & Gas	-0.73	-3.78	3.17	-0.14	0.58	0.44
Technology	48.87	12.16	32.73	-0.06	0.32	0.26
Telecommunications	-9.81	-7.64	-2.35	-0.16	-0.17	-0.33
Utilities	1.79	1.76	0.03	0.01	-0.00	0.01
Cash	0.05	-	0.05	-0.07	0.00	-0.07

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	17.76	12.30	4.86	-1.13	6.04	4.86
Common Stock Funds	-27.60	-	-27.60	-0.02	0.00	-0.02
Basic Materials	2.05	4.71	-2.54	0.17	-0.13	0.04
Consumer Goods	27.91	18.04	8.36	-0.47	0.24	-0.23
Consumer Services	31.63	18.16	11.40	0.46	1.75	2.22
Financials	54.07	33.62	15.30	-0.58	2.63	2.04
Health Care	-2.86	-1.51	-1.38	-0.15	-0.12	-0.27
Industrials	27.77	22.53	4.28	0.17	0.50	0.67
Oil & Gas	-4.73	-7.86	3.40	-0.34	0.62	0.28
Technology	138.73	32.10	80.72	0.00	0.98	0.98
Telecommunications	-6.52	-1.30	-5.29	-0.09	-0.49	-0.58
Utilities	17.89	18.25	-0.31	-0.01	-0.01	-0.02
Cash	0.59	-	0.59	-0.27	0.00	-0.27

UBS

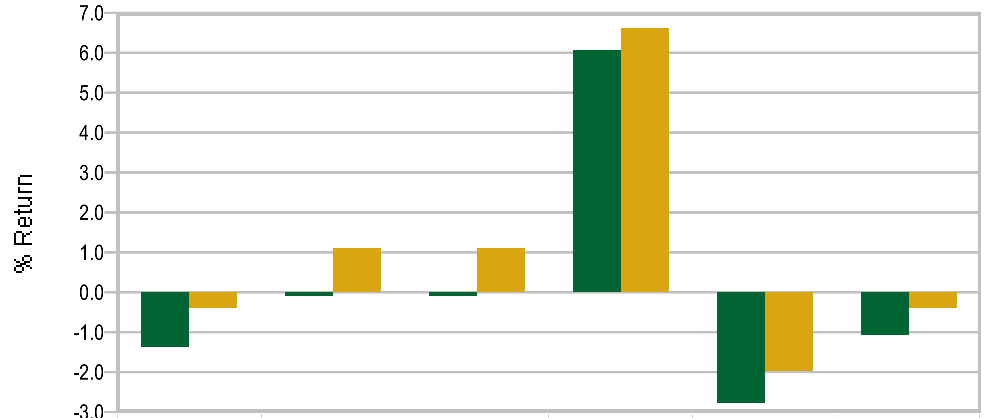


Page 44

	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	8.80	7.65	10.47	-1.66	9.92	-2.27
Consumer Goods	2.29	3.54	13.77	-11.48	13.66	-10.12
Consumer Services	18.77	17.33	9.70	9.08	9.48	7.85
Financials	19.56	18.00	22.96	-3.41	21.11	-3.11
Health Care	7.77	8.79	6.96	0.81	7.54	1.25
Industrials	11.61	10.38	9.02	2.58	9.10	1.28
Oil & Gas	18.12	18.80	16.04	2.08	17.33	1.47
Technology	1.33	0.89	1.53	-0.20	1.44	-0.55
Telecommunications	6.68	8.01	5.64	1.03	6.44	1.58
Utilities	3.27	3.47	3.90	-0.63	3.97	-0.51
Common Stock Funds	0.00	0.00		0.00		0.00
Private Equity	0.03	0.04		0.03		0.04
Cash	1.76	3.10		1.76		3.10

UBS Property

Historical Plan Performance



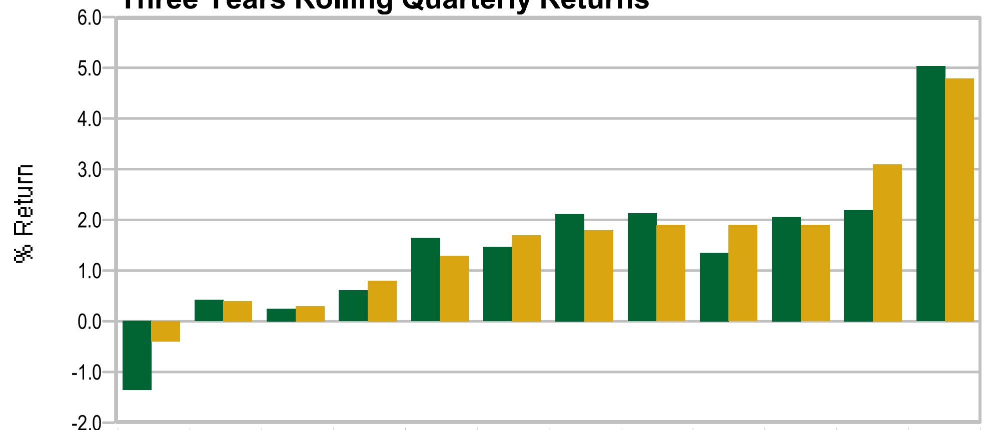
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.36	-0.09	-0.09	6.07	-2.76	-1.06
Benchmark	-0.40	1.10	1.10	6.62	-1.97	-0.39

Risk Statistics - 3 years

Risk Statistics - 3 years	Fund	B'mark
Performance Return	6.07	6.62
Standard Deviation	2.49	1.64
Relative Return	-0.52	
Tracking Error	1.78	
Information Ratio	-0.31	
Beta	1.05	
Alpha	-0.75	
R Squared	0.50	
Sharpe Ratio	1.96	3.31
Percentage of Total Fund	7.7	
Inception Date	Mar-2006	
Opening Market Value (£000)	49,629	
Net Investment £(000)	-1	
Income Received £(000)	512	
Appreciation £(000)	-1,189	
Closing Market Value (£000)	48,951	

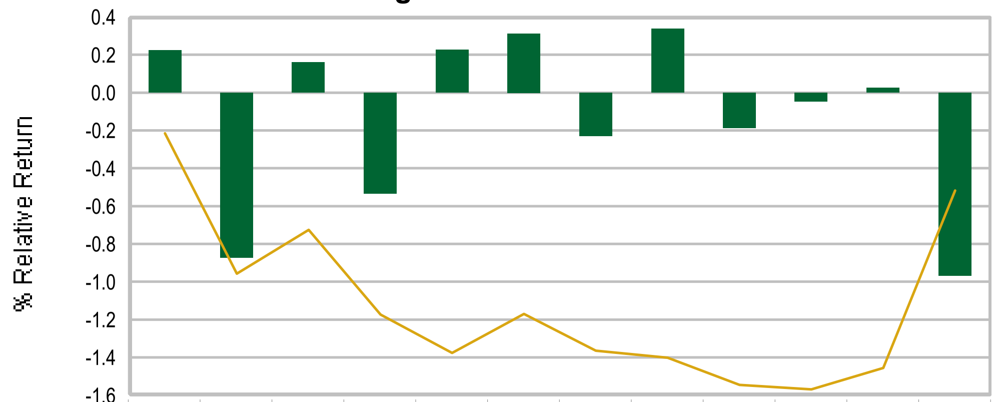
Page 45

Three Years Rolling Quarterly Returns



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

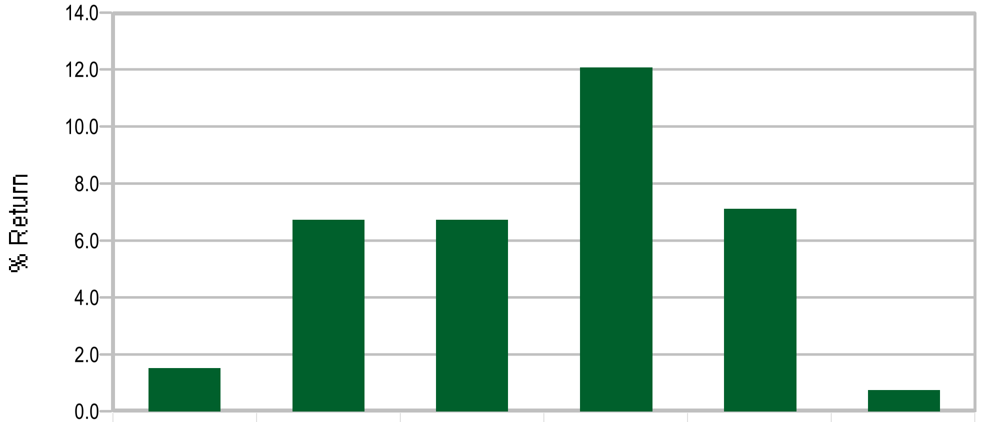
Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Relative	0.23	-0.87	0.16	-0.53	0.23	0.31	-0.23	0.34	-0.19	-0.05	0.03	-0.97
3Y Relative	-0.22	-0.96	-0.72	-1.17	-1.38	-1.17	-1.36	-1.40	-1.55	-1.57	-1.46	-0.52

Adam Street

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.51	6.73	6.73	12.07	7.11	0.76

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	3.3	
Inception Date	Jan-2005	
Opening Market Value (£000)	20,882	
Net Investment £(000)	-114	
Income Received £(000)	6	
Appreciation £(000)	309	
Closing Market Value (£000)	21,082	

Three Years Rolling Quarterly Returns

	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	1.51	-3.70	7.29	1.76	-3.83	7.48	3.89	6.83	6.42	-5.19	2.90	10.72

Three Years Rolling Relative Returns

Page 46

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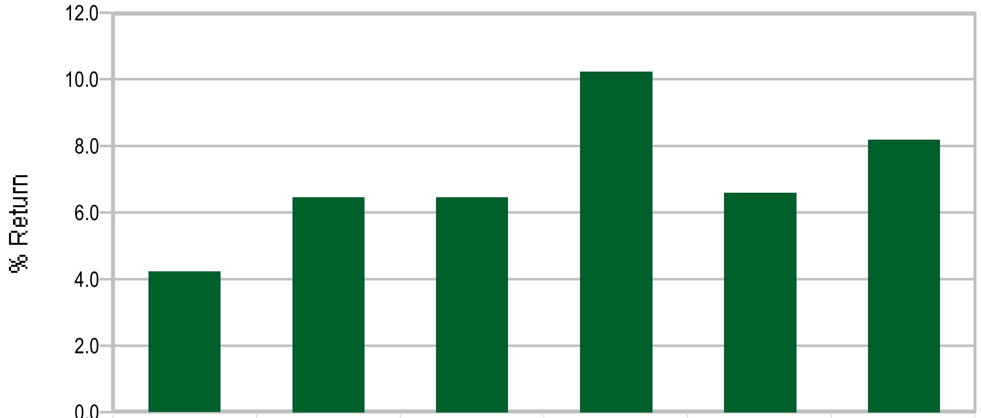
Historical Plan Performance

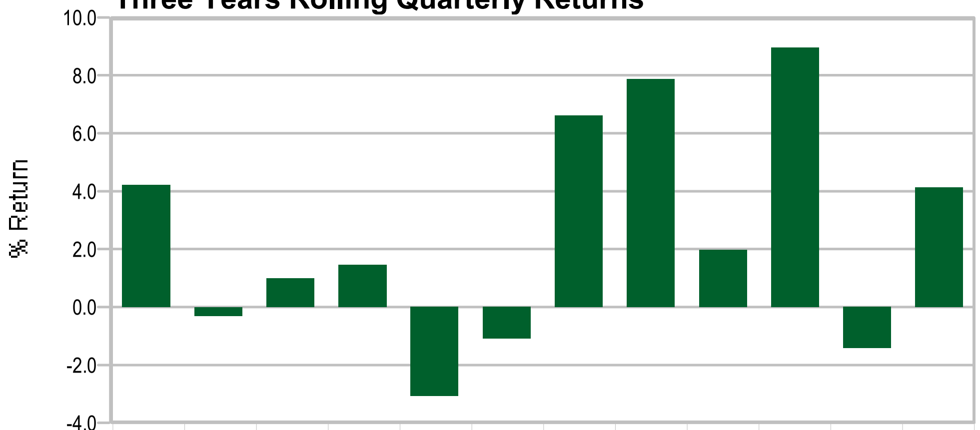


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.22	6.46	6.46	10.21	6.60	8.19

Risk Statistics - 3 years

	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.7	
Inception Date	May-2004	
Opening Market Value (£000)	16,580	
Net Investment £(000)	-200	
Income Received £(000)	0	
Appreciation £(000)	697	
Closing Market Value (£000)	17,077	

Three Years Rolling Quarterly Returns



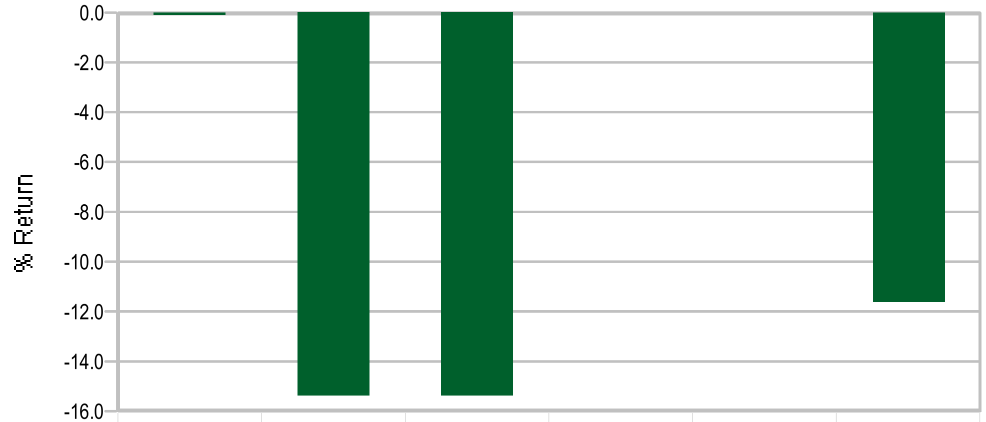
	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	4.22	-0.30	0.99	1.45	-3.07	-1.10	6.61	7.88	1.99	8.95	-1.42	4.13

Three Years Rolling Relative Returns

3M Relative
3Y Relative

Macquarie

Historical Plan Performance

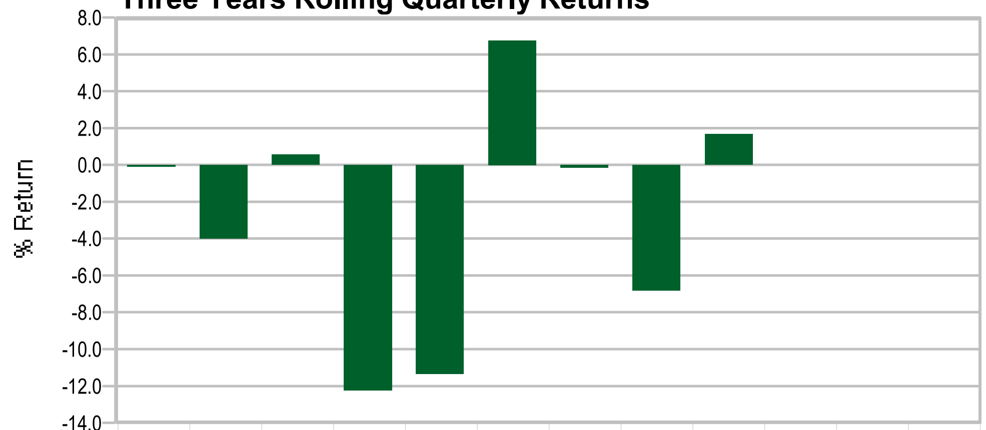


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.10	-15.37	-15.37	-	-	-11.60

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	1.0	
Inception Date	Sep-2010	
Opening Market Value (£000)	5,840	
Net Investment £(000)	470	
Income Received £(000)	0	
Appreciation £(000)	-6	
Closing Market Value (£000)	6,304	

Three Years Rolling Quarterly Returns



	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Fund	-0.10	-4.01	0.56	-12.25	-11.35	6.74	-0.16	-6.81	1.68	-	-	-

Three Years Rolling Relative Returns

Total Plan Benchmark

27.5	FTSE All Share
2.2	FTSE AW North America
2.2	FTSE AW Developed Europe ex UK
2.2	FTSE AW Developed Asia Pacific
0.4	FTSE All World All Emerging
4.0	FTSE Index Linked Gilts
3.0	IBOXX Sterling Non-Gilts
8.0	IPD UK PPFI All Balanced Funds Index
10.0	MSCI All Countries World ND Index
6.5	MSCI All Countries World Index
30.0	LIBOR 3 Month + 3%
4.0	FT 7 Day LIBID

JP Morgan

100.0 LIBOR 3 Month + 3%

M&G Investments

100.0 LIBOR 3 Month + 4%

Ruffer

100.0 LIBOR 3 Month GBP

SSGA

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

SSGA Drawdown

50.0	ML Sterling Non-Gilts
50.0	FT 7 Day LIBID

SSGA Global Equity

100.0 FTSE All World

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.

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

Industry Update

Buyouts

Debt markets, particularly in the US, remain liquid. Sponsored loan volume for larger companies in calendar year 2012 surpassed levels experienced in all prior years but 2007. That said, nearly 60% of this activity in 2012 went toward refinancing and dividend recaps as opposed to new LBOs and/or outright acquisitions. Buyout loan volume has been most concentrated in the IT and service-oriented sectors, combining for just over 30% of the total. Earlier in the year, energy-related sectors played a much larger role in overall loan volume but the market has since become more diversified in its interests. Purchase price multiples for LBOs in general during 2012 are down modestly from 2011 levels, however there was a definite uptick during the fourth quarter. As has been the case for some time, multiples for larger deals are higher than those of smaller to medium-sized deals, although the year end increase was experienced consistently across the size categories. The equity component of these transaction prices (as opposed to the debt component) is now well below levels experienced during the financial crisis (when traditional debt financing was largely unavailable) but remain well above levels witnessed during the buildup of the credit bubble in the middle of the last decade.

Fundraising continues to be subdued relative to heights attained during the 2005-2008 vintage years. However, after bottoming in 2009 the pattern of year-to-year increases in global buyout capital raised since then continues to hold true in 2012 – despite what preliminarily appears to be fewer funds coming to market in 2012 than calendar year 2011. After several years of working through the overhang of capital raised in prior funds, large and even mega funds have begun to return to the market in the past year. While in many cases the managers have less aggressive fundraising targets than in prior, overheated, vintages, the average size of fund raised in 2012 increased. This pattern of fewer funds raising more capital was particularly the case in the US. In Europe preliminary indications are that fewer funds raised modestly less capital than they had in 2011 – a testament to the more challenging fundraising environment created by the region's macro-economic challenges.

Venture Capital

Venture capital fundraising and exit activity were also top heavy during 2012. Similar to the experience in buyout space, overall global venture capital raised during 2012 looks to have been flat to modestly up from 2011 levels, but the total was raised through fewer funds. The number of companies that had their IPO listed on US exchanges during 2012 was quite consistent with the number in 2011. Since one of those companies was Facebook however, the volume raised from the year's IPOs exceeded all prior years except for the internet bubble years of 1999 and 2000.

Through interaction with venture GPs in our portfolio as well as with our own Direct Investments team, we can see that deal flow remains solid in venture space. That said, we are cautious on price as valuations in certain areas of the technology sector (especially in enterprise SAAS, mobile, big data, and cloud computing) remain frothy. Healthcare pricing rarely appears to be an issue on the surface but, as always, a close eye must be focused on the near and long term viability of the drug, service or device being considered given the rapidly changing regulatory environment impacting the sector.

Adams Street has committed to a number of very interesting venture capital funds over the course of 2012. In the US portfolio our interests have spanned the size spectrum from smaller groups like seed investor Harrison Metal to larger diversified funds like NEA. In Europe we have recommitted to well-respected health care investor Abingworth and after an extended period of time researching the region have also made a recommitment to Israel-focused manager Pitango. In the emerging markets, contrasting with calendar year 2011 when most venture commitments were to managers in China and India, we made two commitments to interesting funds based in Brazil and one to a group focused on bridging business model arbitrage opportunities between China and Japan. Once again we are reminded that the characteristics of managers coming to market can differ quite significantly from calendar year to calendar year, and that successful private equity programs tend to be diversified across regions, sectors, managers and time.

Portfolio Statistics as of September 30, 2012

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	3Q12 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**99%**	**78%**	**79%**	**1.17x**	**6.64%**	**2.62%**	**2.53%**
2005 Subscription	02/2005	100%	87%	87%	1.20x	6.82%	2.57%	3.15%
2006 Subscription	01/2006	100%	82%	82%	1.13x	5.87%	2.62%	2.56%
2007 Subscription	01/2007	100%	68%	68%	1.19x	9.67%	4.32%	2.38%
2009 Subscription	01/2009	76%	34%	44%	1.15x	19.47%	9.78%	2.13%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.02x	1.75%	0.16%	-1.52%
Co-Investment Fund II	01/2009	100%	39%	39%	1.45x	32.27%	9.32%	5.03%

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

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

Main Drivers of Performance

During the three months ended 30-September, public equity benchmarks bounced back from their negative absolute performance the prior quarter, with most markets generating returns in the mid-to-high single digits depending on location and industry concentration. Public market equity indices have exhibited a tremendous amount of quarter on quarter price volatility over the past eighteen months. Our private equity returns generally lagged the public markets' strong results during this three month period, but posted a solid 3.6% return.

Portfolio Outlook

Markets were bolstered by an increase in positive economic news flow in the US and Europe during the third quarter. In the US, an improved unemployment rate (albeit amid a reduced labor force) and growing indications of a housing market recovery outweighed continued uncertainty surrounding the November elections and potential implications of the since addressed "fiscal cliff". In Europe, news that the Central Bank is willing to support aid-seeking countries via purchases of their sovereign bonds also served to reduce some of the financial stress in global markets and encouraged more risk-seeking behavior amongst investors. This pattern of strong absolute returns continued into the final quarter of 2012, particularly outside the US.

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London Borough of Hillingdon

Portfolio overview – Q4 2012

- Since the last report, net invested capital has decreased as the underlying managers have distributed more capital than they have invested
- Distributions as a proportion of paid-in capital have increased slightly from 0.47x to 0.50x
- Total portfolio gains now amount to Euro 7.0 million, being Euro 21.1 million of NAV less Euro 14.1 million of net invested capital
- The USD weakened by 2.5% against the Euro in the period which had a small negative effect on portfolio performance

Q4 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	23.1	-11.7	11.4	17.0	5.6	0.51	1.24	71%	35%
Euro equivalent Dollar Exposure @	1.3193 USD / Euro	6.2	5.1	-2.4	2.7	4.1	1.4	0.46	1.28	82%	44%
Total Exposure (in Euro millions)		**38.9**	**28.2**	**-14.1**	**14.1**	**21.1**	**7.0**	**0.50**	**1.25**	**73%**	**36%**
Q3 2012	1.2863	39.0	27.6	-13.1	14.5	21.0	6.5	0.47	1.24	71%	37%
Q2 2012	1.2686	39.1	27.4	-12.2	15.2	21.2	6.0	0.45	1.22	70%	39%
Q1 2012	1.3329	38.8	26.4	-11.9	14.5	19.9	5.3	0.45	1.20	68%	37%
Q4 2011	1.2949	39.0	25.7	-11.2	14.5	19.6	5.1	0.44	1.20	66%	37%
Q3 2011	1.3387	38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	0%	38%
Q2 2011	1.4510	38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	1.3384	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q4 figures as of 31 December 2012
D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 December 2012

LBH PRIVATE EQUITY FUNDS LGT CAPITAL PARTNERS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
	£	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
	000		**000**		**000**		**000**		Dec 12
Crown Private Equity European Buyout Opport.	11,165	1.77	9,211	1.46	6,854	1.08	2,357	0.37	7.83
Crown Global Secondaries Plc (US$)	1,855	0.29	1,620	0.26	1,197	0.19	423	0.07	5.20
Crown Private Equity European Fund	4,087	0.65	3,529	0.56	1,367	0.22	2,162	0.34	7.20
Crown Private Equity European Buyout Opport. II	8,174	1.29	4,757	0.75	1,144	0.18	3,613	0.57	3.07
Crown Asia-Pacific Private Equity Plc (US$)	1,855	0.29	1,533	0.24	397	0.06	1,136	0.18	7.83
Crown European Middle Market II plc	3,269	0.52	1,411	0.22	221	0.03	1,190	0.19	10.92
Crown Global Secondaries II Plc (US$)	1,361	0.22	982	0.16	327	0.05	655	0.10	24.78
TOTAL(S) LGT CAPITAL PARTNERS	**31,766**	**5.03**	**23,043**	**3.65**	**11,507**	**1.82**	**11,536**	**1.83**	
ADAMS STREET PARTNERS	**£**	**%**	**£**	**%**	**£**	**%**	**£**	**%**	Sep 12
Adam Street Partnership Fund - 2005 US Fund	8,659	1.37	7,572	1.20	2,684	0.42	4,888	0.77	6.74
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,711	0.59	3,342	0.53	1,107	0.18	2,235	0.35	6.99
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,783	0.44	2,312	0.37	457	0.07	1,855	0.29	5.99
Adam Street Partnership 2006 Direct Fund	928	0.15	888	0.14	138	0.02	750	0.12	2.09
Adam Street Partnership Fund - 2006 US Fund, L.P	5,566	0.88	4,523	0.72	1,394	0.22	3,129	0.50	6.80
Adams Street Direct Co-Investment Fund, L.P.	1,856	0.29	1,772	0.28	222	0.04	1,550	0.25	1.75
Adams Street Partnership 2007 Direct Fund LP	309	0.05	285	0.05	80	0.01	205	0.03	7.60
Adams Street Partnership - 2007 Non -US Fund	1,082	0.17	741	0.12	90	0.01	651	0.10	6.29
Adams Street Partnership - 2007 US Fund	1,701	0.27	1,243	0.20	416	0.07	827	0.13	12.19
Adams Street Partnership - 2009 US Fund	928	0.15	411	0.07	77	0.01	334	0.05	21.81
Adams Street Partnership - 2009 Direct Fund	186	0.03	116	0.02	13	0.00	103	0.02	22.03
Adams Street Direct Co-Investment Fund II.	1,546	0.24	754	0.12	226	0.04	528	0.08	32.27
Adams Street 2009 Non-US Emerging Mkt Fund	186	0.03	66	0.01	0	0.00	66	0.01	-4.79
Adams Street Partnership 2009 Non-US Developed Market	557	0.09	191	0.03	19	0.00	172	0.03	16.10
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**29,998**	**4.75**	**24,216**	**3.83**	**6,923**	**1.10**	**17,293**	**2.74**	

FUND VALUE	**631,720**	
COMMITMENT STRATEGY	55,276	8.75%
TO ACHIVE INVESTMENT	31,586	5.00%
CURRENT INVESTMENT BOOK COST	28,829	4.56%
CURRENT INVESTMENT MARKET VALUE	38,160	6.04%

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WM LOCAL AUTHORITY

QUARTER 4 2012

The following summary is based on 83 funds with a total Market Value of £145,106m.

Final - 06/03/2013

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Fiscal Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	61.3	61.7	3.6	2.5	8.4	2.7	13.3	12.0
GLOBAL POOLED INC UK	6.0	6.1	2.5	2.5	6.0	2.7	11.1	12.0
UK EQUITIES	24.4	24.6	4.2	3.8	9.5	5.8	13.9	12.3
OVERSEAS EQUITIES	30.8	30.9	3.4	2.4	8.0	2.5	13.3	12.1
North America	10.7	10.3	-0.7	-0.8	3.1	1.3	10.5	10.7
Europe	7.6	7.7	7.4	8.1	14.4	7.3	18.3	17.8
Japan	2.9	2.9	4.3	5.1	1.4	-4.2	4.4	3.3
Pacific (ex Japan)	3.4	3.5	5.2	4.7	12.7	7.3	18.5	17.7
Emerging Markets	5.4	5.6	4.6	5.1	10.2	1.9	14.1	12.8
Global ex UK	0.8	0.8	2.4	2.4	6.7	2.5	12.4	12.1
TOTAL BONDS	18.4	18.2	2.4	-	4.3	-	6.8	-
U.K. BONDS	11.2	11.1	1.9	-0.4	5.7	4.5	9.7	2.7
OVERSEAS BONDS	2.1	2.1	1.2	0.8	2.6	0.2	5.4	-3.6
INDEX LINKED	4.3	4.1	4.8	4.3	1.7	2.2	0.8	0.6
POOLED BONDS	0.8	0.8	1.9	6.2	4.8	1.8	8.5	-1.3
TOTAL CASH	3.5	3.2	0.5	0.1	1.5	0.3	1.5	0.5
ALTERNATIVES	7.8	7.9	2.2	-	2.8	-	4.9	-
Total Private Equity	4.2	4.1	3.1	-	2.7	-	5.4	-
Total Hedge Funds	2.5	2.5	1.3	-	2.8	-	4.2	-
Other Alternatives	1.2	1.2	1.3	-	3.7	-	4.9	-
TOTAL POOLED MULTI ASSET	1.9	2.1	1.9	-	4.8	-	6.8	-
TOTAL EX-PROPERTY	92.0	92.1	3.1	3.2	6.8	4.5	10.8	10.7
TOTAL PROPERTY	7.1	7.1	0.7	0.5	1.1	1.5	2.5	2.4
TOTAL ASSETS	100.0	100.0	2.9	3.0	6.4	4.2	10.2	10.1

WM PERFORMANCE SERVICES
A State Street Business

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Retirement Performance Statistics and Cost of Early Retirements Monitor

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

SUMMARY

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

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

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

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

Number of Cases in the third quarter of 2012/13

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

	Redundancy	Efficiency	Ill Health	Voluntary over 60
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
2010/2011	20	0	11	34
2011/2012	65	0	12	24
Current Year 2012/13				
1st Quarter	6	0	3	4
2nd Quarter	5	0	2	3
3rd Quarter	9	0	0	3
12/13 Cumulative	**20**	**0**	**5**	**10**

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 – to 31/12/12	£582k	£102,450k	0.57
2013/14			
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 pension's administration system and reported to the scheme Actuary. The cost includes the benefits being paid before the employees normal retirement date and any period of service awarded. Depending on which tier the retirement falls in to, determines the length of service to be awarded. Details of the service to be awarded against each Tier are shown above. All Employers within the fund have a notional budget built in to their Employers Contribution Rate to fund ill health retirements. If the notional figure is exceeded, this will result in an increase to that Employers Contribution Rate, at the next valuation of the fund.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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Pensions Administration Performance	

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	None

SUMMARY

This report summarises pension administration performance across key areas of work for the period 1 October 2012 to 31 December 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 Employee Benefits (CEB), 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 third report since CEB became responsible for pensions administration. Within the framework agreement there is a table of performance targets which CEB 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 3rd quarter performance reports indicated an overall average performance of 97.76% per month over the quarter. Actual performance for each month was October – 98.42%, November – 97.48%, December – 97.56%. Details of performance by area are shown in the table below. The monthly performance on reportable areas has improved over the last quarter, (Q2 96.26%) although there have been problems with regard to the production of Annual Benefit Statements, which is outlined later in this report.

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 CEB contract, services levels are closely monitored. As a result of both underperformance and concerns regarding the production, accuracy and distribution of the Annual Benefit Statements, Nancy Leroux and Ken Chisholm met with the Operations Director of CEB to discuss these issues in detail. Firstly, the Operations Director apologised and admitted that CEB had performed poorly, that in effect they had taken on too many clients in too short a timeframe and initially did not have the infrastructure to support them all adequately. However, he was able to provide officers with reassurance that they were now adequately resourced and that initial problems had all been resolved. We were given assurance that all benefit Statements have now been sent out. Future statement will all be distributed by 31 August each year.

There was also an issue about the quality of data held by Capita, as our Actuary has made us aware that there have been problems regarding data sent to them by CEB, which we were assured has now been resolved. Officers are working closely with Capita to ensure that the data is clean prior to the valuation on 31 March 2013.

The performance report below shows a summary of monthly performance for the third quarter of 2012/13.

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	ACTION REQUIREMENTS	OCTOBER 2012		NOVEMBER 2012		DECEMBER 2012	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	20	100.00	13	100.00	12	100.00
Actual Retirement Benefits	3 Days	20	100.00	11	100.00	10	100.00
Letter notifying Dependants Benefits	5 Days	2	100.00	0	0	2	100.00
Process Refund	10 Days	0	0	11	100.00	3	66.66
Transfers in Actual	10 Days	0	0	1	100.00	0	0
Transfers in quote	10 Days	8	100.00	7	100.00	4	100.00
Answer General Letter	5 Days	100	100.00	90	98.89	60	98.33
Calc/Notify Deferred	15 Days	57	96.49	65	98.46	24	100.00
Estimate of Retirement Benefits	5 Days	39	97.44	47	100.00	33	100.00
Transfers Out Quote	5 Days	10	100.00	6	100.00	19	100.00
Transfers Out Actual	9 Days	8	100.00	5	100.00	7	100.00
New Entrants	20 Days	14	100.00	50	100.00	25	100.00
Added Years	10 Days	1	100.00	4	100.00	9	100.00

Revision to the Statement of Investment Principles

Contact Officers	Nancy Leroux, 01895 250353

Papers with this report	Revised Statement of Investment Principles 2009

SUMMARY

As a result of the appointment of two Additional Fund Managers in December 2012, amendments are required to the Statement of Investment Principles as required by the LGPS Regulations (Revised) 2009. This report recommends that committee approve those amendments.

RECOMMENDATIONS

That Committee approve amendments made to Revised Statement of Investment Principles (March 2013) reflecting changes in the Fund's appointed Managers and Asset Allocation.

Information

At Committee in December 2012, it was agreed to re-invest the £60m from the Marathon mandate into Global Equity Dividend Themed mandates as follows:

- To appoint Kempen to manage a Global Equity (Dividend Themed) mandate with 67% of those funds, £40m; and
- To appoint Newton to manage a Global Equity (Dividend Themed) mandate with the remaining 33% of the funds, £20m.

As a result of these changes, amendments are required to be made to the Statement of Investment principles and Committee are required to approve the changes. A summary of the changes made to the revised statement, highlighted in the attached statement, is detailed below:

1. Kempen International Investments and Newton Asset Management were included in the list of fund managers and advisers.
2. Both Kempen and Newton's agreed performance benchmarks were added to the list of managers target performance standards.
3. Fee structures list was amended to reflect the agreed fee basis for the two new managers, Kempen and Newton.
4. Kempen and Newton were added to the list of fund managers' performance benchmark and comparative indices. (MSCI World for Kempen and FTSE World index for Newton)

FINANCIAL IMPLICATIONS

There are no financial implications.

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report.

Statement of Investment Principles

(Revised March 2013)

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

INVESTMENT RESPONSIBILITIES

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

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

The Investment Sub Committee has responsibility for:
- Monitoring financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework,
- Keeping asset allocation under review within range guidelines set by the Pension Committee,
- Considering the framework for the allocation of new money among managers and similarly, in the event that assets need to be realised,

- Formally reviewing the mandates of the managers, and their adherence to their expected investment process and style,
- Considering the need for any changes to the investment managers' mandates or manager arrangements,
- Evaluating the credentials of potential managers and make recommendations to the Pension Committee in respect of any change of managers.
- Monitoring the investment advice from their investment consultant and investment adviser at least annually,
- Maintaining the Funds Statement of Investment Principles.

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

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

The **Investment Consultants** are responsible for:

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

The **Actuary** is responsible for:

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

The **Investment Managers** are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,

- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:

- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.
- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

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

Financing benefits

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

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

Actuarial valuation

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

INVESTMENTS

Approach

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

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, M&G Investments, Macquarie Infrastructure & Real Assets Europe, Marathon Asset Management, Newton Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

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

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

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

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

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

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

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

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

The suitability of investments

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

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

The expected return on investments

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

Adams Street Partners	- Outperform benchmark
JP Morgan Asset Management	- Outperform benchmark
Kempen International Investments	- 2 - 4.00% p.a. in excess of benchmark
LGT Capital Partners	- Outperform benchmark
M&G Investments	- 5.00% p.a. in excess of benchmark
Marathon Asset Management	- Outperform benchmark
Macquarie Infrastructure	- Outperform internal rate of return hurdle
Newton Asset Management	- 2.00% p.a. in excess of benchmark
Ruffer LLP	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Asset Management - Property	- 1.00% p.a. in excess of benchmark

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

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

Fee Structures

Adams Street Partners	- Fee based on subscribed capital + performance fee
JP Morgan Asset Management	- Fixed fee based on portfolio value
Kempen International Investments	- Fixed fee based on portfolio value
LGT Capital Partners	- Fee based on subscribed capital + performance

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

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

Schedule 1 Limits on Investments

At their meeting on 12 December 2012, the Committee agreed to an increase in the limit on investments in contributions to any single partnership from 2% to 5%, an increase in the limit on investments in contributions to all partnerships from 5% to 15% and an increase in the limit on investments in any single insurance contract from 25% to 35%. Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken to allow for diversification into private equity and infrastructure; both categories use partnerships and single insurance contract is utilised for safekeeping of transitioned assets from disengaged managers. The decision will apply for a period of 1 year from the date of the meeting (12 December 2012), at which point it will be re-considered. This decision complies with The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments. The diversification of asset types is intended to ensure a reasonable balance between different categories of investments so as to reduce risk to an acceptable level.

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

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

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

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

The realisation of investments

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

Pension Fund Treasury Management Policy

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

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

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

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

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

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

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

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

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

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

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

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

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

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

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

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London

Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

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

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

STOCK LENDING

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

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

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

COMPLIANCE

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

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

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Officers meet with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out. This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

CIPFA Principles for Investment Decision Making and Disclosure

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

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

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

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

APPENDIX B

Limits on Investments

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

Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	5%
All contributions to partnerships.	15%
The sum of: All loans (except Government Loan) Any deposits with any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%
All investments in unlisted securities of companies	10%
Any single holding (but see paragraphs 1 and 2 below).	10%
All deposits with any single bank, institution or person (other than the National Savings Bank).	10%
All sub-underwriting contracts.	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 2 below	25%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 2 below).	25%
Any single insurance contract.	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Restrictions identified in the above table does not apply if:

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

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

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

National Savings Certificates;

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

any securities the payment of interest on which is guaranteed by Her Majesty's Government

in the United Kingdom or the Government of Northern Ireland; or
a deposit with a relevant institution.

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

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

APPENDIX C

Voting Guidelines

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

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

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

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

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

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

Kempen International Investments			
Asset Class	Benchmark %	Ranges %	Index
Global High Dividend Income	100	n/a	MSCI World +2-4%
Total	**100**		

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

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

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

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

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

Newton Asset Management			
Asset Class	Benchmark %	Ranges %	Index
Global Higher Income	100	n/a	FTSE World Index +2%
Total	**100**		

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

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

Sterling Corporate Bond All Stocks fund	8.5		Barclays Capital Sterling Aggregate (or similar)
Total	**100**		

STATE STREET GLOBAL ADVISORS - Account 2			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index Fund	50	+/- 10% of Benchmark	Barclays Capital Sterling Aggregate (or similar)
Sterling Liquidity sub-Fund	50		
Total	**100**		

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

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

APPENDIX E

Stewardship Code

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

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

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Governance Issue and 2014 Scheme Proposals

Contact Officers	Nancy Le Roux,
Papers with this report	None

SUMMARY

This report is to provide an update on Pension Fund Governance issues and to provide an update to Committee on recent developments. Within this report is a recommendation for a change to the Internal Disputes Resolution Policy, and an update on the new 2014 Scheme.

RECOMMENDATION

Committee are recommended to

1. **To agree the proposed changes to the Internal Disputes Resolution Policy.**
2. **To note the proposals for the new 2014 Scheme.**

INFORMATION

1. Internal Disputes Resolution Policy

Under the Local Government Pension Scheme, all authorities are required to have a 2 stage Internal Disputes Resolution Policy to hear appeals against decisions made in respect of benefits, and this policy is published. Under the current Hillingdon policy, the Appointed Officer for Stage 1 appeals is the Corporate Pensions Manager and at Stage 2, it is a Senior Officer who has had no previous involvement with the case.

The majority of the London Boroughs within the Pan London Pensions Framework have amended their Internal Disputes Resolution Policy, to enable the Director of Operations at Capita to be the nominated officer in all Stage 1 appeals. Any cases which proceed to Stage 2 are then passed to the Senior Pensions Officer of the Authority where the claimant was/is employed.

This report is requesting that Pensions Committee agree to change the Hillingdon policy, to name the Director of Operations at Capita to be the nominated officer in all Stage 1 appeals and the Corporate Pensions Manager to be the appointed Officer for stage 2 appeals. In any case where the Corporate Pensions Manager has either been involved with the case or is the object of the complaint, then that the complaint will continue to be heard by a Senior Officer who has had no previous involvement with the case. If an appellant is not satisfied with a decision made at Stage 2, an application has to be either lodged with the Pensions Regulator to make a determination, or the appellant will have to instigate civil proceedings.

2. 2014 Local Government Pension Scheme

Draft consultation regulations on the proposed new 2014 scheme design were issued on 21 December 2012 for a short 7 week consultation period. The main features are summarised below:

- All pensions in payment or built up before April 2014 will be fully protected. Employees who have left employment prior to 1 April 2014 and are currently in receipt of a pension or have left with a deferred pension are not affected by these changes. Current contributing scheme members with pre April 2014 service will still receive benefits based on final salary at retirement.

- New scheme benefits, will be based on Career Average Revalued Earnings, and will accrue at the rate of 1/49th for each year of service. Currently benefits accrue at 1/60th for each year of service. The "Normal Retirement Age" will be aligned to the members State Retirement Age, with a minimum age restriction of 65. Unlike, the current Scheme, which restricts "Pensionable Pay" to Contractual Pay, the new Scheme will include all pay received, including any non-contractual overtime, or additional hours paid for part-time staff. Scheme members leaving employment before Normal Retirement Age, will need to have at least 2 years pensionable service to qualify for a deferred benefit, the current scheme allows for a minimum period of 3 months.

- The 2014 LGPS will contain an option for members to pay 50% of the pension contributions for a 50% pension whilst retaining the full value of other benefits of the scheme, such as ill health pension and death in service benefits.

- As part of the new scheme, it was announced that Councillor Members of the LGPS would not be able to accrue any further pension benefits in the LGPS, with effect from 1 April 2014. There has been no further information regarding the impact that this will have on current Councillor Members. Any developments will be report to committee.

To date no further information has been circulated following the end of the consultation period. A further consultation on issues relating to governance, cost control mechanisms and other aspects of administration has yet to be published.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

Deloitte – 2012/13 Annual Audit Plan	

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Deloitte – Audit Plan for the Year Ending 31 March 2013 – Pension Fund Annual Report Audit

SUMMARY

The attached document sets out the initial plans for the audit of the Pension Fund Accounts 2012/13 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September.

RECOMMENDATIONS

The Committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2012/13 accounts.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2013 is £7.5m (2012 £7.5m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.38m (2012 £0.38m).

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

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

TIMETABLE

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

FEES

The estimated level of fees for the 2012/13 audit £20,000 (2011/12: £36,500).

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon

Report to the Pension and Audit Committees

Audit Plan for the Year Ending 31 March 2013
Pension Fund Annual Report Audit

27 February 2013

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2013. The Financial Reporting Council ("FRC") has made it clear, in its 'Update for Corporate Committees – November 2010' that it expects Audit Committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. Whilst the FRC report is designed for private and public companies, the messages are equally applicable to governance and Audit Committees in other organisations. This report will describe the work we undertake in order to support this activity.

Status	Description	Detail
Audit scope		
Our audit scope is unchanged from last year	Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund. The pension fund accounts remain part of the accounts of the Authority as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Authority accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Commission to issue an audit report for inclusion in the annual pension fund report.	Section 1
Key audit risks		
We summarise the key audit risks identified at this stage	The key audit risks which we have identified as part of our overall audit strategy are: 1. **Contributions** – Contributions is a significant income steam for the pension scheme which contains certain complexities arising from the participation of different admitted bodies within the fund. This is compounded by the variable rates which can be paid by members depending on their pensionable pay. We have, therefore, included the calculation and payment of contributions as an area of audit risk. 2. **Benefits** – Benefit calculations continue to encompass a number of complexities for both benefits in retirement and benefits paid on ill health and death. This has been compounded in recent years with the application of CPI as an inflation factor. We continue to identify benefits payable as an area of audit risk. 3. **Financial Instruments** – The pension fund invests in private equity and derivative financial instruments. Investments of this type are often in illiquid markets and involve significant judgments in measurement, accounting and disclosure; accordingly we have identified the appropriateness of the accounting, measurement and disclosure for these investments as an audit risk. 4. **Management override of key controls** - This is a presumed area of risk within auditing standards. As consistent with previous years the presumed risk of revenue recognition continues to be rebutted for the pension fund.	Section 2

Executive summary (continued)

Materiality and prior year uncorrected misstatements and disclosure deficiencies		
Planning materiality set at £7.5m **Reporting threshold set at £0.38m**	We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7.5 million (2012: £7.5 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £0.38 million (2012: £0.38 million) and smaller adjustments that are qualitatively significant. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.	

Prior period recommendations		
We reported a single finding from our work in 2011/12. We will follow up on this in 2012/13	In our final report to the Pension and Audit Committees, issued on 25 September 2012, we 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. We will follow up on this area as part of our 2012/13 work.	Section 4

Prior year uncorrected misstatements and disclosure deficiencies		
No prior year issues	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2011/12 accounts.	

Independence and fees		
We confirm our independence. Proposed audit fees for 2012/13 are £21,000	We confirm we are independent of the London Borough of Hillingdon Pension Scheme. We will reconfirm our independence and objectivity to the Pension and Audit Committees for the year ending 31 March 2013 in our final report to the Pension and Audit Committees. Our responsibilities and those of the scheme are explained in the Audit Commission's publication, 'The responsibilities of Auditors and of Audited Bodies – Local Government' issued March 2010. We propose an audit fee of £21,000 (2011/12: £35,000) for the audit of the Scheme's financial statements. This is in line with the scale fee set by the Audit Commission. The 2012/13 scale fees set by the Audit Commission include reductions of up to 40% on 2011/12 fees as a result of savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.	

Executive summary (continued)

Operational features of our audit plan	
Our planned audit approach is similar to prior years'	Section 3 sets out our approach to considering fraud in relation to the audit. Appendices 1 and 2 set out our service team and timetable respectively.

1. Scope of work and approach

Overall scope and approach

Audit objectives are explained in more detail in our "Briefing on audit matters".

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

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

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

Our audit objectives are set out in our "Briefing on audit matters".

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

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Authority's financial statements as a whole, which is £7.5 million. Our separate audit plan for the audit of the Authority's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document. The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements.

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

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

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2012/13 on the following areas:

Contributions	
Tiered contribution rates increase complexity	Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. Contributions for the year ended 31 March 2012 were £30.5 million, of which Scheduled bodies contributed £30.0 million, showing that this is a material income stream for the pension fund. This is expected to continue in the current period with there being no significant change to the active membership paying contributions. This coupled with the complexity introduced by the participation of more than one employer in the fund, together with the introduction of the new benefit structure with its tiered contribution rates; we have identified this as a specific risk.
Deloitte response	We will perform the following procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule: • Review the design and confirm the implementation of key controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly. • Recalculate contributions for a sample of individual members to ensure they are calculated in accordance with the schedule of rates. • Perform analytical review procedures to gain assurance over the total contributions received in the year. • Reconcile the membership movements in the year to the Financial Statements, ensuring that these include members from the admitted bodies. We note that the Authority is not responsible for the calculation of contributions and will therefore perform such tests with the assistance of the other scheduled and admitted bodies.

2. Key audit risks (continued)

Benefits	
There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits.	The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement; and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above. The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index adds a further complexity to the above calculations going forward. In the year ended 31 March 2012, total benefits paid were £35.5 million with £32.0 million (£6.4 million relating to lump sums) being paid to members in retirement. The scheduled bodies make up the main part of the scheme with £31.9 million being paid out to members of these bodies. We understand there is no significant change in the current period. The material values of these benefits further indicate that this is an area or key audit risk.
Deloitte response	We will perform the following procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules. • Review the design and confirm the implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits. • Test a sample of new pensioner calculations and other benefits paid by tracing to supporting documentation and reviewing the calculation, to ensure it is in line with the relevant rules. • Perform analytical review procedures over the pensions paid in the year based on prior year audited numbers adjusted for changes in pensioner numbers and any pension increases.

2. Key audit risks (continued)

Financial instruments	
Private equity and derivatives are complex to value	The pension fund makes some use of investments in private equity and derivative financial instruments. The fund had a total of £36.6 million in private equity funds as at 31 March 2012. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk. The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements. During 2012/13, the scheme has transferred investments between investment managers using Nomura as transition managers. The assets were transferred the equity portfolio from Marathon to both Kempen Global and Newton Global via a holding period at State Street Global Advisors.
Deloitte response	For the private equity investments we will seek to understand the approach adopted in the valuation of such investments and inspect supporting documentation such as cash flow reports, quarterly investment advisor reports and audited financial statements. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end. We will update our understanding of the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Audit Practice on Local Authority Accounting. We will consult with our internal specialists and where considered necessary ask them to perform tests of these balances through re-calculation of the value attributable to them. We will review the transition reports for the two transitions in the period and assess the accuracy of the transition holdings.

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

3. Consideration of fraud

Characteristics

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

Responsibilities

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

Fraud inquiries

We will make the following inquiries regarding fraud:

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

3. Consideration of fraud (continued)

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

Representations

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

  (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.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

4. Prior period recommendations

Control observation

During the course of our audit for 2011/12 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 remained 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 recommended 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 meets at a time more suitable to the audit timetable.
Owner	Nancy LeRoux

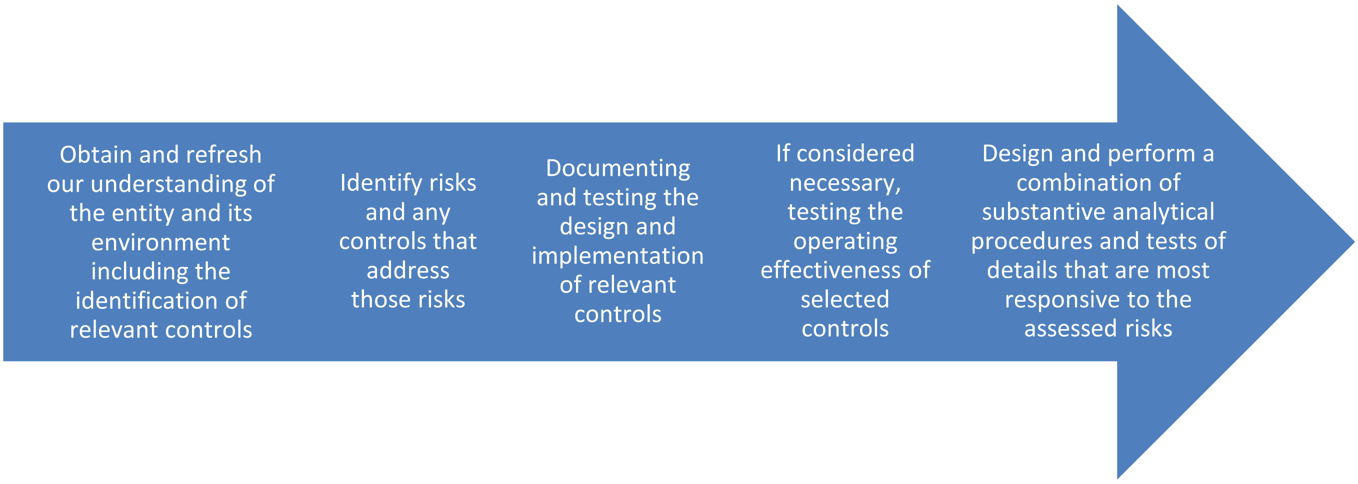
We will report to you whether this recommendation has been addressed in the current period.

5. Internal control

What audit work do we do on controls?

We will evaluate the design and implementation of controls relevant to the audit

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



We will consider the results of our procedures in respect of the Council’s controls and the extent of any impact our findings have on our substantive audit procedures.

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

6. Responsibility statement

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

This report should be read in conjunction with the "Briefing on audit matters" circulated to you previously and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the members and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

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

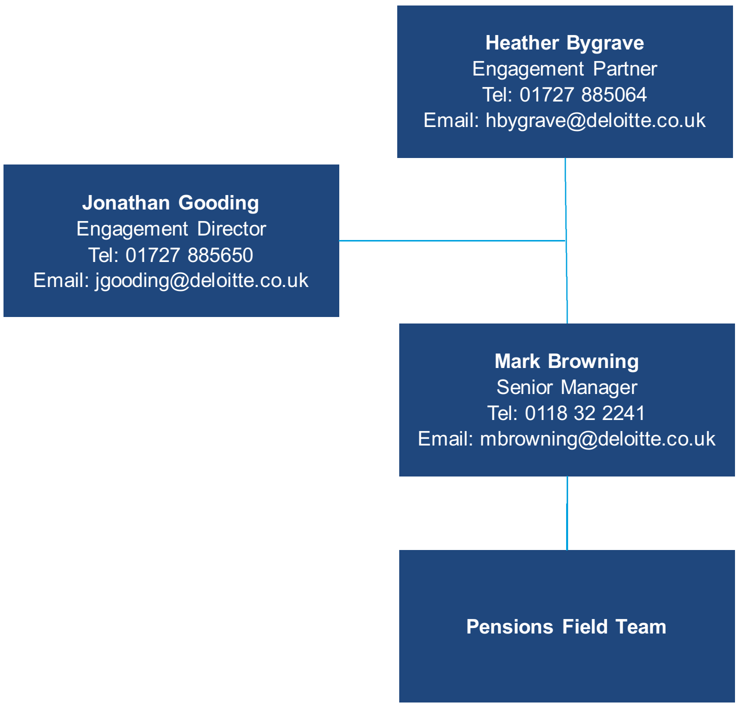
Deloitte LLP.

Deloitte LLP
Chartered Accountants

St Albans
27 February 2013

Appendix 1: Audit engagement team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and which draws on the expertise of our local government and pension scheme specialists within the firm.



Appendix 2: Timetable

	2013	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Management	Prepare plan based on discussions with management		■						
	Early discussion of Authority's approach to risks areas		■						
	Performance of detailed audit planning fieldwork		■						
	Audit fieldwork/audit issues meetings					■			
	Review of pension fund annual report						■		
	Preparation of our report on the 2012/13 audit						■	■	
Pensions and Audit Committees	Audit plan		■						
	Report to the Pension and Audit Committees on the 2012/13 audit							■	

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

Appendix 3: Industry update

Public Service Bill

The Public Service Bill 2012/13 will create the unified legal framework underpinning the new public sector CARE arrangements, which have now been agreed in principle between the Government and unions. The Bill enables the detailed regulations needed to be drafted for the new schemes. The Bill picks up many of the Hutton Report's other recommendations, for example, on strengthening scheme governance. Some of the key areas of change are:

- The Pension Regulator's role will be expanded to cover public sector schemes.
- Introduction of two roles relating to governance, Pension Board and Scheme Manager.
- Pension Boards will need to appropriate level of knowledge and understanding, this includes that members are conversant with the rules of the scheme, policies of the scheme and an understanding of the law relating to pensions.
- Scheme Manager is to be responsible for the administration and management of the scheme, expected to be the Administering Authority.
- Fair Deal - "Broadly comparable" DB Benefits are to continue to be offered by companies taking on public sector work.

The bill has had its third reading in the House of Lords and we await any final amendments.

LGPS admission agreements

Admission Agreements allow private contractors to participate in the LGPS in respect of members transferred from the public sector.

The Miscellaneous Regulations made the following amendments for Admission Agreements from 1 October 2012:

- it will no longer be possible for an admission agreement to cover more than one outsourcing contract;
- the distinction between transferee and community admission agreements will be removed. This means that the requirement to obtain a bond or indemnity will apply equally to both forms of admitted body; and
- in future, to address a loophole, a valuation must be made at the date an employing authority ceases to be a scheme employer in respect of the liabilities relating to its current and former employees.

In addition, following changes to allow for auto-enrolment, contractors need to be careful that existing Admission Agreements permit only employees eligible for the LGPS to be auto-enrolled.

Appendix 3: Industry update (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 Fund (LGPF) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:
  - The design of a new LGPF.
  - The future management and cost of the fund.
  - Governance of the LGPF.
- A timetable for implementing the new fund by April 2014.
- A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new fund.

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 Fund (LGPF) in England and Wales, a project has been set up to reach agreement on the elements of the new fund together with the management and governance of the fund going forward.

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

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Agenda Item 12

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