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Pensions Committee

Date: TUESDAY, 24 SEPTEMBER 2013

Time: 5.30 PM

Venue: COMMITTEE ROOM 2 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW

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

Councillors on the Committee

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Janet Duncan
Raymond Graham
Paul Harmsworth
David Simmonds

Advisory Members

John Holroyd
Andrew Scott

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http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=125&MId=1600&Ver=4

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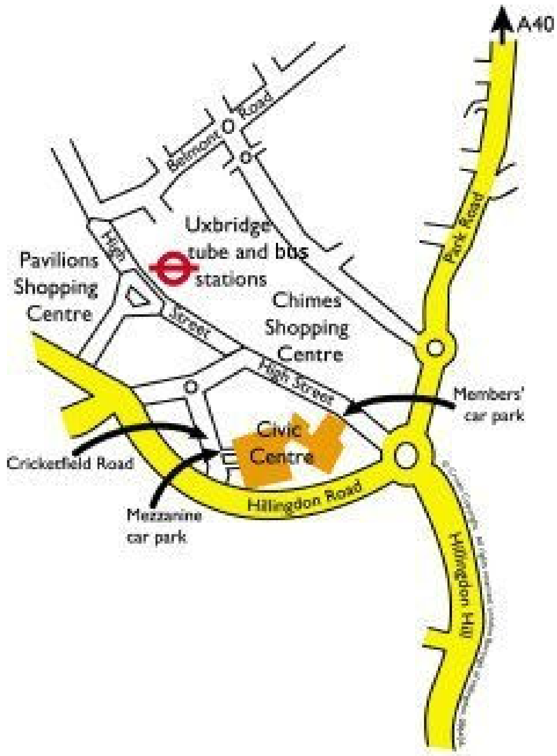

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This Committee

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

PART I - Members, Public and Press

PART II - Members Only

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Minutes

PENSIONS COMMITTEE

19 June 2013

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

HILLINGDON
LONDON

	Committee Members Present: Councillors Philip Corthorne (Chairman), Janet Duncan, Raymond Graham, Paul Harmsworth and David Simmonds. **Advisory Members/Co-optee Members Present:** John Holroyd and Andrew Scott. **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Nancy LeRoux, Paul Whaymand and Khalid Ahmed. **Also Present:** John Hastings, Scott Jamieson and Linda Selman (Advisors).	
1.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** Councillors Corthorne, Duncan, Harmsworth and Lewis, and advisory member John Holroyd declared pecuniary interests in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.	**Action by**
2.	**MINUTES OF THE MEETINGS OF 27 MARCH AND 9 MAY 2013** Agreed as an accurate record subject to the inclusion of Andrew Scott's apologies for the meeting of 27 March 2013.	
3.	**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 11, 12, 13 and 14 be considered in private for the reasons stated on the agenda and the rest of the items be considered in public.	**Action by**
4.	**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 31 March 2013. The total value of the fund's investments was £683m. Reference was made to the performance of the Fund for the quarter showing an outperformance of 1.01% with a return of 7.84% compared	**Action by**

	to the benchmark of 6.82%. The Committee was informed that four of the eight monitored portfolios outperformed their benchmarks with the rest showing their prescribed benchmarks during the quarter. **RESOLVED:** **1. That the report and the performance of the Fund Managers be noted.** **2. That the Committee noted that the Statement of Investment Principles had been updated to reflect the inclusion of Bearings Asset Management as a Fund Manager.**	
5.	**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. **RESOLVED:** **1. That the contents of the report be noted.**	
6.	**PENSIONS ADMINISTRATION PERFORMANCE** Consideration was given to the report which summarised the pension administration performance across key areas of work for the period 1 January 2013 to 31 March 2013. 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. The Committee was informed that the previous full year performance data was included in the Annual Report for the Fund which showed a significant improvement. The 4th quarter performance reports indicated an overall average performance of 99.01% per month over the quarter which was an improvement on the previous quarter. Members noted that since Pensions Administration had been outsourced to Capita Employee Benefits as part of the pan London Framework Agreement, there had been savings in administration costs of 27% to the pension fund. **RESOLVED:** **1. That the contents of the report be noted.** 	
7.	**CONSULTATION ON TAXPAYER FUNDED PENSIONS FOR COUNCILLORS AND OTHER ELECTED LOCAL OFFICE HOLDERS** Consideration was given to a draft response to the consultation on	

	Councillors continued access to the Local Government Pensions Scheme. Members were informed that the draft response prepared on behalf of the Committee stated that the London Borough of Hillingdon firmly supported no change to the current access rights of elected Councillors to the Local Government Pension Scheme and therefore supported option 3. The Committee was also informed that the Local Government Association would also be submitted a response to this consultation. **RESOLVED:** **1. That approval be given to the proposed response to the consultation on 'Taxpayer-funded pensions for councillors and other elected local office holders'.**	
8.	**DRAFT PENSION FUND ANNUAL REPORT** The Committee was informed that the Annual Report for the Pension Fund accounts would be formally released to Deloitte, the Council's external auditors, for audit at the end of June. A draft copy of the report was submitted to the Committee for Member's comments. Members were informed that the formal report would be brought back to this Committee, together with a presentation on the accounts. **RESOLVED:** **1. That the draft Pension Fund Annual Report & Accounts be noted.** 	**Action by**
9.	**ANNUAL REVIEW OF FUND MANAGER & CUSTODAIN COMPLIANCE WITH STATEMENTS OF INTERNAL CONTROL** Members were informed that as a good practice measure, an annual review was undertaken by officers of the Statements of Internal Control for all Fund Managers and for the Custodian of the Pension Fund. The Committee was informed that this review had been completed and issues which required further investigation were reported. **RESOLVED:** **1. That the outcome of the review of the internal controls in place with the fund managers and custodian be noted.** **2. That approval be given for follow up requirements being discussed and managed through the Investment Sub-Committee who will agree actions as part of their work for the coming year.**	
10.	**REPORT FROM INVESTMENT SUB-COMMITTEE AND REVIEW** 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).	
11.	**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).	
12.	**MEMBERSHIP OF LOCAL AUTHORITY PENSION FUND FORUM** 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).	
13.	**INVESTMENT ADVICE CONTRACT** 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).	
	The meeting, which commenced at 5.30 pm, closed at 6.10 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 30 June 2013. The total value of the fund's investments as at the 30 June was £681m. This represents a drop of £2m from the end of financial year in March 2013. However, in the months since June the Fund's value has increased again to around £695m at the end of August.

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 30 June 2013 showed an out-performance of 0.44%, with a return of 0.21% compared to the benchmark of -0.23%. The whole fund out-performance is attributable to four fund managers during the quarter. One year figures show returns of 14.38%, 2.67% better than the benchmark.

Performance Attribution Relative to Benchmark

	Q2 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
JP Morgan	(2.41)	(0.67)	-	-	0.17
Kempen	(4.04)	-	-	-	(5.42)
Macquarie	4.40	-	-	-	-
M&G Investments	0.05	3.96	0.13	-	0.08
Newton	(0.88)	-	-	-	0.52
Ruffer	0.08	13.74	7.48	-	6.29
SsgA	(0.10)	(0.09)	(0.02)	-	0.03
SsgA Drawdown	(0.60)	(1.61)	(0.82)	-	(0.52)

UBS	4.84	8.48	2.79	1.49	1.15
UBS Property	0.22	(1.18)	(0.38)	(0.96)	(0.66)
Total Fund	**0.44**	**2.39**	**1.26**	**0.01**	**0.05**

Market Commentary

Gold had another bad quarter as investors started to abandon it as a safe-haven asset as they became more confident in the Federal Reserve's assertion that the US economy was recovering. The UK Gilt market was affected by the sell off in US government bonds, even though monetary policy in the UK is likely to remain looser for longer. Gilts recorded a return for the period of -3.8%. Overseas bonds were also negative, but Sterling weakness moderated the return of -2.9% on the Citigroup World Government Bond index. Index linked bonds fell, while investment grade corporate bonds, high yield bonds and emerging market debt were also badly affected by a general sell-off in fixed income assets.

Equity markets were also badly affected, with many of the smaller emerging and Asian markets falling sharply in the expectation that tighter US monetary policy would stifle investment flows. The emerging market complex lost 7.8% for the quarter, while the Pacific region lost 7.7%. Among the larger markets, Japan had a spectacular rally, fell 20%, but still ended with a positive return of 4.5%. The US also managed a positive return as did Europe, but the UK suffered a modest loss of 1.7% for the period. Commercial property had a steady return for the period of 1.7% reflecting continued foreign interest in the London office market.

2. MANAGER PERFORMANCE

2.1 Manager: JP Morgan
Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have outperformed since inception (Nov 2011) by 0.17%. However, in the quarter under review, JP Morgan underperformed by (2.41) % with a return of (1.57) % against benchmark return of 0.87%

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 +4-6% (net of fees). Additional returns may be achieved through equity participation or success fees.
Approach: The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong

business fundamentals that are facing difficulties refinancing existing loans in the bank market.

Performance

	Q2 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	1.16	8.73	4.94	-	4.89
Benchmark	1.11	4.59	4.81	-	4.80
Relative Return	0.05	3.96	0.13	-	0.08

Over the second quarter of 2013, M&G produced a 1.16% return, just 5 basis points ahead of the 3 Month LIBOR +4% p.a. Over the last year the account registers 8.73% against 4.59% whilst since inception at the end of May 2010, the portfolio return falls to 4.89% pa against the benchmark of 4.80% pa. The since inception Internal Rate of Return (IRR) for this portfolio moves further ahead of the target with a figure of 5.63% opposed to the comparator of 4.71%.

2.3 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 produced 0.20% over the last three months, which is just 8 basis points above the return of 0.13% for LIBOR 3 Month GBP. Driven by last quarter's return all longer periods show high absolute and relative returns, so over the last twelve month post a return of 14.50% against 0.67% for the target, resulting in the highest Out-performance of all mandates at 13.74%. While since the inception of the fund in May 2010 nine out of twelve quarters show positive returns and lead to figures of 7.13% versus 0.79% per annum, which translates as a relative return of 6.29%.

2.4 Manager: SSgA

Performance Objective: To replicate their benchmark indices

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

Performance:

Account		Q2 2013 %	1 Year %	Since Inception %
SSgA Main Account	Performance	(1.83)	16.65	13.31
	Benchmark	(1.73)	16.76	13.28
	Relative Return	(0.10)	(0.09)	0.03
SSgA Drawdown Account	Performance a/c 2	(2.01)	1.65	4.19
	Benchmark a/c 2	(1.42)	3.32	4.74
	Relative Return	(0.60)	(1.61)	(0.52)

Since its inception in November 2008 the SSgA main portfolio has delivered a return relative to its benchmark index of 0.03%. The Draw-Down fund which commenced June 2009 has underperformed its benchmark with a since inception return of (0.52) %. Performance is not always flat and quarterly variances should be expected as a result of a number of factors including; cash drag, stock lending cycles and rights Issue opportunities, however over the longer period these are expected to smooth out.

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

Performance:

	Q2 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	3.10	27.94	15.95	9.48	10.18
Benchmark	(1.66)	17.93	12.80	7.88	8.93
Relative Return	4.84	8.48	2.79	1.49	1.15

Performance for the quarter was positive and ahead of the benchmark with the largest contributions to out-performance coming from overweight positions in Lloyds Banking Group, Dixons and GlaxoSmithKline. In fact, UBS outperformed the benchmark all through one, three and five year periods. This resulted in the since inception performance relative return increasing to 1.15% from 1.06% in the previous quarter.

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

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

Performance:

	Q3 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	1.63	1.28	4.36	(1.03)	(0.69)
Benchmark	1.40	2.49	4.76	(0.07)	(0.03)
Excess Return	0.22	(1.18)	(0.38)	(0.96)	(0.66)

The UBS Property portfolio produced a return of 1.63%, beating the IPD UK PPFI All Balanced Funds index figure of 1.40% by 22 basis points. Although this is not enough to overturn the underperformance seen in all long periods, with 1 and 3 year showing positive absolute returns of 1.28% and 4.36% respectively but these were -1.18% and -0.38% below the benchmark. Since inception, in March 2006, the funds loses value with a figure of -0.66% and while the benchmark also falls with -0.03%, the underperformance is now -66 basis points.

2.7 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:

In contrast to the previous quarters JP Morgan investments fell this period by -1.57%, when compared to the 0.87% target of the 3 Month LIBOR + 3%, this translates as a -2.41% relative underperformance, the second lowest of all mandates. This now means for the year to date and 1 year periods they fall behind target with relative returns of -2.90% and -0.67% respectively, while since inception (November 2011) remains just ahead with figures of 3.95% versus 3.77%, which is 0.17% on a relative annualised basis.

2.8 Manager: Kempen International

Performance Objective: Seek to outperform their benchmark index by 2-4% per annum over rolling three year periods.

Approach: To earn a higher total return than its benchmark, MSCI World Total Return Index, including reinvestment of net dividends.

Performance:

In the first full quarter for the new Kempen mandate the fund fell -2.63% against 1.46% for the MSCI All World Index +2%, leading to the poorest underperformance seen this period of -4.04%. Since inception in January 2013, the absolute return improves to 3.14%, but the relative return falls further to -5.42% when compared to the benchmark of 9.06%.

2.9 Manager: Newton
Performance Objective:
To outperform the FTSE World Index by over 2% p.a. over rolling five year periods.
Approach: Increasing income and capital growth over the long term by investing in shares (i.e. equities) and similar investments of companies listed or located throughout the world.
Performance:
During the first full quarter of investment Newton posted a -0.42% return compared to 0.46% for the FTSE World Index +2%, leading to an underperformance of -0.88%. However since its inception on 24th January 2013, the fund delivers growth of 7.80% against the benchmark of 7.23%, producing a relative return of 0.52%.

3. ABSOLUTE RETURNS FOR THE QUARTER

	Opening Balance £000's	Net Investment	Appreciation £000's	Income Received £000's	Closing Balance £000's	Active Management Contribution £000's
Barings	-	61,977	(722)	-	61,255	(1,546)
JP Morgan	74,981	-	(1,174)	-	73,807	(1,835)
Kempen	46,884	1	(1,235)	-	45,650	(1,952)
Macquarie	8,536	(347)	457	-	8,646	384
M&G	16,351	3,135	218	-	19,704	24
Newton	22,819	-	(96)	-	22,723	(210)
Ruffer	131,488	(47,948)	(32)	615	84,123	64
SSgA	136,072	-	(2,485)	-	133,587	(138)
SSgA Drawdown	6,163	-	(124)	-	6,039	(35)
UBS	135,790	(13,947)	1,810	1,963	125,616	5,936
UBS Property	49,251	-	304	496	50,051	110

The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks.

4. M&G Update

M&G Companies Fund - The NAV was valued at £836 million on June 30, 2013 compared with £949 million at the end of the previous quarter. The decrease resulted from the semi-annual distribution and the early repayment of the Northgate loan at 102%. During the period the fund NAV also benefited from a reduction in the mark to market of the interest rate swap. Since inception, the fund has returned 5.05%, compared with 4.98% at the end of the last period. For the second quarter 2013 the fund returned 1.34% compared with 1.06% in the same period last year. The annual distribution yield was 5.11.

At present, all the loans remain marked at par, with a weighted average credit rating of BB+.

M&G Debt Opportunities Fund IV - During the quarter under review, four draw-downs totalling £3.41m for the M&G Debt opportunities fund was made, representing 22.75% of our commitments (£15m) to the fund and total drawdown to date of £6.5m. The fund's NAV as at 30 June 2013 was £81.20m with a total return since inception of 15.80%.

Investments made by the Fund this quarter - In Q2 the fund was able to take advantage of weaker markets and some new opportunities; the fund purchased over €80m of debt in nominal terms and has now drawn approximately half of the commitments. The fund made the first purchases in high yield bonds and made further purchases in leveraged loans. In total the fund invested in five high yield bond issuers over the quarter.

While the fund's trades in the quarter were dominated by activity in the high yield bond market, there were also opportunities in the leverage loan market, which also experienced a sell off. The fund invested in loans issued by a European print and media company. M&G has been invested in the loans since primary syndication; the restructuring team became involved after the business deteriorated, which led to a covenant breach. Analysis of the situation showed that the leverage loans offered long-term value at the current market price, so the Fund took the opportunity to purchase some of the debt at a significant discount to par. The fund also made its first investment in a European construction company and added to its position in two existing investments.

5. Macquarie Update

Overall cost of investment in Infrastructure by the fund was £5.4m as at 30 June 2013. This is spread across three Macquarie funds. This is down by £3m from last quarter as a result of equalisation payments totalling about £3m received between April and June 2013.

MSIF – Macquarie SBI Infrastructure Fund - The Net Asset Value ("NAV") of the Fund was USD 563.8 million as at 30 June 2013, an increase of USD 47.7 million from USD 516.1 million as at 31 March 2013. During the quarter ended 30 June 2013, MSIF reached financial closure of its investment of up to USD 50.7 million into GJEL and up to USD 60.8 million into TTPL. Both are operating toll roads located in south India. Financial closure of the investment into GJEL was achieved on 23 April 2013 and that of TTPL was achieved on 21 June 2013.

MEGCIF - The operations of our three completed investments performed broadly in line with our expectations during the second quarter:

- Shenyang Shengyuan Water continued its robust performance. The business performed in line with expectations, growing substantially compared with the prior period. Growth in utilisation was in line with expectations. Shenyang City will host

China’s National Games in August and September and Shengyuan will play a key role, providing tap water to the Games.

- Longtan Tianyu Terminal’s shipping volume for the second quarter was 53% above the prior corresponding period (‚pcp‘) due to higher than expected handling volume in a number of cargo products. Financials were in line with expectations for the quarter and are in line with expectations for the year. During the quarter LTT completed the construction of a new warehouse which further enhances its position as the key terminal in Nanjing for the shipping of fertilizer and other high value cargo.

- Zhejiang Wanna Environmental continued the ramp-up of its operations during the quarter and EBITDA for the year-to-date is in line with expectations. In order to drive top line growth, MEGCIF continues to work with the management to increase waste volumes across the portfolio, primarily through the expansion of waste collection concession rights into neighbouring counties. During the quarter, management signed binding agreements to acquire two new plants and is in the final stages of securing the rights to a third BoT plant, bringing total capacity additions to 2,000 tonnes/ day in the year to date, ahead of forecast.

MEIF4 - Macquarie European Infrastructure Fund 4 - The fundraising period ended on 30 April 2013, with the Fund reaching a final size of €2,745.0 million. Following a series of equalisation payments, each investor now has 17.6 per cent of their original commitment invested in two assets, Open Grid Europe (OGE) and Czech Gas Networks (CGN). The Manager is now focused on the investment of the remaining un-invested commitments.

Following quarter end, on 8 July 2013, MEIF4 announced a public takeover offer to acquire at least 2/3 of the voting rights of Theolia, a Euronext Paris listed renewable energy company. Theolia has a predominantly operational portfolio of wind assets in Germany and France. The total capacity of the portfolio is 1,269MW, with 77 per cent of the installed base in Germany and 16 per cent in France. The core operational nature of the business provides the opportunity for MEIF4 to gain exposure to renewable energy assets and build a diversified portfolio. Following the receipt of approval from the French Financial Markets Authority (AMF), the formal offer opened to shareholders on 26 July 2013 and will be open until 6 September 2013. Should MEIF4 obtain the 2/3 approval required, a drawdown is expected to be made by the Fund in September in order to fund the acquisition. The Board of Theolia issued a unanimous recommendation for shareholders to accept the takeover offer, which also has support of the company’s management.

6. Other Items

At the end of June 2013, £28m (book cost) had been invested in **private equity**, which equates to 4.11% of the fund against the target investment of 5.00%. This level still remains within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £391k and distributed £1,017k, whilst LGT called £348k and distributed £957k. 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 £16.8k. Offset against this was £5.9k of expenses leaving a net figure earned of £10.9k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 June 2013 the average value of assets on loan during the quarter totalled £27.5m representing approximately 14.0% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro and 50% Australian dollars (June 2012) hedges. The latest quarterly roll occurred on the 13 August 2013 and resulted in a realised loss of £235k.

For the quarter ending 30 June 2013, Hillingdon returned 0.21%, outperforming against the WM average of (0.80) % by 1.01%. The one year figure however, shows an under-performance of (0.72) %, returning 14.38% against the WM average return of 15.10%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

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London Borough of Hillingdon

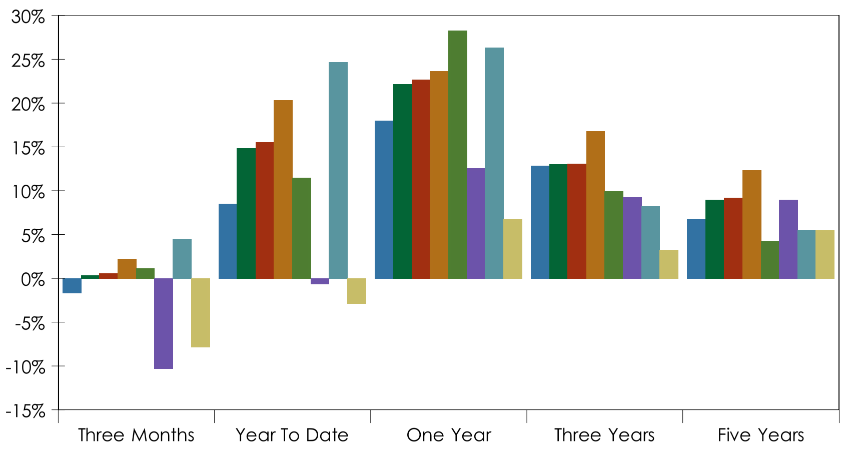
2nd Quarter, 2013

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	-1.7	8.5	17.9	12.8	6.7
FT: World	0.3	14.8	22.1	13.0	8.9
FT: World ex UK	0.5	15.5	22.7	13.1	9.2
FT: AWI North America	2.2	20.3	23.6	16.8	12.3
FT: Developed Europe ex UK	1.2	11.4	28.3	9.9	4.3
FT: Developed Asia Pac x Jp	-10.3	-0.6	12.5	9.2	8.9
FT AW: Japan	4.5	24.7	26.3	8.2	5.5
MSCI Emerging Markets GD	-7.8	-2.9	6.8	3.2	5.5

Equity markets slowed significantly over quarter two. Of the major indices, only North America, Japan and Europe ex UK posted positive three month returns. Ben Bernanke announced a likely end to quantitative easing, as long as the labour market continues to strengthen in the US, and that prompted an abrupt sell off across the globe with the emerging markets the worst hit. The OECD downgraded its forecast for global growth to 2.2% from 2.4% based on the lethargy and record unemployment in the Eurozone economy and despite positive signs from the US. Egypt's brief love affair with democracy came to an end as the army ousted Mohamed Morsi from power and installed the Chief Justice in his place on an interim basis. Globally, Health Care had another good quarter but Telecoms were strongest. Basic Materials lost most value over the three months once again and are now the only global sector benchmark in the red over the one year period. The price of crude oil futures ended the quarter down at $103 per barrel. The FTSE World was up by 0.3% (GBP) over quarter two 2013 and is now ahead by 22.1% over one year (GBP).

UK GDP increased by 0.3% in the first quarter of 2013, despite a drop in exports, offsetting the contraction of 0.3% in Q4. Companies built up stock and consumer spending increased as business confidence rose to its highest level since 2010. It has emerged that profits at the largest listed UK companies fell by as much as 25% in 2012 as rising costs were absorbed rather than passed on to consumers. Improving mortgage availability and increased demand in the south east has driven the fastest rise in house prices for six years. The UK government intends to sell off £15bn of state owned assets by 2020 to bring down debt. Royal Mail unveiled bumper annual profits driven by online shopping and paving the way for a £3bn privatisation later this year. Unemployment fell slightly to 7.8% following a period of steady increase. Telecoms was the strongest sector once again, Basic Materials being the weakest. The FTSE All Share was down -1.7% (GBP) over the second quarter but remains ahead over one year, now by 17.9% (GBP).

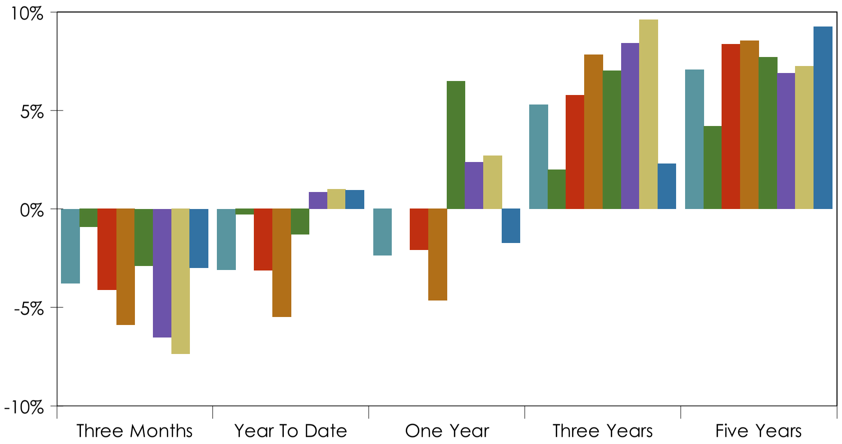
The Eurozone has now suffered its longest recession since the introduction of the single currency although there have been positive signs including increased industrial output in France and inflation picking up from its three year low. GDP was confirmed at -0.2% for quarter one following the -0.6% contraction for quarter four 2012. Unemployment reached a new Euro era high of 12.1%; in Greece the rate hit 27%, in Portugal 17.7% and in France 10.8%. The EU is easing back its hard line; France, Spain and the Netherlands were given a waiver on the 3% annual deficit limit as Brussels attempts to move away from an austerity based crisis response. Samsung has made big inroads into the European Smartphone market as half of all sales in recent months went to them. Hedge funds have been pouring money into the Greek banking sector expecting large returns from the special warrants attached to private sector investment as the EU prepares to invest EUR 4bn from a dedicated fund. The FTSE Developed Europe ex UK index returned 1.2% (GBP) over quarter two and 28.3% (GBP) over the year.

Despite comments from the Fed ending quarter two, the guidelines for amending quantitative easing remain highly conditional. If circumstances dictate then the rate of purchases could yet be increased. Manufacturing growth in the US slowed in April and May, consumer spending was down and so were exports. However the budget deficit is falling faster than expected as these reported numbers remain positive. US GDP grew at an annualised pace of 1.8% over Q2 down from the estimate of 2.4%. Car sales posted their best monthly results since the end of 2007 as demand for pick-up trucks and SUVs benefitted from increased consumer confidence and stable prices at the pumps. Ford, GM and Toyota led the way. The government is expected to sell off its $8bn stake in GM later this year. The split off bringing the Pfizer subsidiary Zoetis to market boosted values in both companies as Pfizer seeks to shed its animal health arm in favour of pharmaceuticals. The US unemployment rate had fallen again in May, standing at 7.6%. Samsung's success in Europe was mirrored by Apple in the US where their Smartphone market share climbed to 42%. Utilities lost more than Basic Materials in the US and Financials posted the biggest gains. The FTSE North America index returned 2.2% (GBP) over the second quarter and 23.6% (GBP) for the year.

Japan registered a tenth straight month in trade deficit. The weaker yen made imports more expensive as the country attempts to escape deflation. It also means that exports are worth much more in Yen, that value was its highest for 3 years in May. Household spending increased, consumer confidence is up and talk is of an economic revival. Sony posted its first full year net profit in 5 years after shrinking its TV business and selling its $1bn New York HQ. Japanese Q1 GDP was confirmed at +0.9%. The FTSE Japan returned 4.5% (GBP) for quarter two and the FTSE Developed Asia Pacific ex Japan returned -10.3% (GBP). Emerging markets growth forecasts were revised down as key countries from Brazil to China slowed. Chinese inflation pushed higher on rising fish and vegetable prices. Overseas investors have been buying securities in India as speculation increases that slowing inflation will lead to economic growth. Turkish entry to the EU took a step backwards after government use of police force on peaceful protestors objecting to the bulldozing of a historic Istanbul park. The Turkish stock exchange fell more than 10% as Prime Minister Erdogan suggested foreign countries and extremists were behind the protests. Brazil, famed for its love of football, has also experienced unrest as the population was dismayed by government spending on infrastructure ahead of the World Cup and the Olympics when health and education badly need investment. These two nations were amongst the worst affected by the Fed's warning about the possible end to quantitative easing. Gold continued its drop, following the Fed's talk of ending its stimulus programme, ending June at $1,250 per ounce. The MSCI Emerging Markets index returned -7.8% (GBP) for the second quarter and 6.8% (GBP) for the year.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	-3.8	-3.1	-2.4	5.3	7.1
FTSE All Stock 0-5 Yr. Gilts	-0.9	-0.3	-0.0	2.0	4.2
FTSE All Stock 5-15 Yr. Gilts	-4.1	-3.1	-2.1	5.8	8.3
FTSE All Stock > 15 Yr. Gilts	-5.9	-5.5	-4.6	7.8	8.5
ML STG N-Gilts All Stocks	-2.9	-1.3	6.5	7.0	7.7
FTSE Index Linked	-6.5	0.8	2.4	8.4	6.9
FTSE Index Linked 5+ yrs	-7.4	1.0	2.7	9.6	7.2
JPM GBI Global	-3.0	1.0	-1.7	2.3	9.3

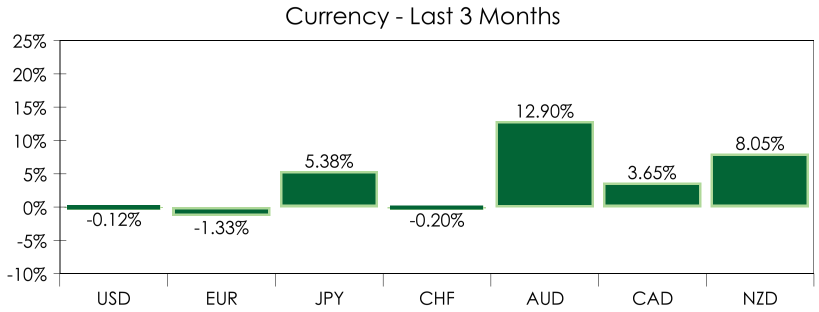
Comments during the quarter from Ben Bernanke that the US Federal Reserve's four-and-a-half year asset purchase programme may be coming to an end caught investors by surprise, spooking markets sufficiently to spark a significant sell-off in both global equity and fixed income markets. With markets perceiving that the end of central bank support was on the horizon, bond yields soared as investors sought to offload debt. Such was the concern amongst central banks of the response to Bernanke's comments, Fed officials moved to reassure investors that markets had overreacted, with even the Bank of England and European Central Bank commenting that the loose monetary environment would be continuing for the foreseeable future. Global economic growth ebbed through Q2 2013 with the JP Morgan Manufacturing & Services Purchasing Manager's Index (PMI) reading 51.4 at the end of June, down from 53.1 at the end of the previous quarter. The seismic shifts within fixed income markets saw emerging market debt hit particularly hard as liquidity dried up and bond prices plummeted. Money market rates in China improved despite underwhelming economic data, which included a softening in the nation's PMI to 50.1 and a deceleration in economic growth. Central banks in South Korea, India and Australia all cut interest rates, the latter to a record low, in an endeavour to revive growth in their respective domestic economies. In Japan, an additional tranche of quantitative easing from the country's central Bank was welcomed, but investor sentiment wavered upon whether prime minister Shinzo Abe's Plans for national economic recovery would bear the desired results. Over the quarter JPM Global Govt Bond Index declined -3.0% (GBP), while the Barclays Capital Global Aggregate Corporate Bond Index was down -2.4% (GBP).

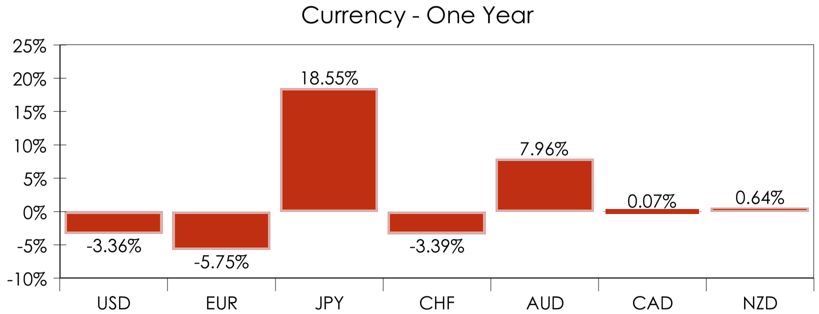
The Bank of England's Monetary Policy Committee (MPC) held interest rates at 0.5% throughout the quarter, and maintained the asset purchases financed by central bank reserves at £375 billion. The June 'hold' decision on rates represented the 52nd consecutive month that rates have been held at the emergency level of 0.5%. Recent MPC minutes show the committee split 6-3 against extending the asset-purchase program. With the Bank's new governor now installed, the dovish Mark Carney, market analysts are anticipating an expansion in the QE programme in the coming months. Despite that, the talk of US QE tapering spread across the Atlantic and the UK benchmark 10-year gilt yield spiked 77 basis points during the quarter before falling back to finish at 2.44% at the end of June. UK economic outlook turned positive during the quarter with the recent upbeat economic data leading the British Chambers of Commerce to upgrade its GDP growth forecast for the UK over the next three years. In addition, the manufacturing PMI was at 52.5 in June, above the neutral mark of 50.0 for the third month running, with data indicating levels of production and new business rising at rates not seen since Q1 2011. The UK's housing market strengthened with further evidence that the Funding for Lending Scheme launched by the Bank and HM Treasury the previous summer was starting to bear fruit; mortgage rates are falling and the Council for Mortgage Lenders reported that estimated gross mortgage lending in May was at its highest level since October 2008. Gilts and corporates slid over the quarter, and the FTSE All Stock Gilt index returned -3.8% (GBP) and the ML Sterling Non Gilts index -2.9% (GBP).

The economic landscape in Europe remains bleak, with both the International Monetary Fund and European Central Bank revising down respective growth estimates during the quarter. It came as no great surprise to markets when the latter cut the benchmark interest rate from 0.75% to 0.50% in May. The region recorded its sixth successive quarter of economic contraction in Q1, and the rate of inflation in the Eurozone community fell to 1.2% in April, the lowest level seen in three years. The countries at the heart of the eurozone crisis - Spain, Italy and Ireland - saw their jobless levels increase, and total unemployment at the end of May was 12.1% - the highest figure ever recorded in the Eurozone block and some 19.2m people out of work. Continuing weak data has sparked debate as to whether austerity is the right path to economic recovery. In a clear shift to policy focused towards economic growth, the European Commission took the decision in May to relax deficit-reduction targets for three of the eurozone's largest economies - France, Spain and the Netherlands. The €17bn bailout already agreed upon for Cyprus swelled to €23bn as the depth of the island's economic woes became apparent. Amidst the gloom, Markit's composite purchasing managers' index (PMI) for the Eurozone region finished the quarter at 48.7, up from 46.5 at the end of March and, whilst the index reading is below the breakeven level of 50, which separates contraction from expansion, the reading is the highest level in 15 months. The 10-year German bund yield was up 44bps at 1.73%, driven by the QE talk from the US. The JPM European Govt Bond index finished the quarter down -1.3% (EUR), while the Barclay Capital Euro Aggregate Credit index returned -0.5% (EUR). The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities, tightened from 125.9 at the end of March to close the quarter at 119.6.

The resilience of the US consumer continues to support the country's fragile economic recovery, with confidence during the second quarter of 2013 higher than at any time since the throes of the financial crisis, as measured by the University of Michigan consumer confidence index. The housing market continued to gather pace, with property prices and new home sales rising, and foreclosure and repossession numbers falling. The US auto industry posted its best April in six years with double-digit sales growth reported by the nation's industry bell-weathers Ford, General Motors and Chrysler. The unemployment rate maintained a downward trajectory, albeit falling only slightly from 7.7% at the end of Q1 to 7.6% at the end of Q2. Despite this, the early first quarter annualised GDP estimate of 2.5% was revised down to a weaker-than-expected final reading of 1.8%. Waning import and export trade was cited as the reason for the dramatic downgrade. The manufacturing PMI fell to 51.9, down from 54.6 the previous quarter, indicating the slowest rate of growth since October 2012. The prospect of a potential dialling back in the pace of bond purchases under the Federal Reserve's quantitative easing programme led to a sell-off in US treasuries. The JPM US Govt Bond index slid -2.3% (USD) and the Barclay Capital US Aggregate Corporate Bond index was down -3.3% (USD). The 10-year US Treasury yield climbed as high as 2.61%, nearly 1% higher than the quarter low of 1.63%, before settling at 2.49% at the end of June, an increase of 64bps over the quarter.

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-0.12	-6.93	-3.36	0.46	-5.43
European Union euro	-1.33	-5.51	-5.75	-1.52	-1.59
Japanese yen	5.38	6.95	18.55	4.31	-6.73
Swiss franc	-0.20	-3.62	-3.39	-3.90	-6.91
Australian dollar	12.90	5.67	7.96	-2.22	-4.49
Canadian dollar	3.65	-1.15	0.07	0.21	-4.65
New Zealand dollar	8.05	-0.33	0.64	-3.41	-5.72

The second quarter of 2013 saw a strengthening of the Euro against the Dollar, Sterling and Yen. The Yen, in turn, lost ground against the Dollar, Euro and Sterling. Japan's Prime Minister Shinzo Abe's policies of huge quantitative easing, spending on new public works and raising inflation has weakened the Yen considerably. A weak currency is desirable for stimulating Japan's economic growth. This is a huge benefit for Japanese exporters and, if inflation sets in, consumers will spend. China slowed to 7.5% growth in Q2 2013, putting the economy on track for its weakest year since the late 1990s as the country's new leaders focus on deep reforms rather than short-term stimulus. With the downturn showing little sign of abating, there is a real risk that China will fall below the government's target of 7.5% growth in 2013. It would be the first time since the Asian financials crisis 15 years ago that the Chinese government has missed its annual growth target. The Australian dollar lost significant ground against the Dollar, Sterling and Euro after the Reserve Bank of Australia held interest rates at 2.75%, in line with expectation, but warned that the currency was still at a high level. Late June 2013 saw Kevin Rudd overthrow Julia Gillard as Australian prime minister. Rudd inherits a fading economy as a decade- long resources boom tails off. The resource investment boom was driven by voracious Chinese demand for raw materials. Thriving energy and mining industries insulated Australia from the worst effects of the global financial crisis, putting cash in people's pockets and supporting high property prices.

In the UK, Q2 2013 saw Sterling weaken against the Dollar and Euro strengthen against the Yen. The Bank of England governor Sir Melvyn King was outvoted again at his final meeting of the Bank's rate-setting committee. For the fifth month in a row, the committee voted 6-3 in June against increasing the programme of quantitative easing. All nine members voted to keep interest rates on hold at 0.5%. The annual rate of inflation in the UK, as measured by the consumer price index, dropped to 2.7% in May, down 0.1% from the February figure of 2.8%. Rises in air fares and clothing prices were the largest contributors in the CPI's increase from 2.4% in April to 2.7% in May. Unemployment in the UK fell by 5,000 to 2.51 million in the 3 months to April 2013. The jobless rate remained 7.8%. Throughout the UK, a record 29.7 million people are now in work. The number of employed over 65 has reached more than a million, the highest since records began in 1971. House prices have recorded their fastest growth in almost three years in a further sign that the market is gathering pace, Nationwide has reported. The annual increase of 1.9% registered in June pushed the average UK house price to £168,941, making this the strongest year-on-year uplift seen since September 2010. Sterling closed the quarter down against the Dollar and Euro by 0.1% and 1.3% respectively and up against the Yen by 5.4%.

In the US, late June saw the Federal Reserve chairman Ben Bernanke, suggest that the central bank would begin scaling back on its $85bn-a-month bond buying programme. US consumer confidence hit a six-year high in June. The Conference Board's index of consumer attitudes rose to 84.1, the highest since January 2008. Fewer consumers were concerned over their income outlook and more see jobs opening up six months from now. House prices have seen their biggest annual rise since 2006. The Standard & Poor's/Case Shiller index, which monitors single-family home prices across 20 cities, rose 12.1% in April compared to the same month last year. The jump, due to increasing demand and a shortage of supply, was bigger than analysts had been expecting. In June the US un-employment rate remained at 7.6%, the same rate as in March, though it did drop to 7.5% in May. The number of long-term unemployed (those jobless for 27 weeks or more) was unchanged at 4.3 million. These individuals accounted for 3.67% of the total unemployed. The teenage unemployment rate stands at 24.0%. The number of unemployed in the US now stands at 11.8 million. The US trade deficit stood at $43.3bn in April 2013. Exports stood at $187.4 billion, the second highest level on record. US-made autos and auto parts rose to an all-time high of $12.8bn. Imports grew at an even faster rate to $227.7bn. Sales of foreign cars increased to $25.5bn. Americans bought more consumer goods, led by a big gain in foreign-made mobile phones. Europe's recession continues to be a problem for US companies. The deficit with the 27-nation European Union grew 25.6% to $12.4bn. US exports to the region declined by 7.9%, while imports from the region rose only slightly. The Dollar ended the quarter down against the Euro by 1.2% and up against the Sterling and Yen by 0.1% and 5.5% respectively.

In the Euro area, the Euro strengthened against the Sterling, Dollar and Yen this quarter. The governing council of the European Central Bank cut interest rates from 0.75% to 0.50% in early May, its first cut in 10 months. Speaking at a press conference, ECB president Mario Draghi explained the reasons behind the decision, citing concerns about subdued monetary and loan dynamics, as well as weak economic sentiment. He added that "The cut in interest rates should contribute to support prospects for a recovery later in the year". Businesses and consumers in the Eurozone turned sharply more optimistic in June about their economic prospects, an EU survey showed. The commission noted that confidence had risen in five of the main economies among the 17 which form the Eurozone. This reflected a brighter view of prospects by business leaders in all sectors of the Eurozone economy except the service sector, and also a sharp improvement in the way households see their financial future. The Eurozone jobless rate rose to a new high of 12.1% in May. The youth unemployment rate has now reached 23.8%, as 3.5 million under-25s were unemployed in May. In Spain and Greece the youth unemployment rate was as high as one in two. The rise in unemployment was driven by increased joblessness in countries in the heart of the crisis, including Spain, Italy and Ireland. The number of people out of work across the currency block rose to 19.2 million in May. The Euro ended the quarter up against the Sterling, Dollar and Yen by 1.3%, 1.2% and 6.7% respectively.

Scheme Performance

Some Global Equity markets saw small increases during the second quarter of 2013 with the exception of UK, Pacific ex Japan and Emerging Markets; Bond markets across the globe saw drop in value, with Index-Linked Gilts the largest falls. Against this backdrop the London Borough of Hillingdon returned just 0.21% but this was ahead of the Total Plan benchmark of -0.23% by 44 basis points. In monetary terms this is a growth in assets of £2.1 million and the value of the combined scheme now stands at £682.4 million as at 30th June 2013. During this period funds from Ruffer and UBS were withdrawn to invest in the new Barings mandate, while M&G also received some additional funds. Looking further into the analysis the main factor was the outperformance of UBS although this was slightly offset by selection effects in JP Morgan & Kempen. While in allocation terms most mandates are in line with the neutral position, so effects are minimal.

The good result this period feeds into the longer numbers, producing an outperformance of 2.39% over the year with returns of 14.38 % versus 11.71%. Over the year selection effects in UBS continue to add value coupled with the good results in Ruffer, similar to the quarter, allocation is fairly balanced with only small impacts in some areas. The 3 year numbers show a 1.26% relative return, while the 5 year period is almost exactly in line with a return of 5.80% per annum. However, since inception in September 1995, the Fund is just ahead of target by 5 basis points with an annualised return of 6.69% against 6.63%.

Manager Performance

JP Morgan

In contrast to the previous quarters JP Morgan investments fell this period by -1.57%, when compared to the 0.87% target of the 3 Month LIBOR + 3% translates as a -2.41% relative underperformance, the second lowest of all mandates. This now means for the year to date and 1 year periods they fall behind target with relative returns of -2.90% and -0.67% respectively, while since inception (November 2011) remains just ahead with figures of 3.95% versus 3.77%, which is 0.17% on a relative annualised basis.

Kempen

In the first full quarter for the new Kempen mandate the fund fell -2.63% against 1.46% for the MSCI All World Index +2%, leading to the worst underperformance seen this period of -4.04%. Since inception in January 2013, the absolute return improves to 3.14%, but the relative return falls further to -5.42% when compared to the benchmark of 9.06%.

Macquarie

Macquarie continues its good start to 2013 posting its second highest absolute return at 5.31%, which means for the year so far they deliver growth of 9.19% and for the last twelve months 4.72%. Since inception in September 2010 they've delivered six negative quarterly returns out of eleven, leading to an annualised loss of -6.66%.
At present no benchmark has been applied to this mandate.

M&G Investments

Over the second quarter of 2013, M&G produced a 1.16%, which is just 5 basis points ahead of the 3 Month LIBOR +4% p.a. Over the last year the account registers 8.73% against 4.59% whilst since inception at the end of May 2010, the portfolio return falls to 4.89% pa return whilst the benchmark is 4.80% pa. While the since inception Internal Rate of Return for this portfolio moves further ahead of the target with a figure of 5.63% opposed to the comparator of 4.71%.

Newton

During the first full quarter of investment Newton posted a -0.42% return compared to 0.46% for the FTSE World Index +2%, leading to an underperformance of -0.88%. However since its inception on 24th January 2013, the fund delivers growth of 7.80% against the benchmark of 7.23%, producing a relative return of 0.52%.

Manager Performance

Ruffer

The Ruffer portfolio produced 0.20% over the last three months, which is just 8 basis points above the return of 0.13% for LIBOR 3 Month GBP. Driven by last quarter's return all longer periods show high absolute and relative returns, so over the last twelve month post a return of 14.50% against 0.67% for the target, resulting in the highest outperformance of all mandates at 13.74%. While since the inception of the fund in May 2010 nine out of twelve quarters show positive returns and lead to figures of 7.13% versus 0.79% per annum, which translates as a relative return of 6.29%.

Private Equity

The private equity assets, consisting of funds with Adam Street and LGT, produced growth for the third consecutive quarter returning 2.32% and 3.30% respectively. This results in the one year figures demonstrating positive absolute returns with Adam Street on 9.65% and LGT with 13.53%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. Over three years both post double digit annualised growth with Adam Street increasing to 11.49% and LGT with 12.53% for the same period. However, since their respective inceptions in May 2004 and January 2005, while LGT posts 8.77% pa, Adam Street drops to 2.09% pa.

At present no benchmark has been applied to these mandates.

SSGA

The SSGA passively managed portfolio produced a return of -1.83% in the quarter which was 10 basis points below the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So over the year they produce an 16.65% return, which is just 9 basis points behind target, while over 3 years the per annum return falls to 11.41% which sits just 2 basis points behind the benchmark. Since inception (November 2008) a return of 13.31% pa is a mere 3 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 -2.01% in the latest period with the blended benchmark showing -1.42%. Then for the one year period they demonstrate the lowest relative return with -1.61%, however, these results are entirely due to the mandate weights diverting significantly from the 50/50 split of the benchmark. Similar results are seen in 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 4.19% against 4.74% for the benchmark.

UBS

UBS UK Equity produced a return of 3.10%, which compared to the FTSE All Share figure of -1.66%, demonstrates the highest outperformance seen this period at 4.84%. Looking into the attribution analysis, stock selection was the main driver with most sectors adding value the stand-out effect was the outperformance in Financials stocks. Whilst within allocation the most significant decisions was he large underweight of Consumer Goods (0.30%) and overweighting Consumer Services (0.37%). These results filter through the longer periods and over the year demonstrate the highest absolute return with 27.94% and the second highest relative figure of 8.48%. This outperformance is attributable to selection effects and again Financials lead the way (4.87%) coupled with Consumer Services (1.68%) and Oil & Gas (1.30%); this is offset by small negative asset allocation effect. UBS maintain this outperformance although relative returns are reducing over time, translating as a since inception return of 10.18% versus 8.93% on an annualised basis.

UBS Property

The UBS Property portfolio produced a return of 1.63%, beating the IPD UK PPFI All Balanced Funds index figure of 1.40% by 22 basis points. Although this is not enough to overturn the underperformance seen in all long periods, with 1 and 3 year showing positive absolute returns of 1.28% and 4.36% respectively by these were -1.18% and -0.38% below the benchmark. Since inception, in March 2006, the funds loses value with a figure of -0.69% and while the benchmark also falls with -0.03%, the underperformance is now -66 basis points.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 04/13	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 05/13	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 06/13	Active Contribution 2Q 2013
Adam Street	-2.28	-	-2.28	-	-517,135.41	2.94	-	2.94	-	632,099.12	1.72	-	1.72	-	380,170.71	495,134.42
Barings	-	-	-	-	0.00	1.02	0.37	0.65	0.65	409,517.40	-2.72	0.37	-3.09	-3.08	-1,955,456.20	-1,545,938.80
JP Morgan	1.66	0.29	1.37	1.37	1,029,596.63	-0.36	0.29	-0.65	-0.65	-498,362.76	-2.82	0.29	-3.11	-3.10	-2,366,383.17	-1,835,149.30
Kempen	1.59	0.87	0.72	0.71	339,001.14	0.61	2.95	-2.35	-2.28	-1,151,865.54	-4.73	-2.30	-2.43	-2.49	-1,138,917.13	-1,951,781.54
LGT	0.93	-	0.93	-	156,200.87	1.02	-	1.02	-	171,262.83	1.32	-	1.32	-	224,282.42	551,746.12
Macquarie	1.92	0.29	1.63	1.63	140,929.50	3.29	0.29	3.00	3.00	265,975.52	0.03	0.29	-0.26	-0.26	-22,406.96	384,498.06
M&G Investments	-0.00	0.37	-0.37	-0.37	-63,065.73	0.00	0.37	-0.37	-0.37	-68,204.95	1.16	0.37	0.80	0.79	155,540.53	24,269.85
Newton	1.49	0.62	0.86	0.86	198,269.88	1.46	2.65	-1.19	-1.16	-283,641.71	-3.29	-2.74	-0.55	-0.56	-125,104.38	-210,476.21
Nomura	1.30	-	1.30	-	2,497.89	-26.28	-	-26.28	-	-51,015.93	40.60	-	40.60	-	39,332.58	-9,185.46
Ruffer	0.89	0.04	0.85	0.85	714,665.77	0.72	0.04	0.68	0.68	576,626.47	-1.40	0.04	-1.44	-1.44	-1,227,111.50	64,180.74
SSGA	1.10	1.11	-0.01	-0.01	-17,303.14	1.25	1.33	-0.08	-0.08	-112,947.51	-4.09	-4.09	-0.01	-0.01	-7,506.58	-137,757.22
SSGA Drawdown	1.61	1.32	0.29	0.29	18,188.29	-0.99	-0.82	-0.18	-0.18	-11,026.13	-2.59	-1.90	-0.69	-0.70	-42,044.14	-34,881.99
UBS	2.20	0.58	1.62	1.61	1,985,659.42	4.66	2.91	1.75	1.70	2,237,525.25	-3.61	-4.99	1.38	1.45	1,712,326.08	5,935,510.76
UBS Property	1.03	0.51	0.52	0.51	255,428.21	0.15	0.57	-0.42	-0.41	-208,461.93	0.44	0.31	0.13	0.12	62,578.48	109,544.77

Total Fund Market Value at Qtr End: £682.4 M

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Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	682.4	100.00	0.21	-0.23	0.44	0.44	8.06	6.58	1.48	1.39	14.38	11.71	2.67	2.39

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	22.5	3.30	2.32	-	-	-	12.16	-	-	-	9.65	-	-	-
Barings	61.3	8.98	-	-	-	-	-	-	-	-	-	-	-	-
JP Morgan	73.8	10.82	-1.57	0.87	-2.43	-2.41	-1.20	1.74	-2.95	-2.90	2.89	3.58	-0.70	-0.67
Kempen	45.6	6.69	-2.63	1.46	-4.10	-4.04	-	-	-	-	-	-	-	-
LGT	17.2	2.53	3.30	-	-	-	9.27	-	-	-	13.53	-	-	-
Macquarie	8.6	1.27	5.31	0.87	4.44	4.40	9.19	1.74	7.45	7.32	4.72	-	-	-
M&G Investments	19.7	2.89	1.16	1.11	0.05	0.05	3.28	2.24	1.04	1.02	8.73	4.59	4.14	3.96
Newton	22.7	3.33	-0.42	0.46	-0.88	-0.88	-	-	-	-	-	-	-	-
Ruffer	84.1	12.33	0.20	0.13	0.08	0.08	10.56	0.26	10.30	10.27	14.50	0.67	13.83	13.74
SSGA	133.6	19.58	-1.83	-1.73	-0.10	-0.10	8.30	8.41	-0.11	-0.10	16.65	16.76	-0.11	-0.09
SSGA Drawdown	6.0	0.89	-2.01	-1.42	-0.59	-0.60	-1.03	-0.57	-0.47	-0.47	1.65	3.32	-1.66	-1.61
UBS	125.6	18.41	3.10	-1.66	4.76	4.84	13.35	8.50	4.86	4.48	27.94	17.93	10.01	8.48
UBS Property	50.1	7.33	1.63	1.40	0.23	0.22	2.25	2.49	-0.24	-0.24	1.28	2.49	-1.20	-1.18

Total Fund Market Value at Qtr End: £682.4 M

Scheme Performance

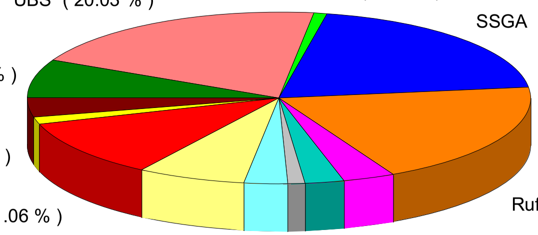
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	10.09	8.72	1.37	1.26	5.80	5.79	0.01	0.01	30/09/95	6.69	6.63	0.06	0.05

By Manager

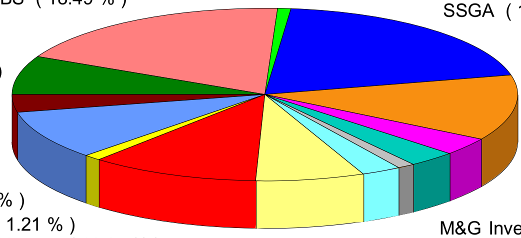
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	11.49	-	-	-	9.29	-	-	-	31/01/05	2.09	-	-	-
Barings	-	-	-	-	-	-	-	-	24/04/13	-1.15	-	-	-
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	3.95	3.77	0.18	0.17
Kempen	-	-	-	-	-	-	-	-	31/01/13	3.14	9.06	-5.92	-5.42
LGT	12.53	-	-	-	5.76	-	-	-	31/05/04	8.77	-	-	-
Macquarie	-	-	-	-	-	-	-	-	30/09/10	-6.66	-	-	-
M&G Investments	4.94	4.81	0.13	0.13	-	-	-	-	31/05/10	4.89	4.80	0.08	0.08
Newton	-	-	-	-	-	-	-	-	24/01/13	7.80	7.23	0.56	0.52
Ruffer	8.34	0.80	7.54	7.48	-	-	-	-	28/05/10	7.13	0.79	6.34	6.29
SSGA	11.41	11.43	-0.02	-0.02	-	-	-	-	30/11/08	13.31	13.28	0.03	0.03
SSGA Drawdown	2.80	3.65	-0.85	-0.82	-	-	-	-	30/06/09	4.19	4.74	-0.54	-0.52
UBS	15.95	12.80	3.15	2.79	9.48	7.88	1.61	1.49	31/12/88	10.18	8.93	1.26	1.15
UBS Property	4.36	4.76	-0.40	-0.38	-1.03	-0.07	-0.96	-0.96	31/03/06	-0.69	-0.03	-0.66	-0.66

Total Fund Market Value at Qtr End: £682.4 M

Weighting at Beginning of Period



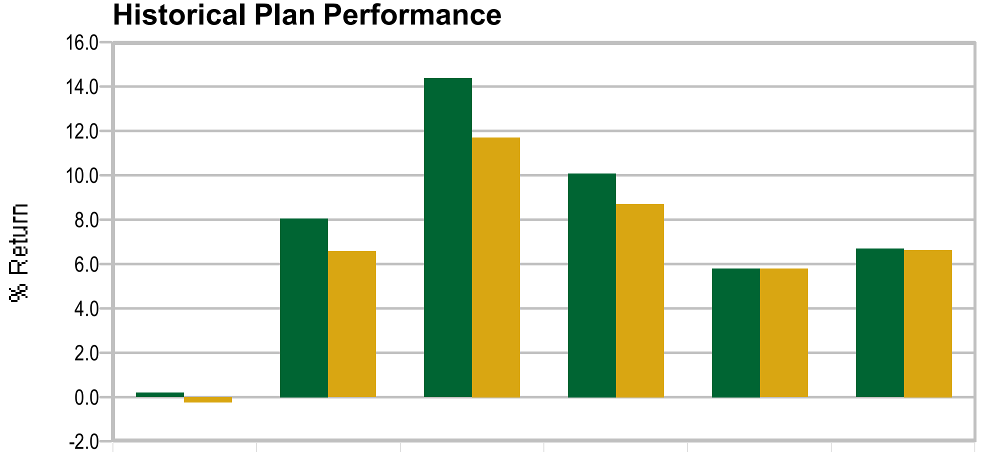
Weighting at End of Period



	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	680,295	100.00	661	-1,935	3,349	682,370	100.00
Adam Street	22,629	3.33	-625	388	116	22,508	3.30
Barings	-	-	61,977	-722	0	61,256	8.98
Cash	9,634	1.42	-1,401	-0	5	8,238	1.21
JP Morgan	74,981	11.02	0	-1,174	0	73,807	10.82
Kempen	46,884	6.89	1	-1,235	0	45,649	6.69
LGT	17,286	2.54	-591	553	0	17,248	2.53
Macquarie	8,536	1.25	-347	457	0	8,645	1.27
M&G Investments	16,351	2.40	3,135	218	-0	19,704	2.89
Newton	22,819	3.35	0	-96	0	22,722	3.33
Nomura	447	0.07	-553	88	153	136	0.02
Ruffer	131,488	19.33	-47,948	-32	615	84,124	12.33
SSGA	136,072	20.00	0	-2,485	0	133,588	19.58
SSGA Drawdown	6,163	0.91	0	-124	0	6,039	0.89
UBS	135,790	19.96	-13,947	1,810	1,963	125,616	18.41
UBS Property	49,251	7.24	0	304	496	50,051	7.33

London Borough of Hillingdon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.21	8.06	14.38	10.09	5.80	6.69
Benchmark	-0.23	6.58	11.71	8.72	5.79	6.63

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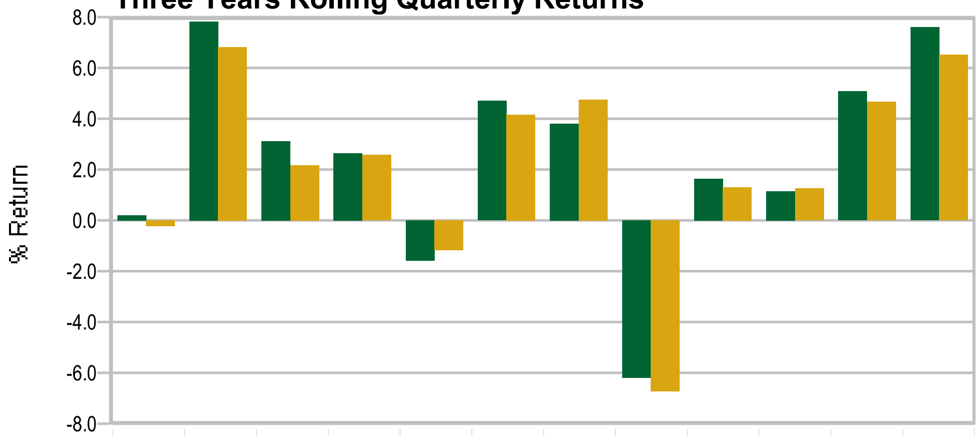
Risk Statistics - 3 years

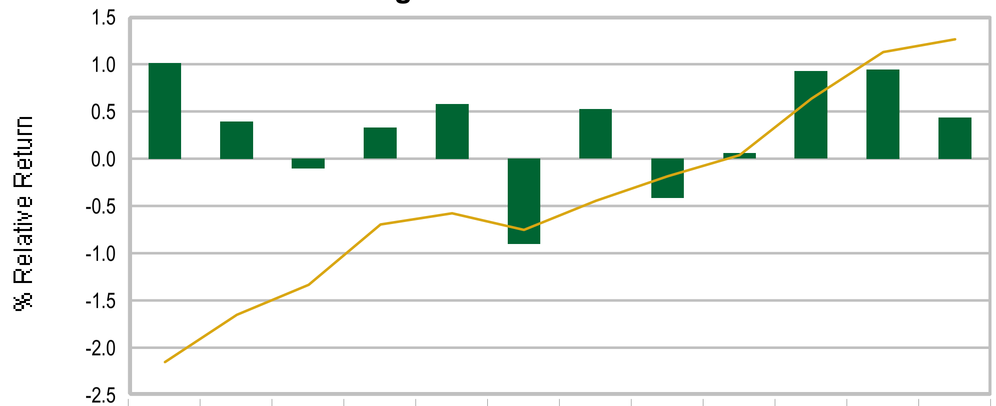
Risk Statistics - 3 years	Fund	B'mark
Performance Return	10.09	8.72
Standard Deviation	6.48	5.95
Relative Return	1.26	
Tracking Error	1.38	
Information Ratio	1.00	
Beta	1.07	
Alpha	0.79	
R Squared	0.96	
Sharpe Ratio	1.38	1.28
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	680,295	
Net Investment £(000)	661	
Income Received £(000)	3,349	
Appreciation £(000)	-1,935	
Closing Market Value (£000)	682,370	

Three Years Rolling Quarterly Returns



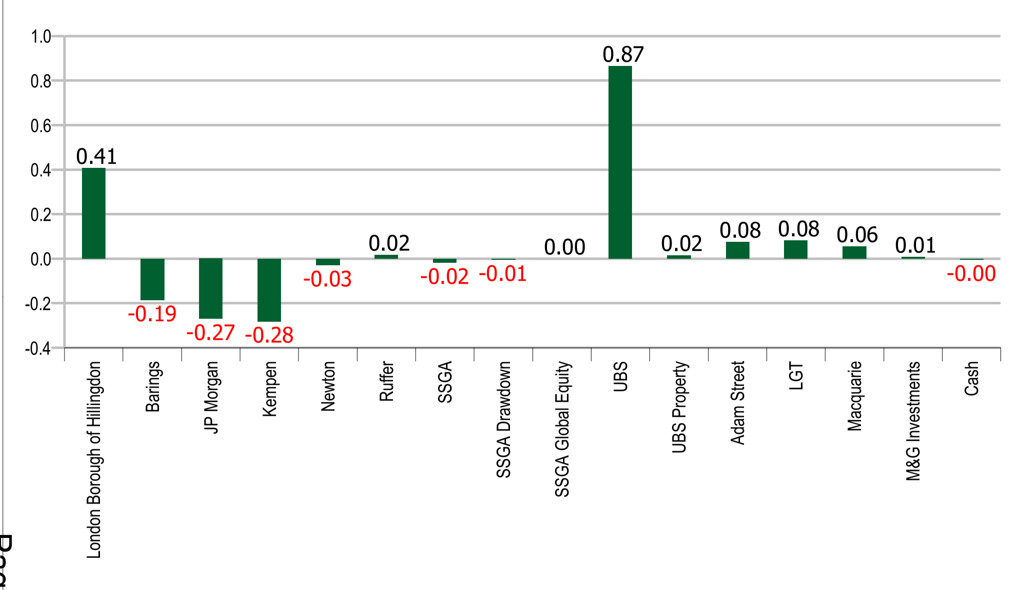
	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	0.21	7.84	3.12	2.64	-1.59	4.71	3.82	-6.20	1.64	1.15	5.08	7.60
Benchmark	-0.23	6.82	2.18	2.58	-1.18	4.16	4.76	-6.74	1.31	1.26	4.67	6.52

Three Years Rolling Relative Returns



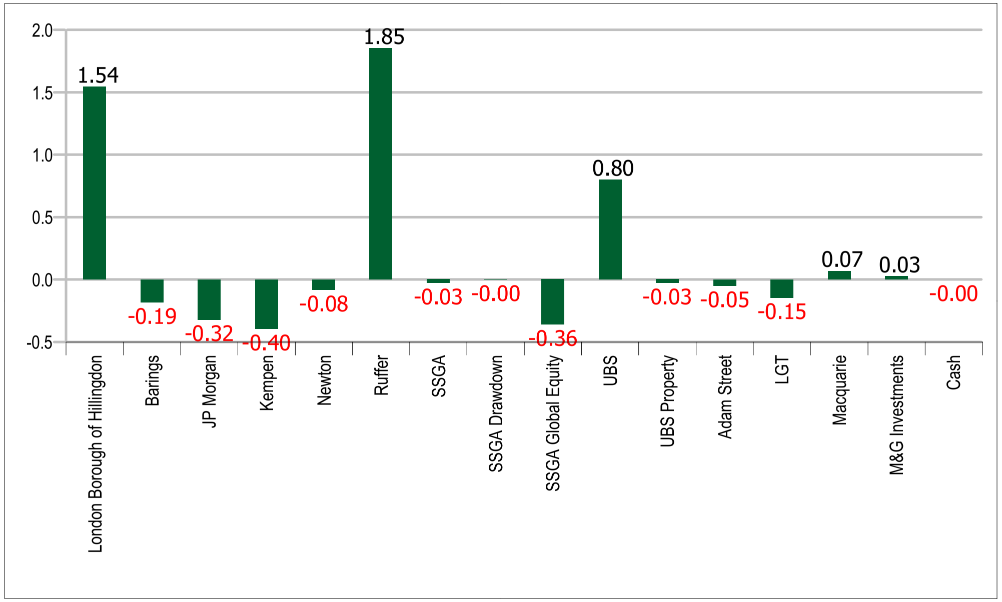
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	1.01	0.40	-0.11	0.33	0.58	-0.90	0.52	-0.42	0.06	0.93	0.95	0.44
3Y Relative	-2.15	-1.66	-1.34	-0.70	-0.58	-0.75	-0.45	-0.19	0.04	0.64	1.13	1.26

Three Months



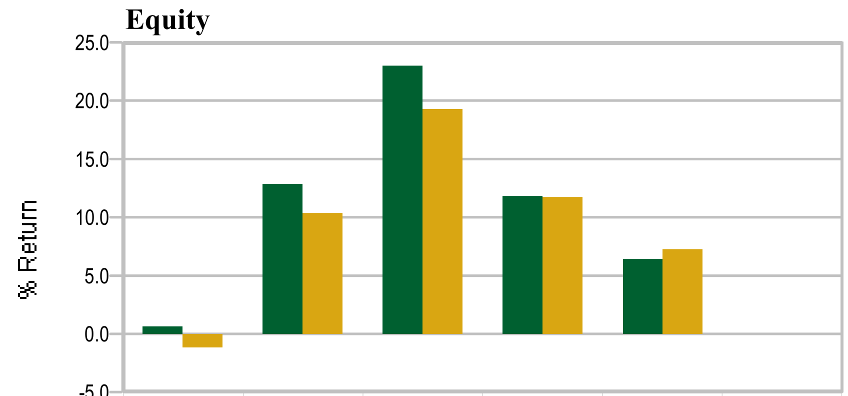
	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	0.21	-0.20	0.41	0.02	0.33	0.41
Barings	-1.15	0.82	-1.96	0.03	-0.22	-0.19
JP Morgan	-1.57	0.87	-2.41	-0.00	-0.27	-0.27
Kempen	-2.63	1.46	-4.04	0.00	-0.28	-0.28
Newton	-0.42	0.46	-0.88	0.00	-0.03	-0.03
Ruffer	0.20	0.13	0.08	-0.02	0.04	0.02
SSGA	-1.83	-1.73	-0.10	0.00	-0.02	-0.02
SSGA Drawdown	-2.01	-1.42	-0.60	-0.00	-0.01	-0.01
SSGA Global Equity	0.00	-0.04	0.04	0.00	0.00	0.00
UBS	3.10	-1.66	4.84	-0.02	0.88	0.87
UBS Property	1.63	1.40	0.22	-0.00	0.02	0.02
Adam Street	2.32	-0.12	2.44	-0.00	0.08	0.08
LGT	3.30	-0.12	3.42	-0.00	0.08	0.08
Macquarie	5.31	0.87	4.40	0.00	0.05	0.06
M&G Investments	1.16	1.11	0.05	0.00	0.00	0.01
Cash	0.06	0.09	-0.04	-0.00	-0.00	-0.00

Year to Date

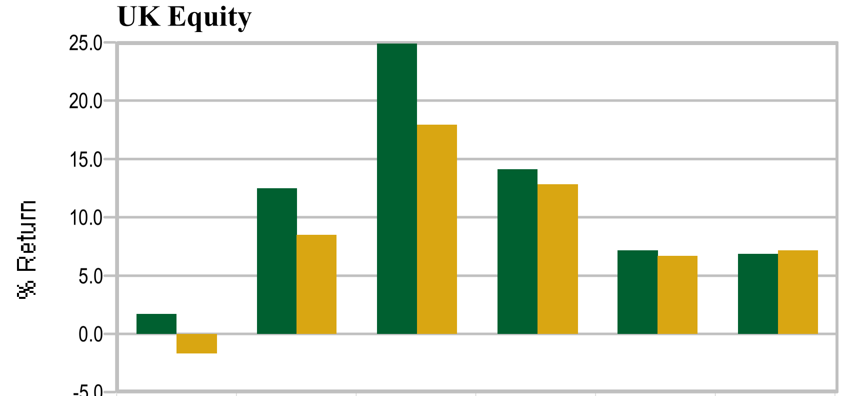


	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	8.06	6.42	1.54	-0.31	1.37	1.54
Barings	-	-	0.00	0.03	-0.22	-0.19
JP Morgan	-1.20	1.74	-2.90	-0.00	-0.32	-0.32
Kempen	3.07	-	3.07	-0.01	-0.38	-0.40
Newton	7.80	7.23	0.52	-0.02	-0.07	-0.08
Ruffer	10.56	0.26	10.27	-0.02	1.88	1.85
SSGA	8.30	8.41	-0.10	-0.01	-0.02	-0.03
SSGA Drawdown	-1.03	-0.57	-0.47	0.00	-0.00	-0.00
SSGA Global Equity	3.44	13.94	-9.22	-0.17	-0.19	-0.36
UBS	13.35	8.50	4.48	-0.01	0.81	0.80
UBS Property	2.25	2.49	-0.24	-0.01	-0.02	-0.03
Adam Street	12.16	14.01	-1.62	0.01	-0.06	-0.05
LGT	9.27	14.01	-4.16	-0.02	-0.12	-0.15
Macquarie	9.19	1.74	7.32	-0.00	0.07	0.07
M&G Investments	3.28	2.24	1.02	-0.00	0.03	0.03
Cash	0.18	0.18	-0.00	-0.00	0.00	-0.00

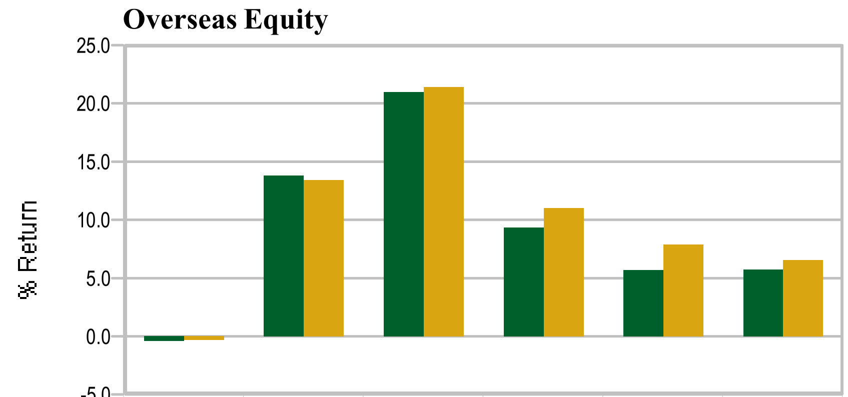
London Borough of Hillingdon



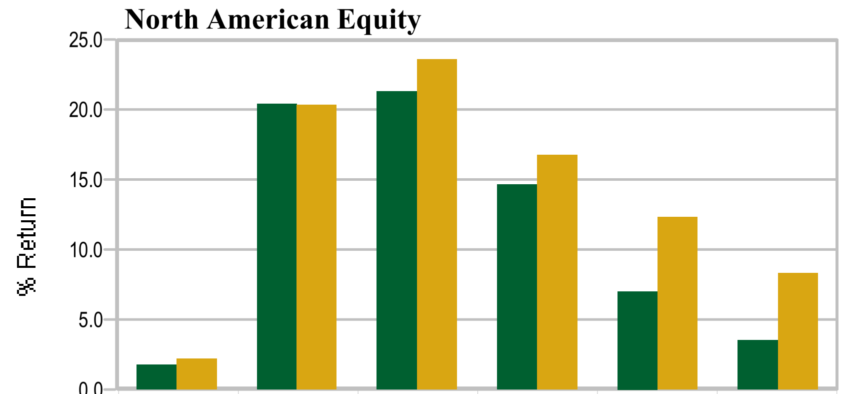
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.60	12.84	22.98	11.79	6.42	-
B'Mark	-1.14	10.37	19.27	11.77	7.24	-



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.70	12.47	24.90	14.09	7.12	6.85
B'Mark	-1.66	8.50	17.93	12.80	6.69	7.12



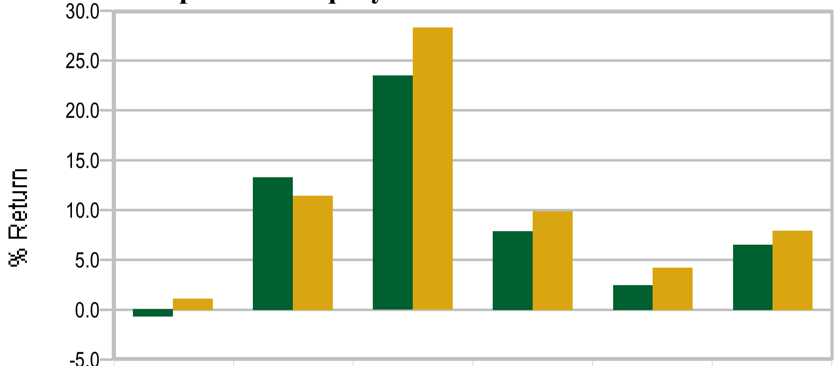
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.41	13.79	20.98	9.32	5.68	5.72
B'Mark	-0.31	13.44	21.42	11.03	7.88	6.55



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.76	20.41	21.28	14.68	7.01	3.56
B'Mark	2.22	20.33	23.60	16.77	12.31	8.31

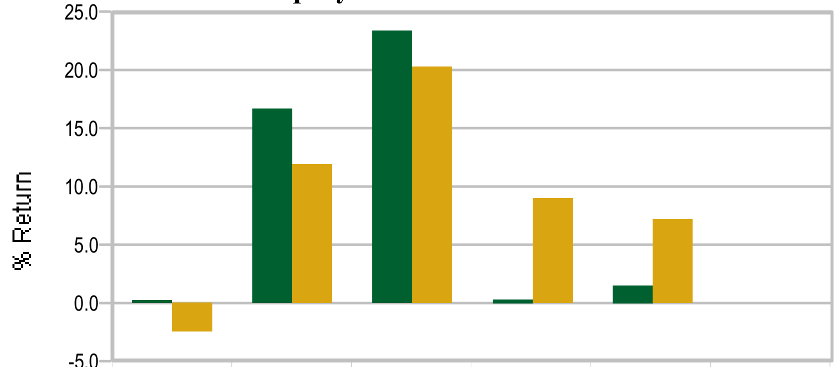
London Borough of Hillingdon

Europe ex UK Equity



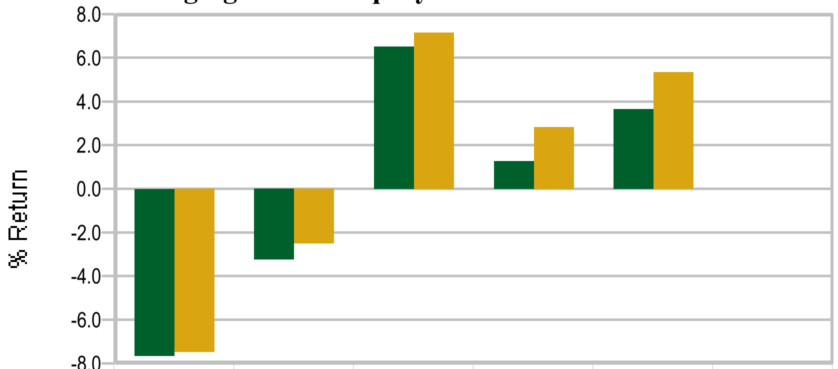
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.69	13.31	23.48	7.88	2.47	6.56
B'Mark	1.17	11.45	28.28	9.92	4.25	7.93

Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.24	16.70	23.36	0.32	1.51	-
B'Mark	-2.46	11.94	20.30	8.99	7.22	-

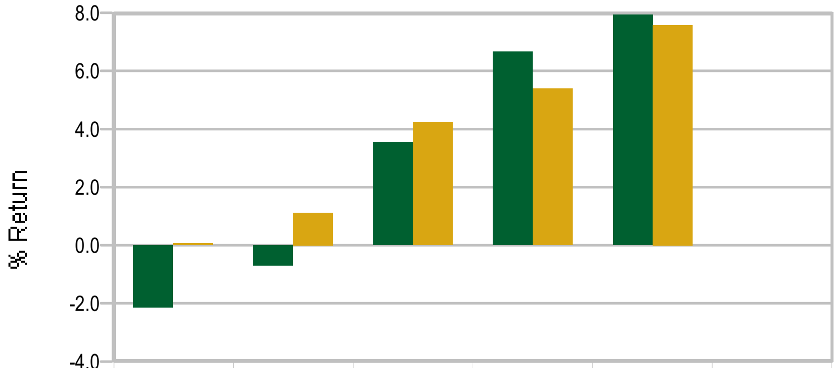
Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.65	-3.26	6.52	1.28	3.65	-
B'Mark	-7.47	-2.50	7.16	2.84	5.34	-

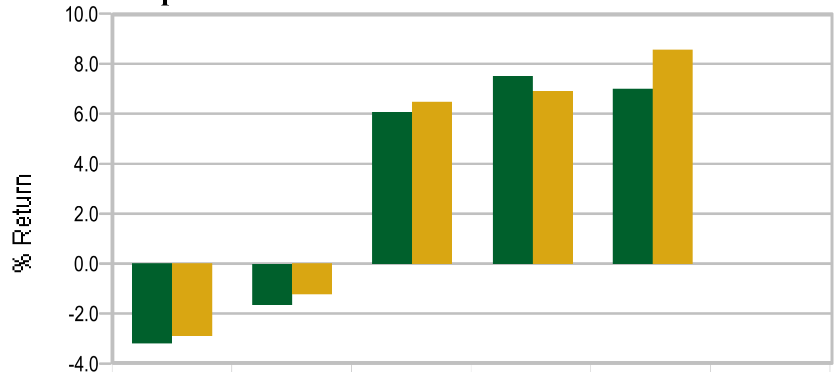
London Borough of Hillingdon

Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.14	-0.70	3.54	6.66	7.93	-
B'Mark	0.07	1.12	4.24	5.38	7.58	-

Corporate Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.20	-1.64	6.06	7.50	7.01	-
B'Mark	-2.91	-1.24	6.49	6.90	8.58	-

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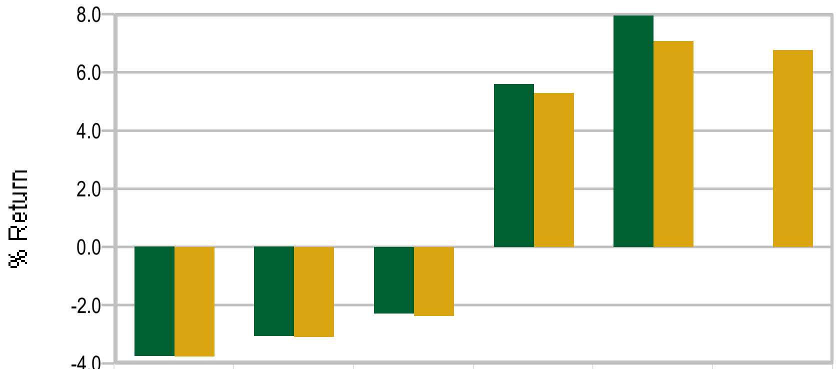
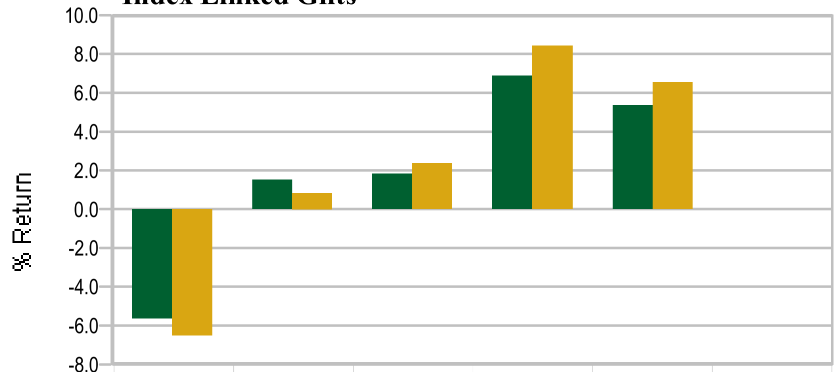
Government Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.75	-3.06	-2.28	5.58	7.95	-
B'Mark	-3.76	-3.08	-2.37	5.28	7.06	6.77

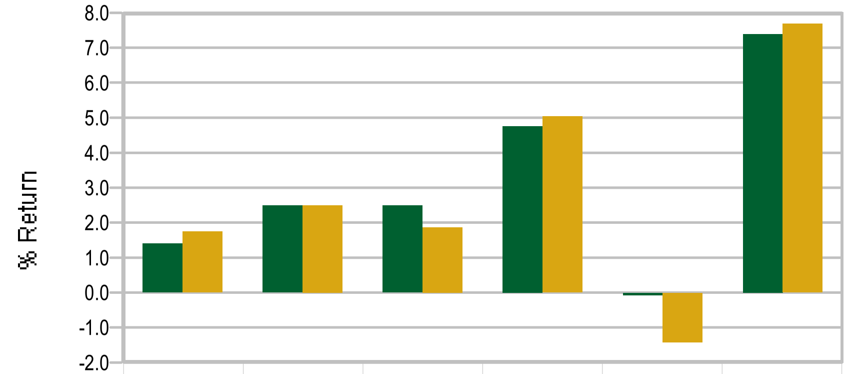
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-5.63	1.53	1.81	6.87	5.35	-
B'Mark	-6.51	0.84	2.37	8.41	6.54	-

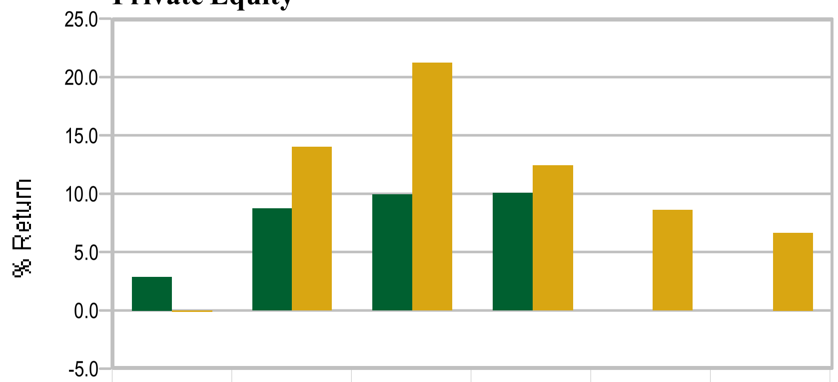
London Borough of Hillingdon

Real Estate



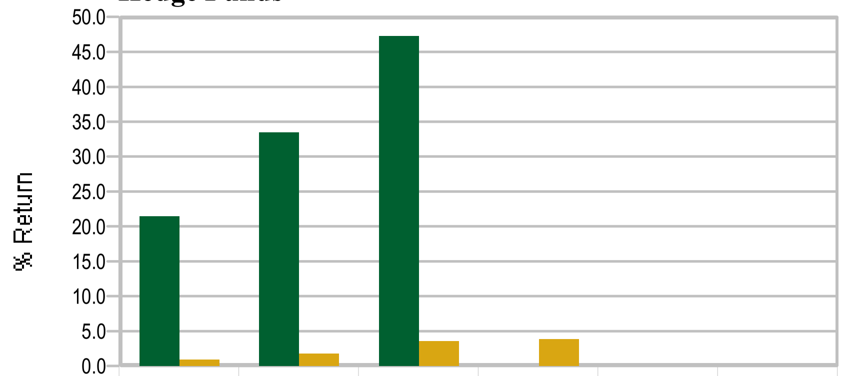
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.75	2.50	1.86	5.04	-1.42	7.69
B'Mark	1.40	2.49	2.49	4.76	-0.07	7.39

Private Equity



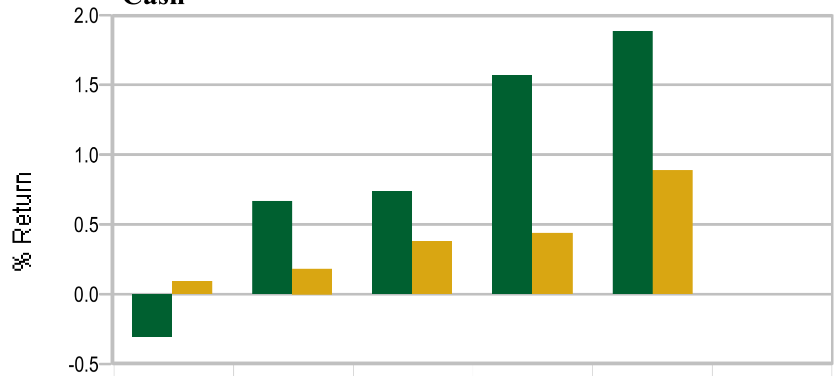
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.88	8.74	9.94	10.09	-	-
B'Mark	-0.12	14.01	21.21	12.45	8.61	6.66

Hedge Funds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	21.45	33.45	47.28	-	-	-
B'Mark	0.87	1.74	3.58	3.80	-	-

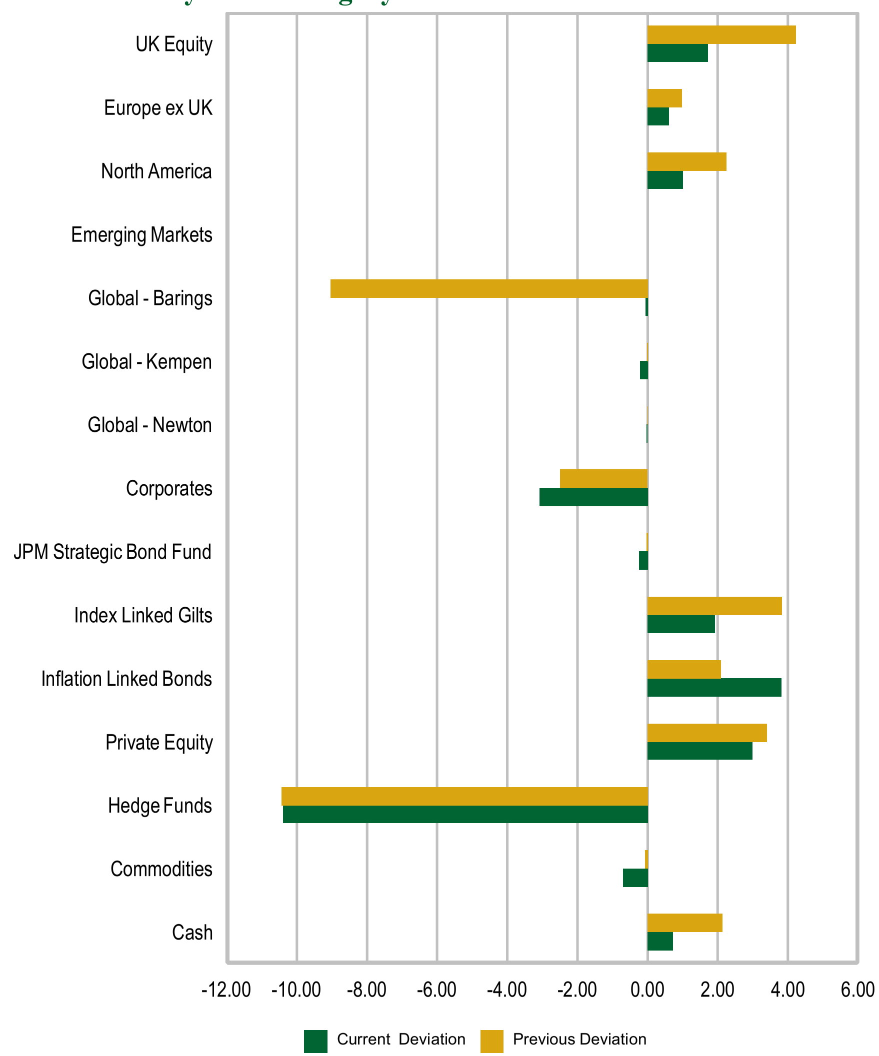
Cash



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.31	0.67	0.74	1.57	1.89	-
B'Mark	0.09	0.18	0.38	0.44	0.89	-

London Borough of Hillingdon

By Asset Category



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	28.52	31.05	26.81	1.71	26.81	4.24
Europe ex UK	2.81	3.18	2.20	0.61	2.20	0.98
North America	3.19	4.43	2.18	1.01	2.18	2.25
Emerging Markets	0.61	0.60	0.60	0.01	0.60	0.00
Global - Barings	8.98		9.04	-0.06	9.04	-9.04
Global - Kempen	6.69	6.89	6.91	-0.22	6.91	-0.02
Global - Newton	3.33	3.35	3.36	-0.03	3.36	-0.01
Corporates	1.65	2.24	4.73	-3.08	4.73	-2.49
JPM Strategic Bond Fund	10.82	11.02	11.06	-0.24	11.06	-0.04
Index Linked Gilts	4.23	6.14	2.31	1.92	2.31	3.83
Inflation Linked Bonds	3.82	2.09		3.82		2.09
Private Equity	9.00	9.42	6.01	2.99	6.01	3.41
Hedge Funds	1.89	1.85	12.28	-10.39	12.28	-10.43
Commodities	0.57	1.19	1.27	-0.70	1.27	-0.08
Cash	2.57	3.99	1.85	0.72	1.85	2.14

Barings

Historical Plan Performance

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-	-	-	-	-	-1.15
Benchmark	-	-	-	-	-	0.82

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	9.0	
Inception Date	Apr-2013	
Opening Market Value (£000)		
Net Investment £(000)	61,977	
Income Received £(000)	0	
Appreciation £(000)	-722	
Closing Market Value (£000)	61,256	

Three Years Rolling Quarterly Returns

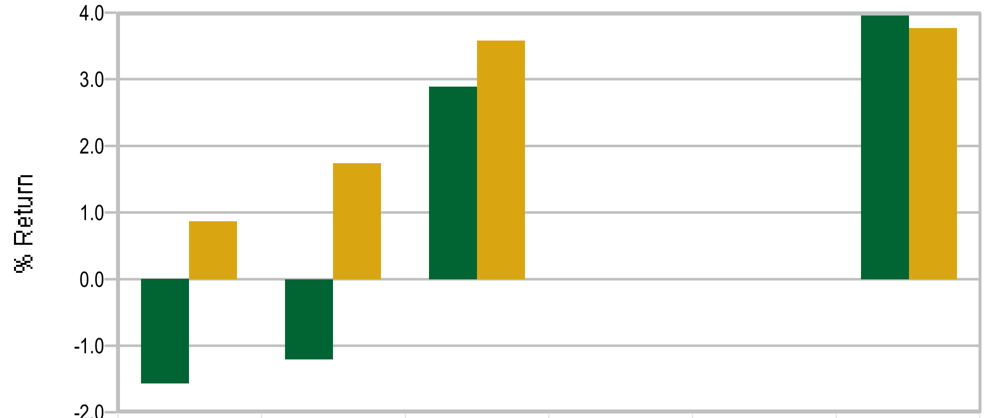
	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-	-	-	-	-	-	-	-	-	-	-	-
Benchmark	-	-	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-	-	-	-	-	-	-	-	-	-	-	-1.96
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

JP Morgan

Historical Plan Performance

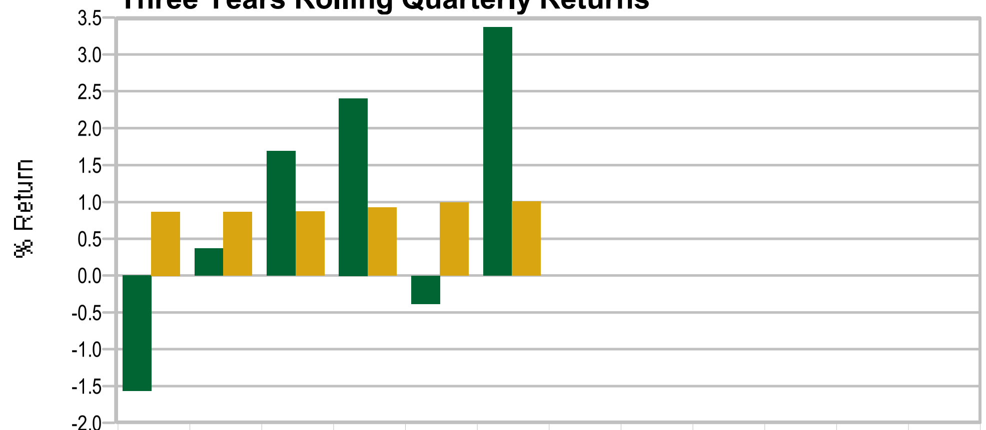


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.57	-1.20	2.89	-	-	3.95
Benchmark	0.87	1.74	3.58	-	-	3.77

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	10.8	
Inception Date	Nov-2011	
Opening Market Value (£000)	74,981	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-1,174	
Closing Market Value (£000)	73,807	

Three Years Rolling Quarterly Returns



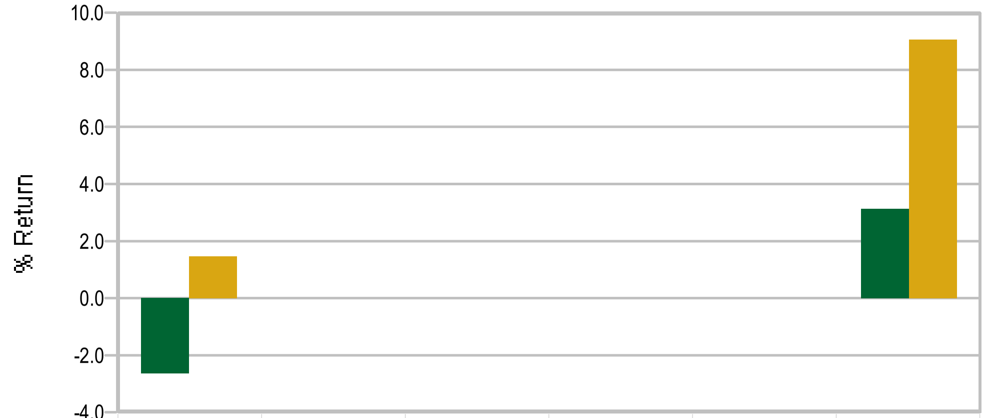
	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-1.57	0.37	1.69	2.41	-0.38	3.37	-	-	-	-	-	-
Benchmark	0.87	0.87	0.88	0.93	0.99	1.01	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-	-	-	-	-	-	2.34	-1.36	1.47	0.81	-0.49	-2.41
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Kempen

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.63	-	-	-	-	3.14
Benchmark	1.46	-	-	-	-	9.06

Risk Statistics - 3 years

Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	6.7	
Inception Date	Jan-2013	
Opening Market Value (£000)	46,884	
Net Investment £(000)	1	
Income Received £(000)	0	
Appreciation £(000)	-1,235	
Closing Market Value (£000)	45,649	

Three Years Rolling Quarterly Returns

	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-2.63	-	-	-	-	-	-	-	-	-	-	-
Benchmark	1.46	-	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-	-	-	-	-	-	-	-	-	-	-	-4.04
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Newton

Historical Plan Performance

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.42	-	-	-	-	7.80
Benchmark	0.46	-	-	-	-	7.23

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Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	3.3	
Inception Date	Jan-2013	
Opening Market Value (£000)	22,819	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-96	
Closing Market Value (£000)	22,722	

Three Years Rolling Quarterly Returns

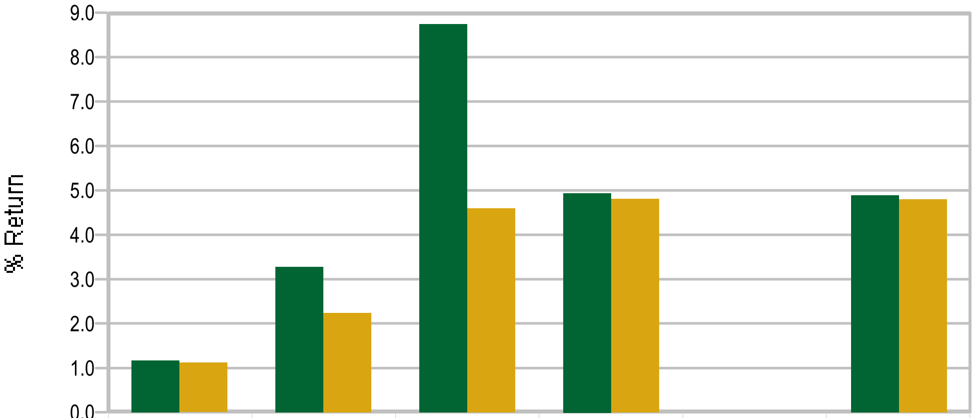
	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-0.42	-	-	-	-	-	-	-	-	-	-	-
Benchmark	0.46	-	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-	-	-	-	-	-	-	-	-	-	1.41	-0.88
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

M&G Investments

Historical Plan Performance

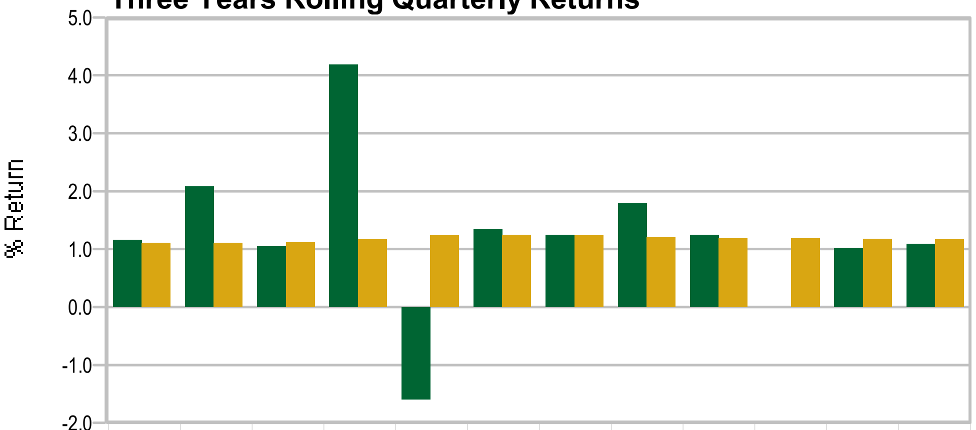


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.16	3.28	8.73	4.94	-	4.89
Benchmark	1.11	2.24	4.59	4.81	-	4.80

Risk Statistics - 3 years

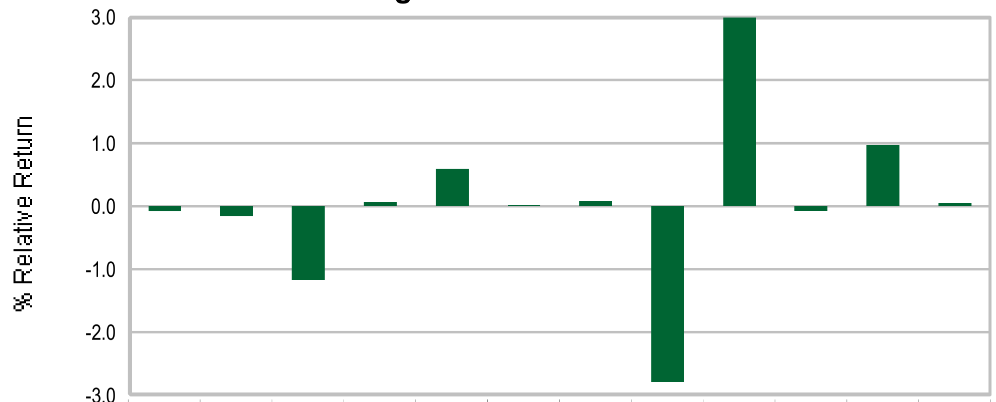
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.9	
Inception Date	May-2010	
Opening Market Value (£000)	16,351	
Net Investment £(000)	3,135	
Income Received £(000)	-0	
Appreciation £(000)	218	
Closing Market Value (£000)	19,704	

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	1.16	2.09	1.05	4.19	-1.59	1.34	1.25	1.80	1.25	0.00	1.01	1.09
Benchmark	1.11	1.11	1.12	1.17	1.23	1.25	1.24	1.21	1.19	1.18	1.17	1.17

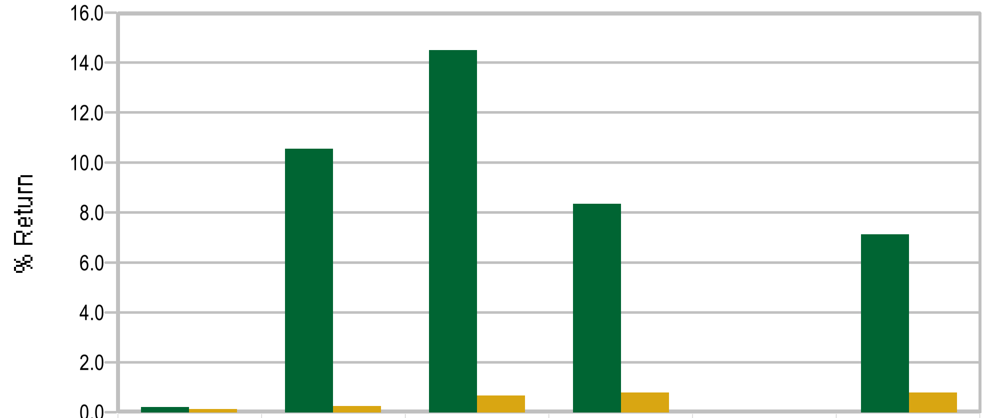
Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-0.08	-0.16	-1.17	0.06	0.59	0.01	0.08	-2.79	2.99	-0.07	0.97	0.05
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	0.13

Ruffer

Historical Plan Performance

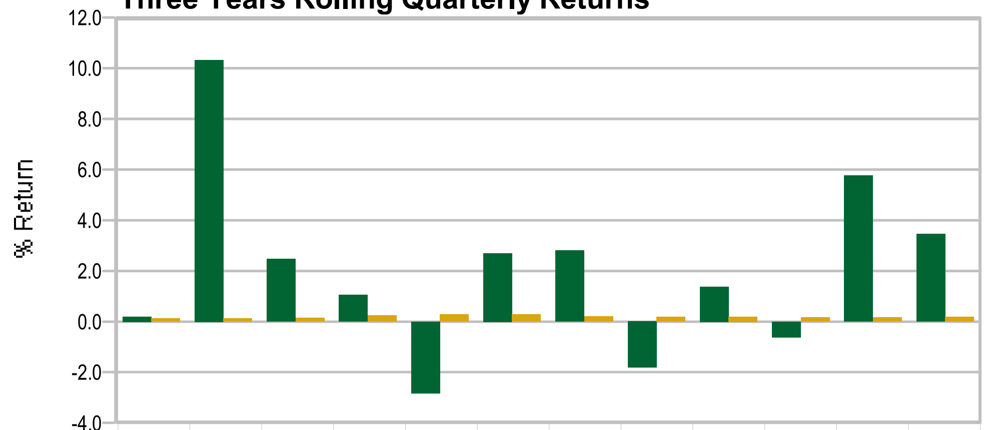


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.20	10.56	14.50	8.34	-	7.13
Benchmark	0.13	0.26	0.67	0.80	-	0.79

Risk Statistics - 3 years

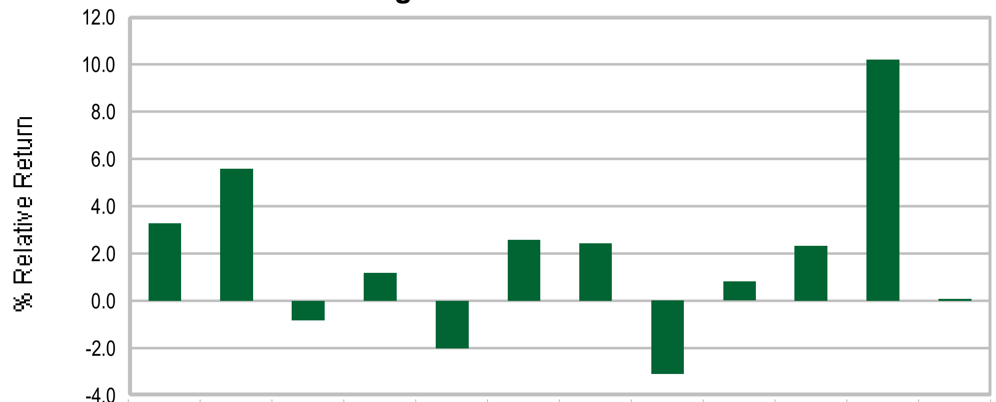
	Fund	B'mark
Performance Return	8.34	0.80
Standard Deviation	5.72	0.06
Relative Return	7.48	
Tracking Error	5.74	
Information Ratio	1.31	
Beta	34.11	
Alpha	20.10	
R Squared	0.12	
Sharpe Ratio	1.26	-5.52
Percentage of Total Fund	12.4	
Inception Date	May-2010	
Opening Market Value (£000)	131,488	
Net Investment £(000)	-47,948	
Income Received £(000)	615	
Appreciation £(000)	-32	
Closing Market Value (£000)	84,124	

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	0.20	10.33	2.49	1.06	-2.83	2.70	2.81	-1.82	1.39	-0.64	5.77	3.47
Benchmark	0.13	0.13	0.15	0.26	0.28	0.28	0.22	0.19	0.20	0.18	0.18	0.18

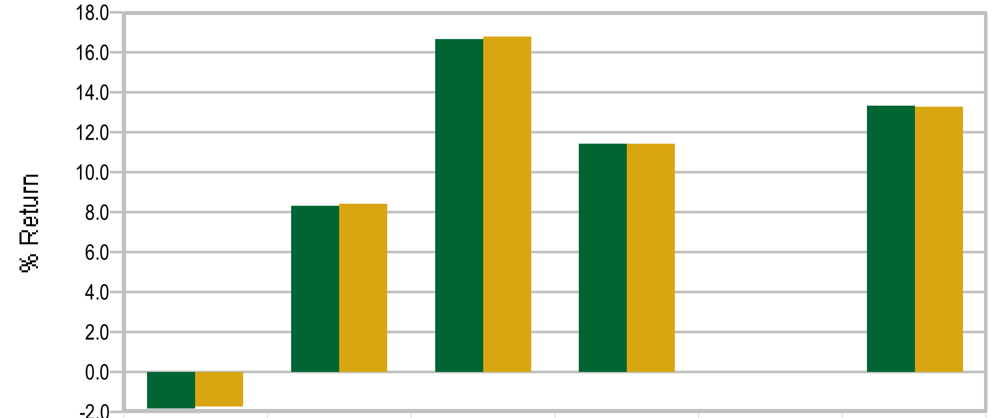
Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	3.28	5.58	-0.82	1.18	-2.01	2.58	2.42	-3.10	0.80	2.33	10.19	0.08
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	7.48

SSGA

Historical Plan Performance

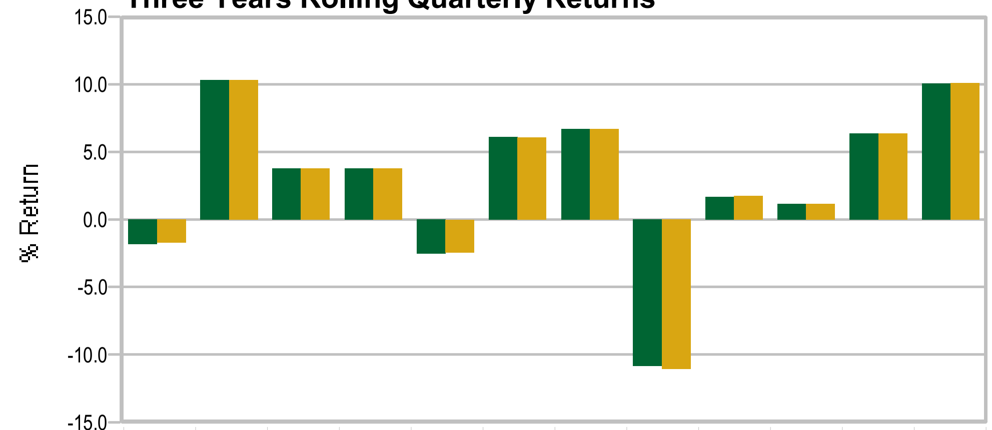


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.83	8.30	16.65	11.41	-	13.31
Benchmark	-1.73	8.41	16.76	11.43	-	13.28

Risk Statistics - 3 years

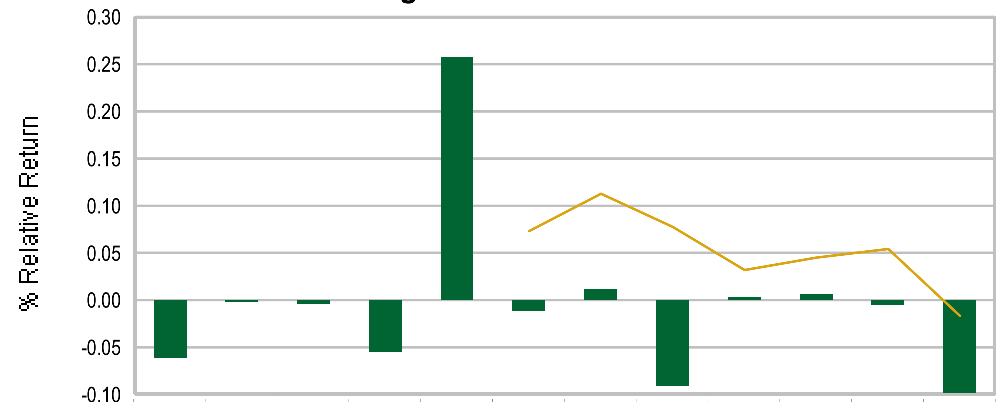
	Fund	B'mark
Performance Return	11.41	11.43
Standard Deviation	9.53	9.59
Relative Return	-0.02	
Tracking Error	0.16	
Information Ratio	-0.12	
Beta	0.99	
Alpha	0.04	
R Squared	1.00	
Sharpe Ratio	1.08	1.07
Percentage of Total Fund	19.6	
Inception Date	Nov-2008	
Opening Market Value (£000)	136,072	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-2,485	
Closing Market Value (£000)	133,588	

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-1.83	10.32	3.80	3.77	-2.53	6.11	6.71	-10.84	1.69	1.19	6.36	10.06
Benchmark	-1.73	10.32	3.79	3.77	-2.44	6.09	6.73	-11.07	1.75	1.20	6.36	10.13

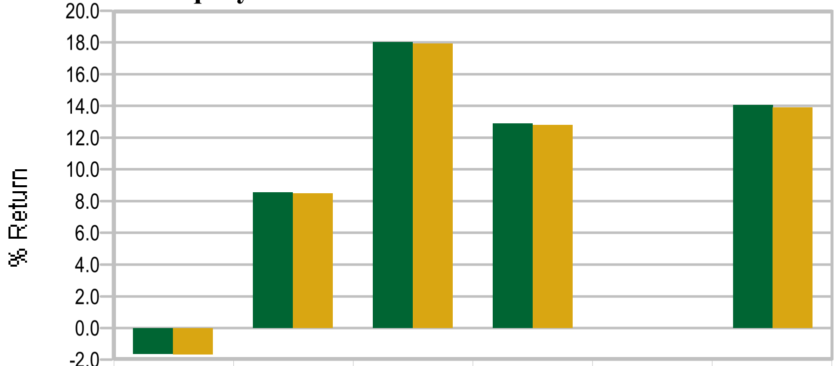
Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	-0.06	-0.00	-0.00	-0.06	0.26	-0.01	0.01	-0.09	0.00	0.01	-0.01	-0.10
3Y Relative	-	-	-	-	-	0.07	0.11	0.08	0.03	0.05	0.05	-0.02

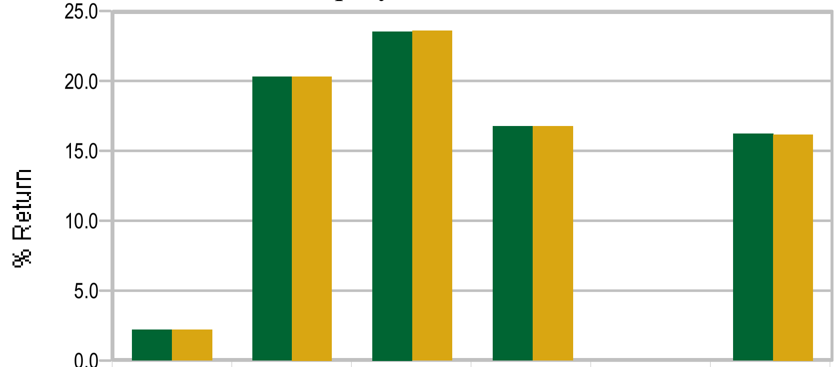
SSGA

UK Equity



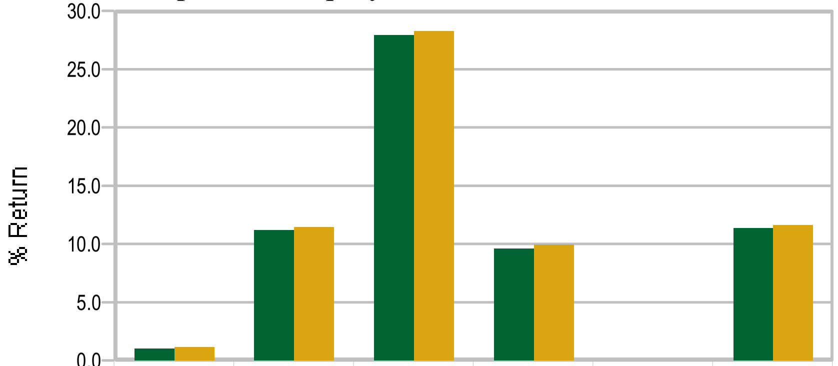
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.61	8.55	18.02	12.90	-	14.06
B'Mark	-1.66	8.50	17.93	12.80	-	13.92

North America Equity



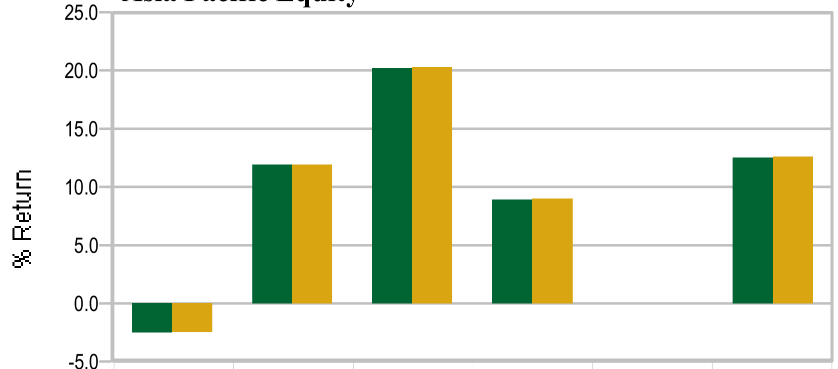
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.22	20.32	23.55	16.77	-	16.21
B'Mark	2.22	20.33	23.60	16.77	-	16.17

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.01	11.19	27.91	9.60	-	11.37
B'Mark	1.17	11.45	28.28	9.92	-	11.61

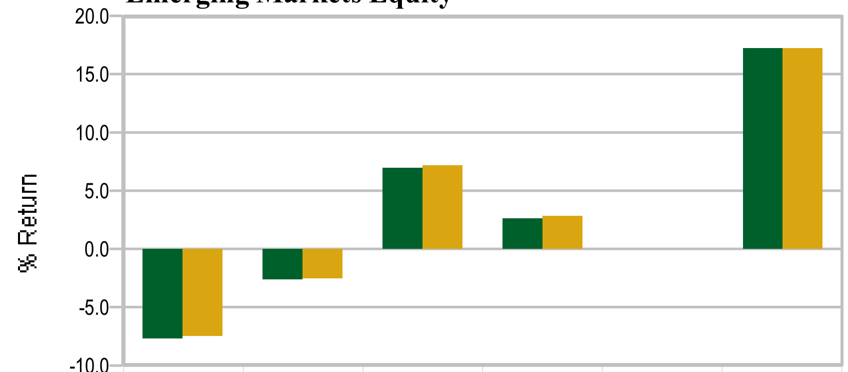
Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.52	11.89	20.20	8.93	-	12.52
B'Mark	-2.46	11.94	20.30	8.99	-	12.58

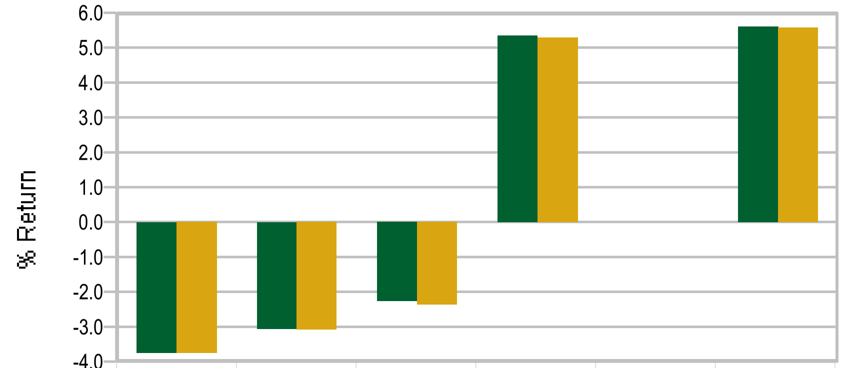
SSGA

Emerging Markets Equity



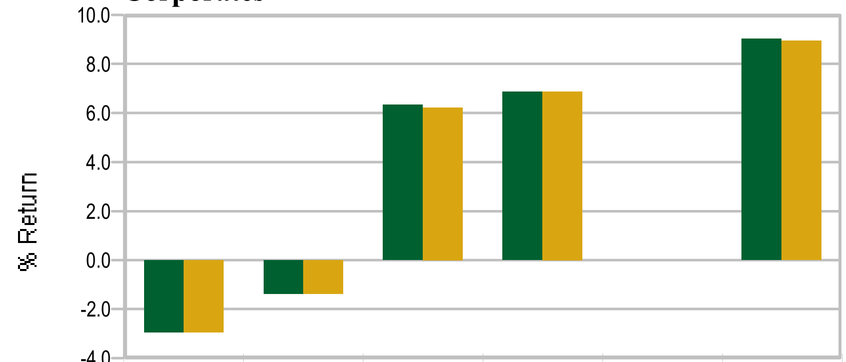
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.65	-2.60	6.94	2.62	-	17.19
B'Mark	-7.47	-2.50	7.16	2.84	-	17.22

Government Bonds



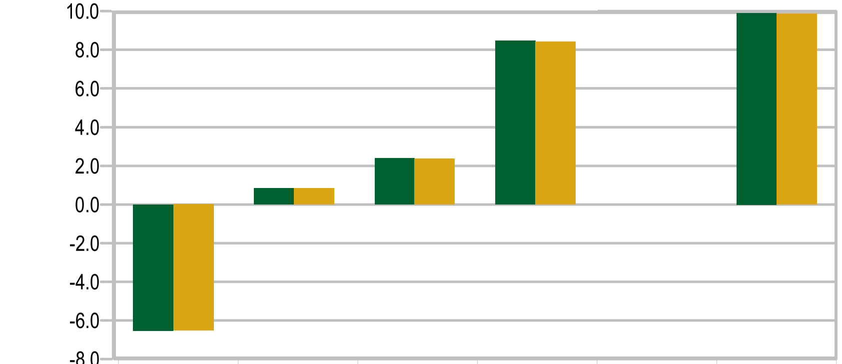
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.75	-3.06	-2.28	5.34	-	5.60
B'Mark	-3.76	-3.08	-2.37	5.28	-	5.57

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.95	-1.38	6.34	6.86	-	9.03
B'Mark	-2.96	-1.38	6.22	6.88	-	8.95

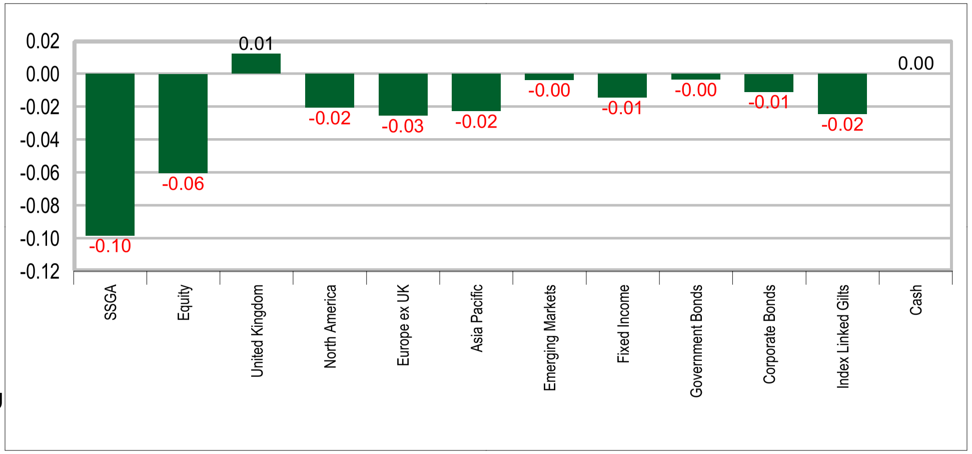
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-6.53	0.84	2.40	8.47	-	9.91
B'Mark	-6.51	0.84	2.37	8.41	-	9.87

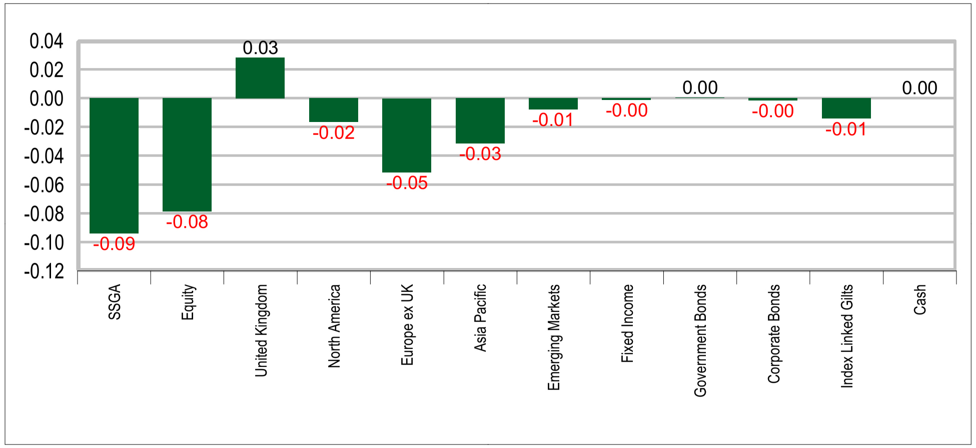
SSGA

Relative Contribution - Three Months



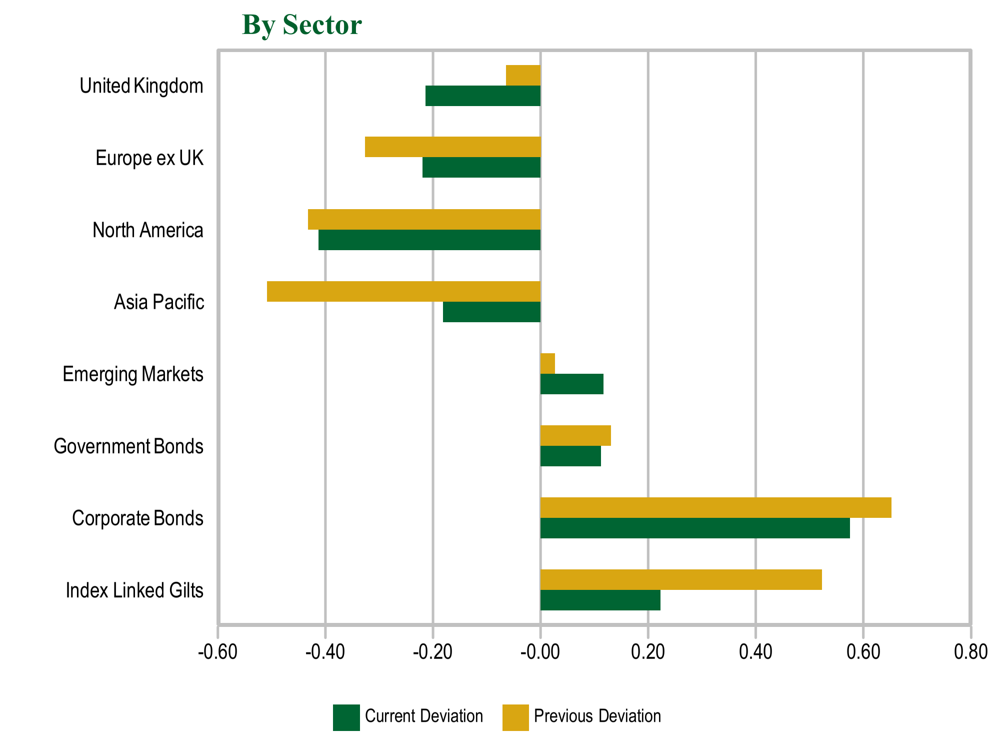
	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection	Relative contribution
SSGA	-1.83	-1.73	-0.10	0.00	0.29	-0.12	-0.28	-0.10
Equity	-1.08	-	-1.08	0.00	0.28	-0.06	-0.28	-0.06
United Kingdom	-1.61	-1.66	0.04	0.00	0.00	-0.01	0.02	0.01
North America	2.22	2.22	-0.00	0.00	0.02	-0.01	-0.03	-0.02
Europe ex UK	1.01	1.17	-0.15	0.00	0.08	-0.01	-0.10	-0.03
Asia Pacific	-2.52	-2.46	-0.07	0.00	0.07	-0.04	-0.05	-0.02
Emerging Markets	-7.65	-7.47	-0.19	0.00	0.11	0.00	-0.12	-0.00
Fixed Income	-3.07	-	-3.07	0.00	0.01	-0.02	0.00	-0.01
Government Bonds	-3.75	-3.76	0.01	0.00	0.00	-0.00	0.00	-0.00
Corporate Bonds	-2.95	-2.96	0.02	0.00	0.01	-0.02	0.00	-0.01
Index Linked Gilts	-6.53	-6.51	-0.02	0.00	0.00	-0.03	-0.00	-0.02
Cash	-	-	0.00	0.00	0.00	0.00	0.00	0.00

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection	Relative contribution
SSGA	16.65	16.76	-0.09	0.00	-1.21	-0.09	1.22	-0.09
Equity	20.02	-	20.02	0.00	-0.98	-0.07	0.97	-0.08
United Kingdom	18.02	17.93	0.07	0.00	0.00	-0.01	0.03	0.03
North America	23.55	23.60	-0.05	0.00	0.02	-0.00	-0.04	-0.02
Europe ex UK	27.91	28.28	-0.29	0.00	0.05	-0.01	-0.09	-0.05
Asia Pacific	20.20	20.30	-0.09	0.00	-1.07	-0.04	1.09	-0.03
Emerging Markets	6.94	7.16	-0.20	0.00	0.02	-0.00	-0.02	-0.01
Fixed Income	5.02	-	5.02	0.00	-0.24	-0.00	0.24	-0.00
Government Bonds	-2.28	-2.37	0.09	0.00	0.00	-0.00	0.00	0.00
Corporate Bonds	6.34	6.22	0.11	0.00	-0.24	0.00	0.24	-0.00
Index Linked Gilts	2.40	2.37	0.03	0.00	0.00	-0.02	0.00	-0.01
Cash	-	-	0.00	0.00	0.00	0.00	0.00	0.00

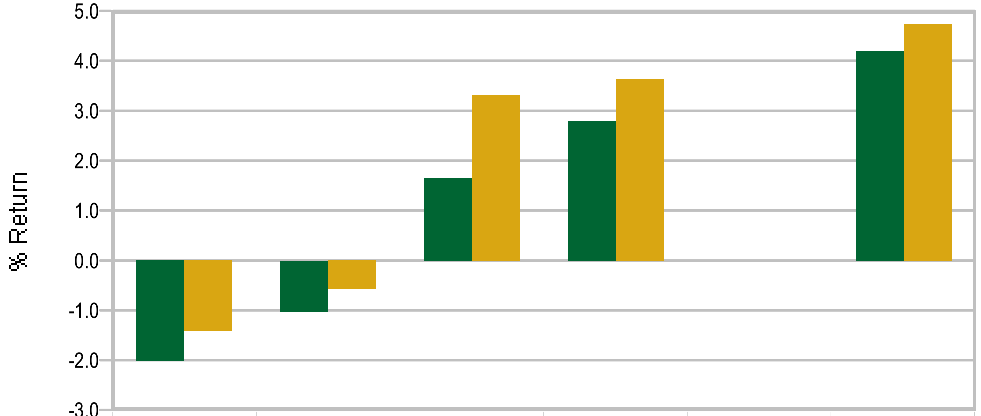
SSGA



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
United Kingdom	43.87	44.02	44.08	-0.21	44.08	-0.06
Europe ex UK	11.03	10.92	11.25	-0.22	11.25	-0.33
North America	11.03	11.01	11.44	-0.41	11.44	-0.43
Asia Pacific	11.31	10.98	11.49	-0.18	11.49	-0.51
Emerging Markets	3.10	3.01	2.98	0.12	2.98	0.03
Government Bonds	1.48	1.50	1.37	0.11	1.37	0.13
Corporate Bonds	8.41	8.49	7.84	0.57	7.84	0.65
Index Linked Gilts	9.77	10.07	9.55	0.22	9.55	0.52

SSGA Drawdown

Historical Plan Performance

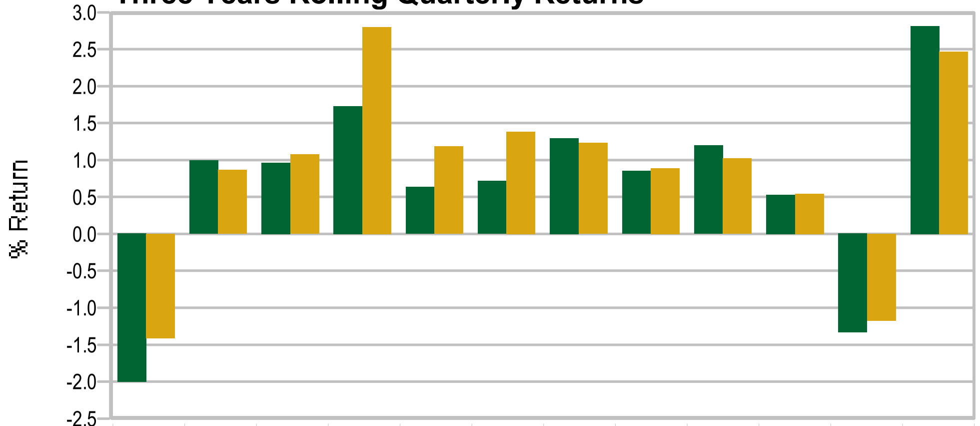


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.01	-1.03	1.65	2.80	-	4.19
Benchmark	-1.42	-0.57	3.32	3.65	-	4.74

Risk Statistics - 3 years

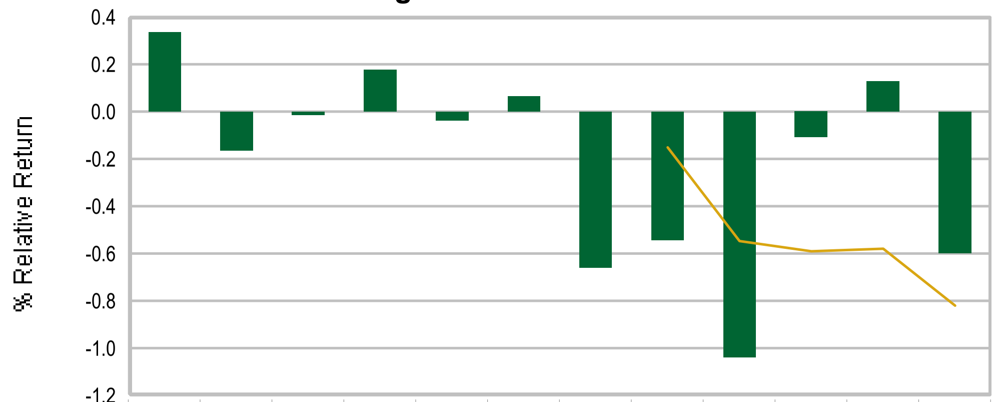
	Fund	B'mark
Performance Return	2.80	3.65
Standard Deviation	3.01	2.80
Relative Return	-0.82	
Tracking Error	0.87	
Information Ratio	-0.97	
Beta	1.03	
Alpha	-0.89	
R Squared	0.92	
Sharpe Ratio	0.55	0.90
Percentage of Total Fund	0.9	
Inception Date	Jun-2009	
Opening Market Value (£000)	6,163	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	-124	
Closing Market Value (£000)	6,039	

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	-2.01	0.99	0.97	1.73	0.64	0.72	1.30	0.85	1.20	0.53	-1.34	2.81
Benchmark	-1.42	0.86	1.08	2.80	1.19	1.39	1.23	0.89	1.02	0.55	-1.17	2.47

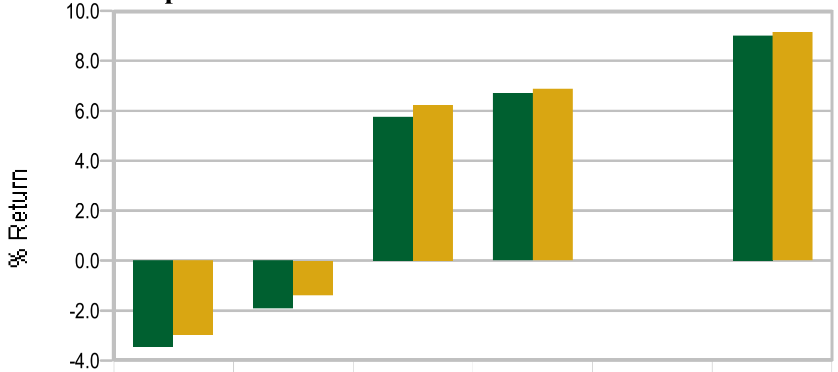
Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	0.34	-0.17	-0.01	0.18	-0.04	0.07	-0.66	-0.54	-1.04	-0.11	0.13	-0.60
3Y Relative	-	-	-	-	-	-	-	-0.15	-0.55	-0.59	-0.58	-0.82

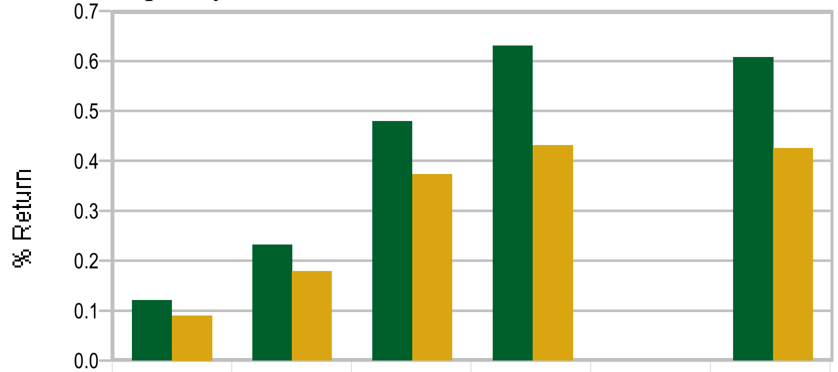
SSGA Drawdown

Corporate Bond Fund



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-3.45	-1.91	5.76	6.70	-	9.01
B'Mark	-2.96	-1.38	6.22	6.88	-	9.13

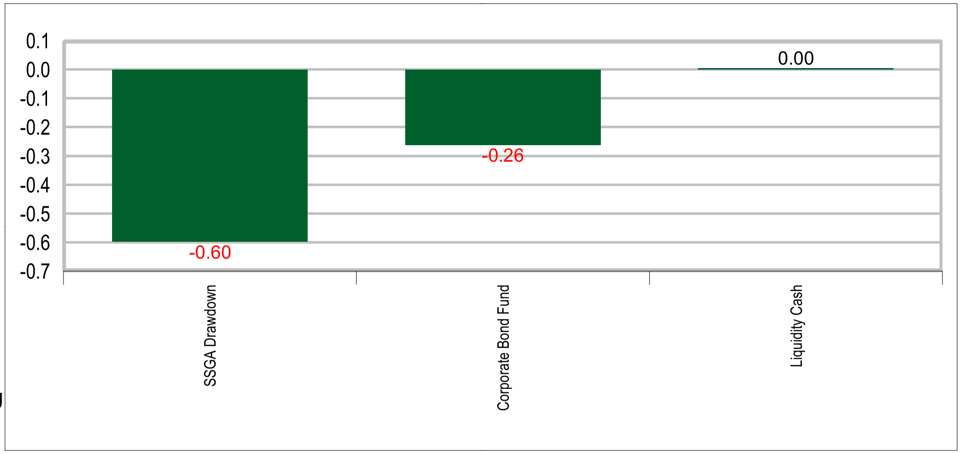
Liquidity Fund



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.12	0.23	0.48	0.63	-	0.61
B'Mark	0.09	0.18	0.37	0.43	-	0.43

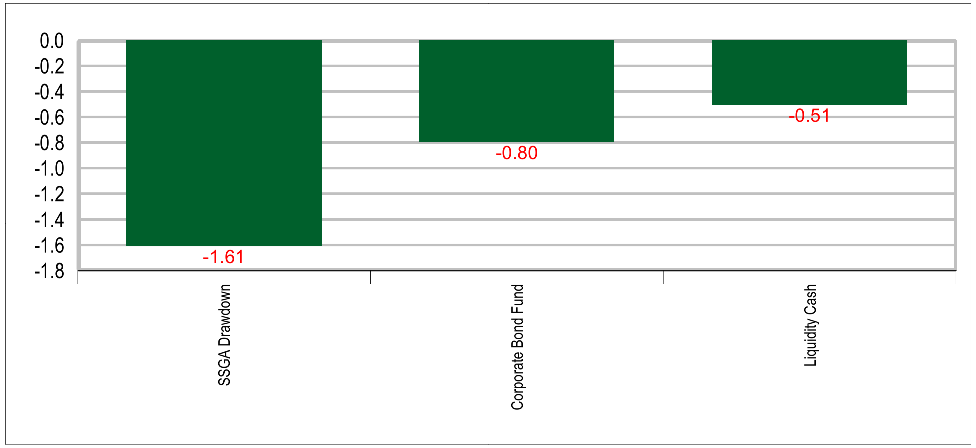
SSGA Drawdown

Relative Contribution - Three Months



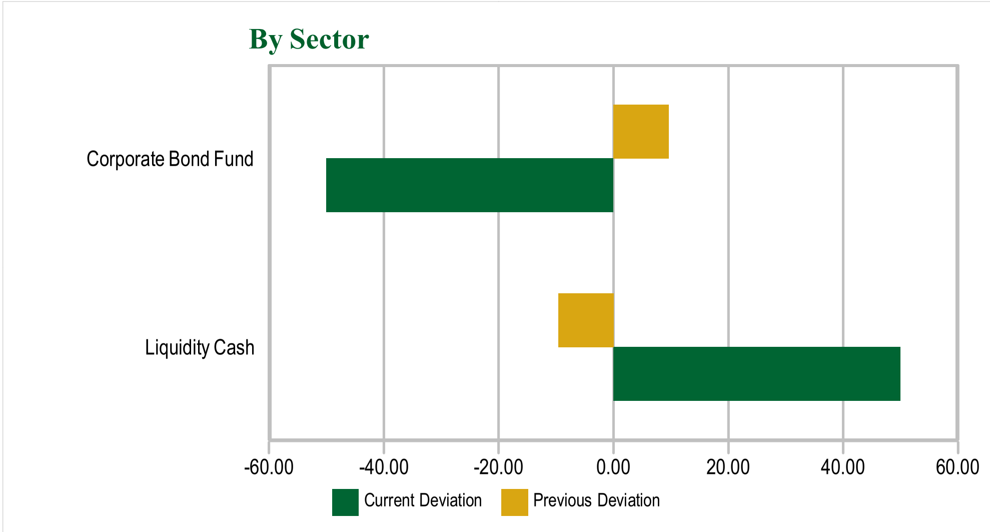
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA Drawdown	-2.01	-1.42	-0.60	-0.02	-0.24	-0.60
Corporate Bond Fund	-3.45	-2.96	-0.50	-0.01	-0.25	-0.26
Liquidity Cash	0.12	0.09	0.03	-0.01	0.01	0.00

Relative Contribution - One Year



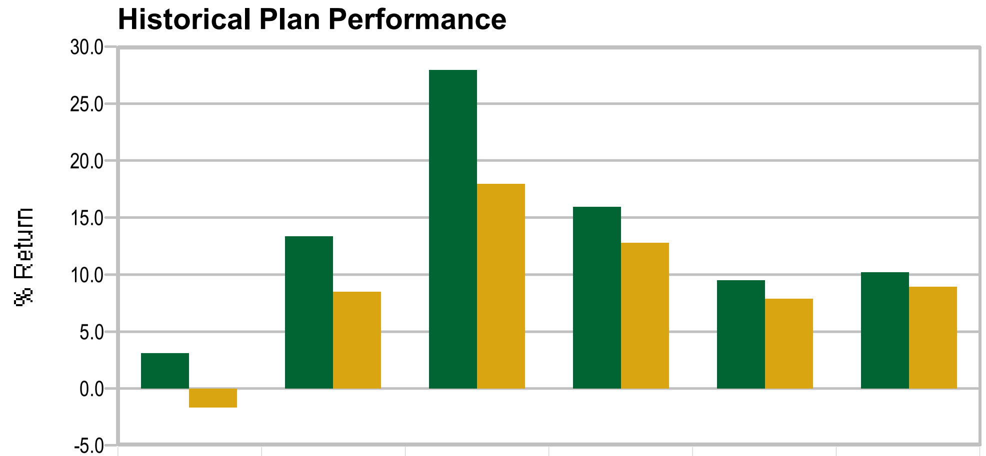
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA Drawdown	1.65	3.32	-1.61	-1.13	-0.17	-1.61
Corporate Bond Fund	5.76	6.22	-0.43	-0.57	-0.23	-0.80
Liquidity Cash	0.48	0.37	0.11	-0.57	0.06	-0.51

SSGA Drawdown

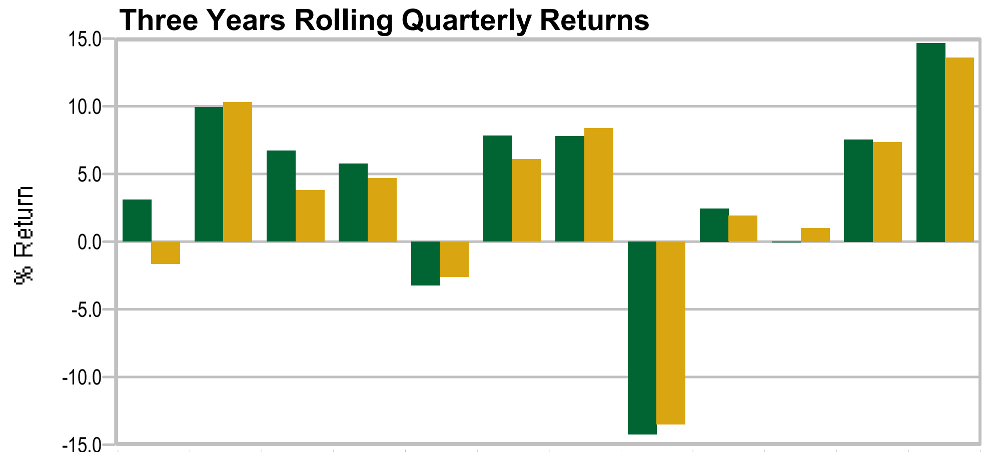


	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Corporate Bond Fund		59.63	50.00	-50.00	50.00	9.63
Liquidity Cash	100.00	40.37	50.00	50.00	50.00	-9.63

UBS



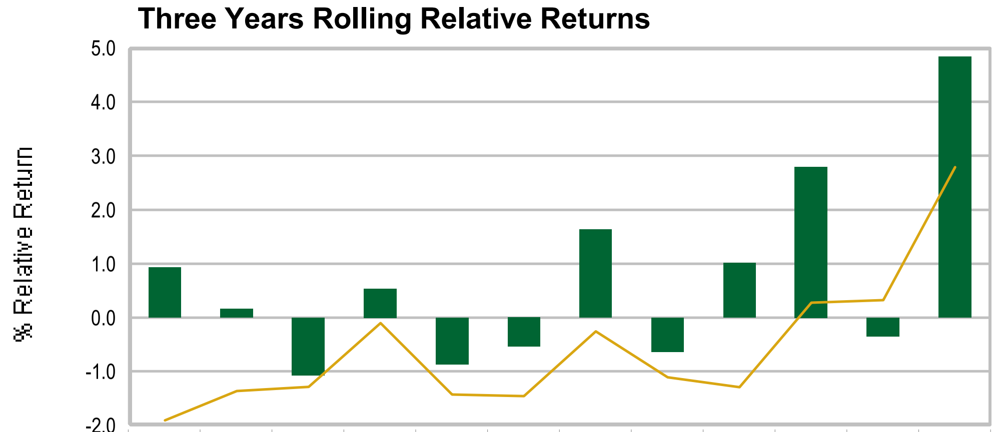
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.10	13.35	27.94	15.95	9.48	10.18
Benchmark	-1.66	8.50	17.93	12.80	7.88	8.93



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	3.10	9.94	6.73	5.75	-3.25	7.84	7.80	-14.25	2.46	-0.05	7.55	14.69
Benchmark	-1.66	10.32	3.82	4.70	-2.63	6.10	8.39	-13.50	1.91	1.03	7.38	13.63

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	15.95	12.80
Standard Deviation	13.71	12.38
Relative Return	2.79	
Tracking Error	3.45	
Information Ratio	0.91	
Beta	1.08	
Alpha	2.09	
R Squared	0.94	
Sharpe Ratio	1.08	0.94
Percentage of Total Fund	18.5	
Inception Date	Dec-1988	
Opening Market Value (£000)	135,790	
Net Investment £(000)	-13,947	
Income Received £(000)	1,963	
Appreciation £(000)	1,810	
Closing Market Value (£000)	125,616	



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	0.93	0.16	-1.07	0.54	-0.87	-0.54	1.63	-0.64	1.01	2.80	-0.35	4.84
3Y Relative	-1.91	-1.37	-1.29	-0.11	-1.43	-1.46	-0.26	-1.11	-1.29	0.28	0.32	2.79

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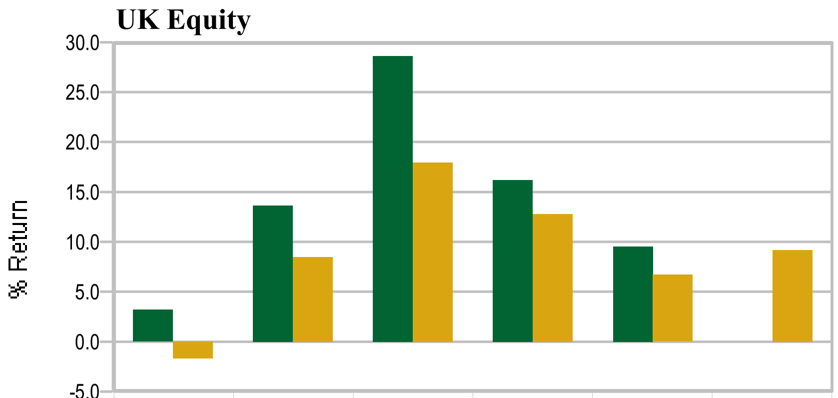
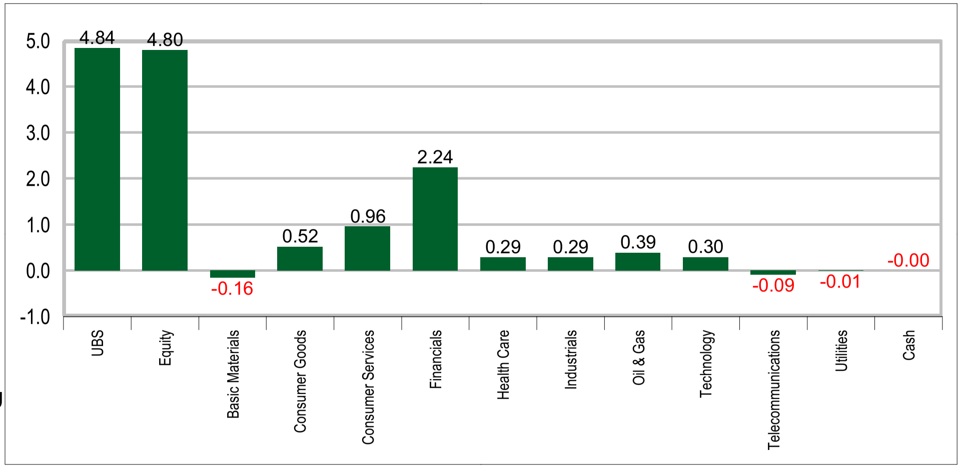
UBS



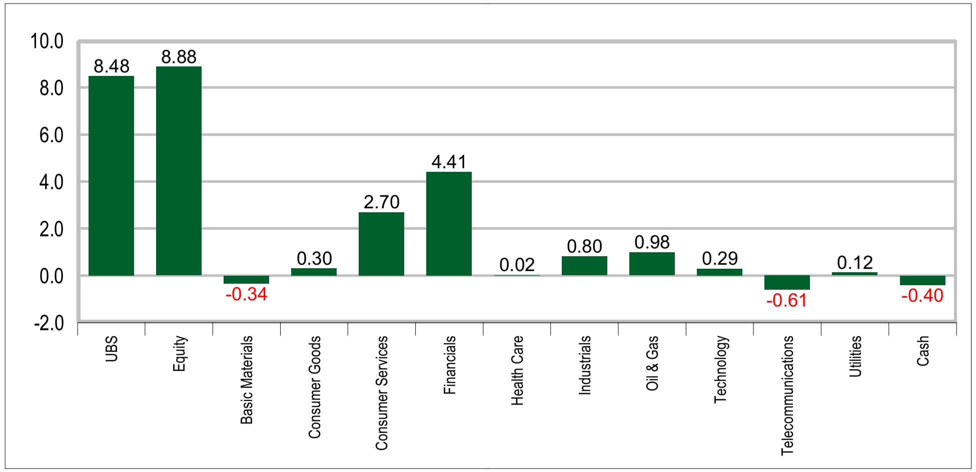
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.16	13.67	28.63	16.23	9.54	-
B'Mark	-1.66	8.50	17.93	12.80	6.69	9.21

UBS

Relative Contribution - Three Months



Relative Contribution - One Year

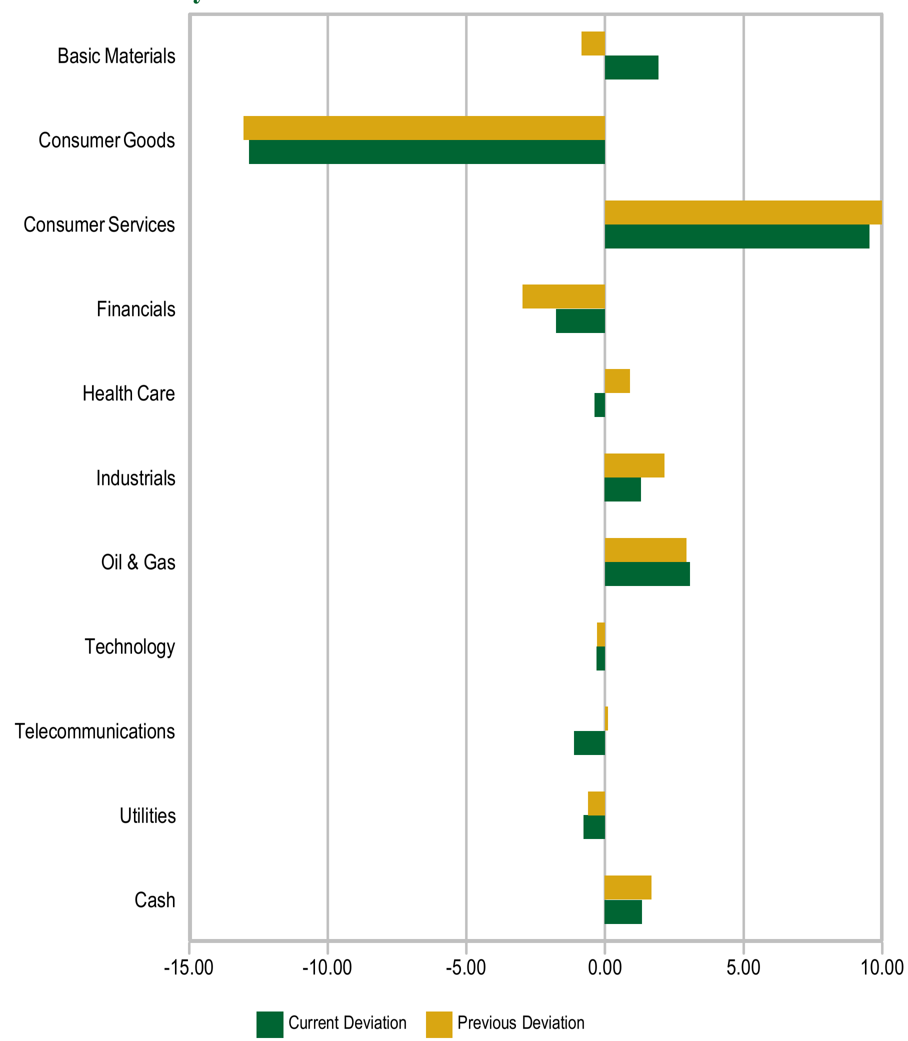


	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	3.10	-1.66	4.84	0.57	4.21	4.84
Equity	3.16	-1.66	4.90	0.57	4.21	4.80
Basic Materials	-17.91	-16.58	-1.59	-0.05	-0.11	-0.16
Consumer Goods	12.33	-3.92	16.91	0.30	0.22	0.52
Consumer Services	5.38	2.26	3.05	0.37	0.59	0.96
Financials	11.08	-0.01	11.09	-0.05	2.29	2.24
Health Care	6.15	2.88	3.17	0.04	0.26	0.29
Industrials	1.36	-1.21	2.61	-0.00	0.29	0.29
Oil & Gas	0.60	-1.44	2.07	0.01	0.38	0.39
Technology	17.07	-4.91	23.11	0.01	0.29	0.30
Telecommunications	4.34	5.23	-0.85	-0.04	-0.05	-0.09
Utilities	1.37	1.05	0.31	-0.02	0.01	-0.01
Cash	0.09	-	0.09	-0.00	0.00	-0.00

	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	27.94	17.93	8.48	-0.41	8.89	8.48
Equity	28.63	17.93	9.07	-0.01	8.89	8.88
Basic Materials	-17.77	-12.26	-6.28	0.09	-0.43	-0.34
Consumer Goods	67.01	21.08	37.93	-0.32	0.62	0.30
Consumer Services	44.20	32.59	8.76	1.00	1.68	2.70
Financials	70.41	33.58	27.57	-0.44	4.87	4.41
Health Care	18.88	18.03	0.72	-0.03	0.04	0.02
Industrials	35.79	28.28	5.85	0.16	0.64	0.80
Oil & Gas	8.58	1.32	7.16	-0.31	1.30	0.98
Technology	86.71	37.00	36.28	0.03	0.26	0.29
Telecommunications	11.99	18.06	-5.14	-0.21	-0.40	-0.61
Utilities	17.88	14.23	3.20	0.02	0.10	0.12
Cash	0.30	-	0.30	-0.40	0.00	-0.40

UBS

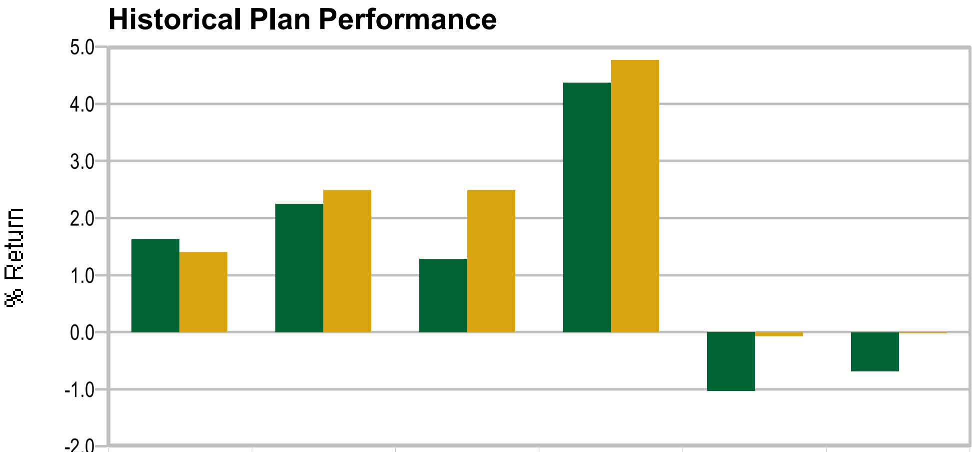
By Sector



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	9.38	7.93	7.46	1.91	8.78	-0.85
Consumer Goods	1.39	1.46	14.22	-12.83	14.51	-13.04
Consumer Services	19.77	19.88	10.23	9.53	9.90	9.98
Financials	21.92	20.08	23.67	-1.75	23.05	-2.97
Health Care	7.20	8.13	7.58	-0.38	7.24	0.90
Industrials	11.02	11.74	9.72	1.30	9.58	2.15
Oil & Gas	18.33	18.20	15.28	3.06	15.27	2.93
Technology	1.20	1.31	1.51	-0.31	1.61	-0.30
Telecommunications	5.32	6.32	6.45	-1.13	6.22	0.10
Utilities	3.11	3.24	3.88	-0.77	3.84	-0.60
Cash	1.33	1.68		1.33		1.68

UBS Property

Historical Plan Performance

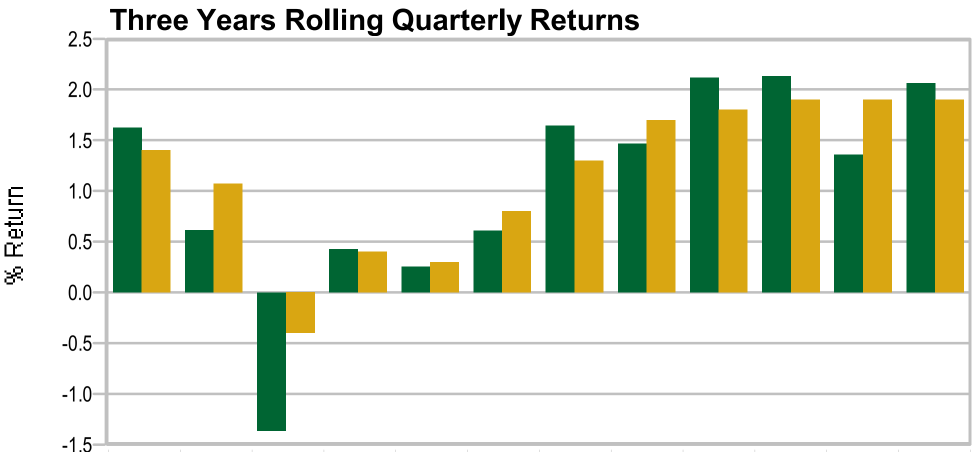


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.63	2.25	1.28	4.36	-1.03	-0.69
Benchmark	1.40	2.49	2.49	4.76	-0.07	-0.03

Risk Statistics - 3 years

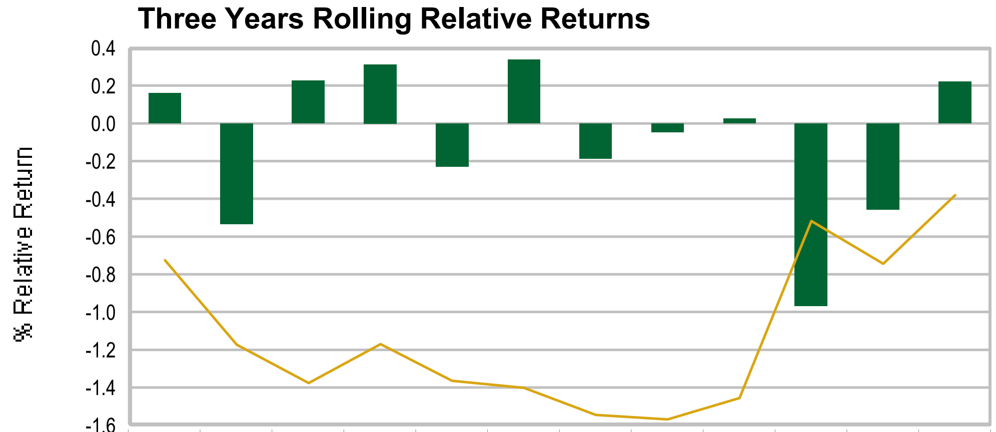
Risk Statistics - 3 years	Fund	B'mark
Performance Return	4.36	4.76
Standard Deviation	2.03	0.98
Relative Return	-0.38	
Tracking Error	1.54	
Information Ratio	-0.26	
Beta	1.37	
Alpha	-1.65	
R Squared	0.45	
Sharpe Ratio	1.59	3.70
Percentage of Total Fund	7.4	
Inception Date	Mar-2006	
Opening Market Value (£000)	49,251	
Net Investment £(000)	0	
Income Received £(000)	496	
Appreciation £(000)	304	
Closing Market Value (£000)	50,051	

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	1.63	0.61	-1.36	0.43	0.25	0.61	1.64	1.47	2.12	2.13	1.36	2.06
Benchmark	1.40	1.07	-0.40	0.40	0.30	0.80	1.30	1.70	1.80	1.90	1.90	1.90

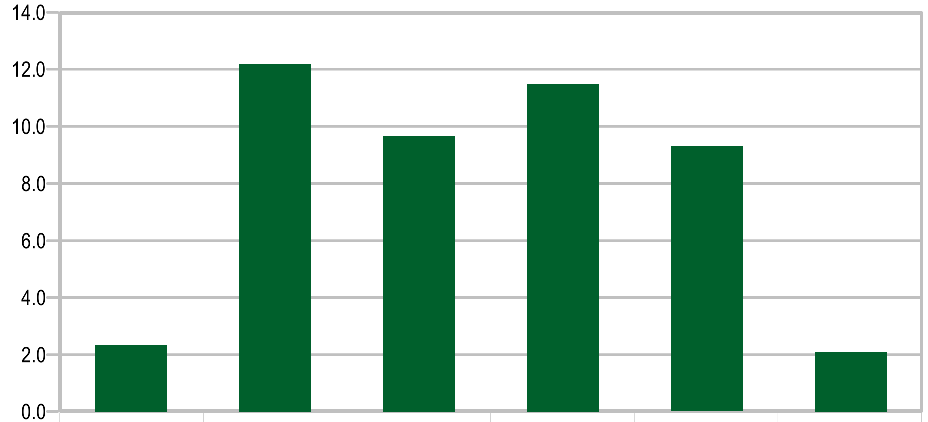
Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Relative	0.16	-0.53	0.23	0.31	-0.23	0.34	-0.19	-0.05	0.03	-0.97	-0.46	0.22
3Y Relative	-0.72	-1.17	-1.38	-1.17	-1.36	-1.40	-1.55	-1.57	-1.46	-0.52	-0.74	-0.38

Adam Street

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.32	12.16	9.65	11.49	9.29	2.09

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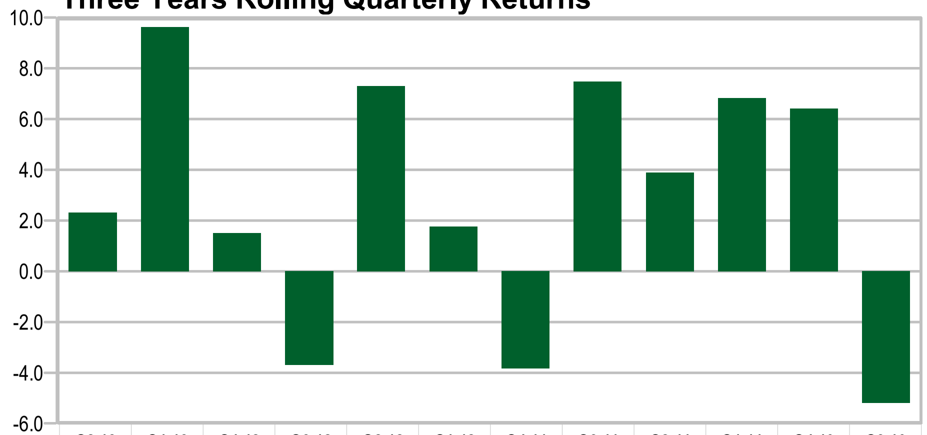
Three Years Rolling Quarterly Returns

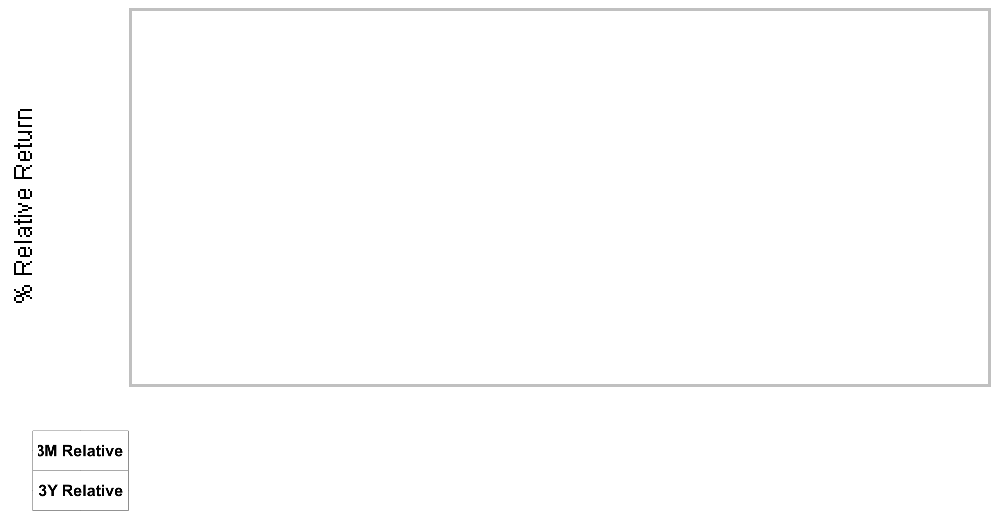


	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	2.32	9.62	1.51	-3.70	7.29	1.76	-3.83	7.48	3.89	6.83	6.42	-5.19

Risk Statistics - 3 years

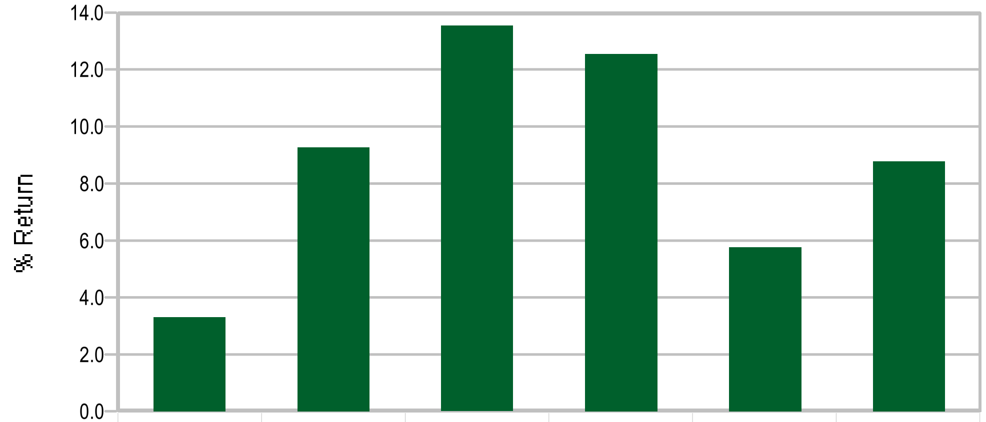
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	3.3	
Inception Date	Jan-2005	
Opening Market Value (£000)	22,629	
Net Investment £(000)	-625	
Income Received £(000)	116	
Appreciation £(000)	388	
Closing Market Value (£000)	22,508	

Three Years Rolling Relative Returns



LGT

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.30	9.27	13.53	12.53	5.76	8.77

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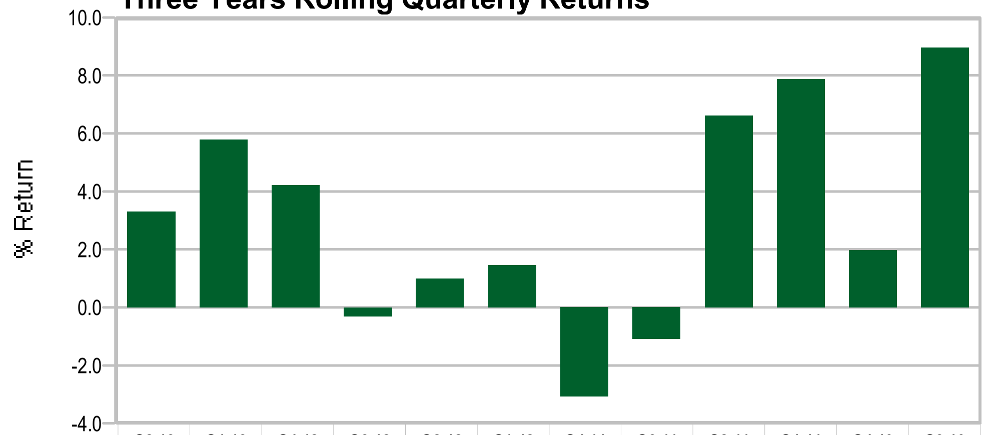
Three Years Rolling Quarterly Returns

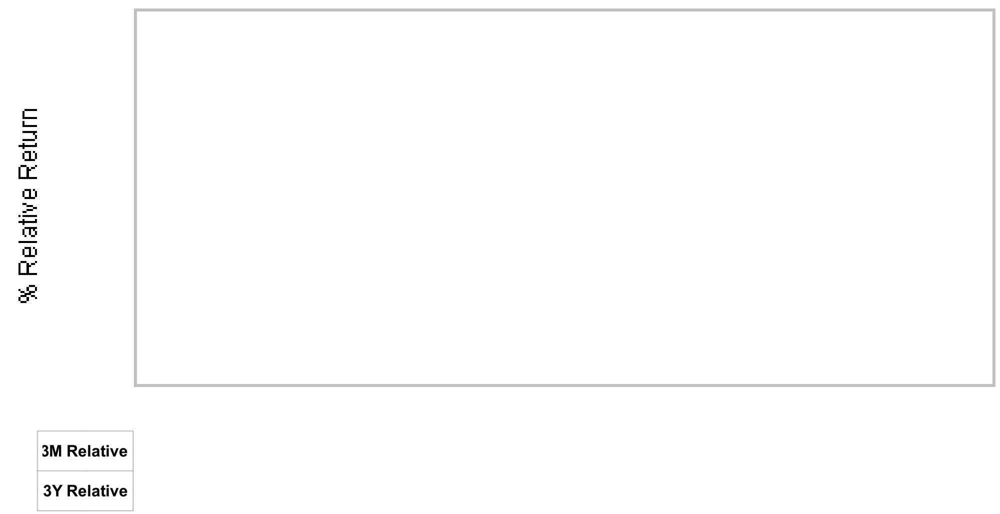


	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	3.30	5.78	4.22	-0.30	0.99	1.45	-3.07	-1.10	6.61	7.88	1.99	8.95

Risk Statistics - 3 years

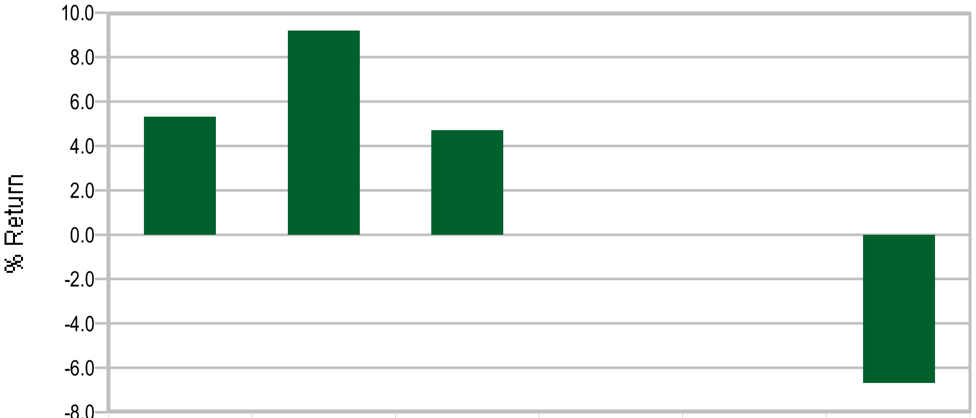
	Fund	B'mark
Performance Return		
Standard Deviation		
Relative Return		
Tracking Error		
Information Ratio		
Beta		
Alpha		
R Squared		
Sharpe Ratio		
Percentage of Total Fund	2.5	
Inception Date	May-2004	
Opening Market Value (£000)	17,286	
Net Investment £(000)	-591	
Income Received £(000)	0	
Appreciation £(000)	553	
Closing Market Value (£000)	17,248	

Three Years Rolling Relative Returns



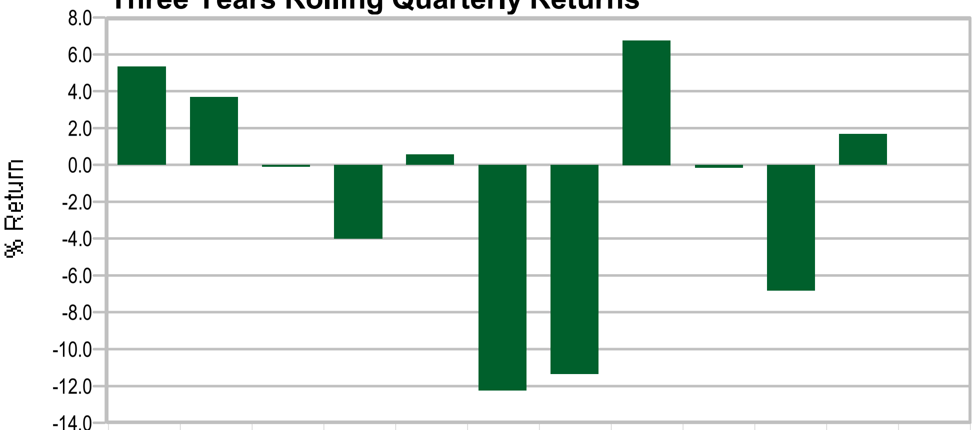
Macquarie

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.31	9.19	4.72	-	-	-6.66

Three Years Rolling Quarterly Returns



	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Fund	5.31	3.69	-0.10	-4.01	0.56	-12.25	-11.35	6.74	-0.16	-6.81	1.68	-

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	1.3	
Inception Date	Sep-2010	
Opening Market Value (£000)	8,536	
Net Investment £(000)	-347	
Income Received £(000)	0	
Appreciation £(000)	457	
Closing Market Value (£000)	8,645	

Three Years Rolling Relative Returns

Total Plan Benchmark

26.8 FTSE All Share
2.2 FTSE AW North America
2.2 FTSE AW Developed Europe ex UK
2.2 FTSE AW Developed Asia Pacific
0.6 FTSE All World All Emerging
2.3 FTSE Index Linked Gilts
4.7 BC Sterling Aggregate 100mm Non Gilts
7.2 IPD UK PPFI All Balanced Funds Index
3.4 FTSE World Index +2%
6.0 MSCI All Countries World Index
24.6 LIBOR 3 Month + 3%
1.9 FT 7 Day LIBID
9.0 LIBOR 3 Month + 4%
6.9 MSCI World Index +2%

Barings

100.0 LIBOR 3 Month + 4%

JP Morgan

100.0 LIBOR 3 Month + 3%

Kempen

100.0 MSCI All World Index +2%

Macquarie

100.0 LIBOR 3 Month + 3%

M&G Investments

100.0 LIBOR 3 Month + 4%

Newton

100.0 FTSE World Index +2%

Ruffer

100.0 3 Month Sterling LIBOR

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

UBS

100.0 FTSE All Share

UBS Property

100.0 IPD UK PPFI All Balanced Funds Index

Tracking Error

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

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

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

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

Information Ratio

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

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

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

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

Alpha

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

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

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

Beta

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

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

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

R-Squared

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

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

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

Sharpe Ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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WM LOCAL AUTHORITY

QUARTER 2 2013

The following summary is based on 83 funds with a total Market Value of £158,238m.

Final

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	62.6	62.5	-0.5	0.0	-0.5	0.0	21.5	21.4
GLOBAL POOLED INC UK	5.2	5.3	1.0	0.0	1.0	0.0	22.3	21.4
UK EQUITIES	23.9	23.6	-0.8	-1.7	-0.8	-1.7	20.4	17.9
OVERSEAS EQUITIES	33.6	33.6	-0.4	0.1	-0.4	0.1	22.3	21.9
North America	11.6	11.8	2.6	2.2	2.6	2.2	24.5	23.6
Europe	8.1	8.1	0.2	0.8	0.2	0.8	28.2	27.8
Japan	3.4	3.6	5.1	4.5	5.1	4.5	27.5	26.3
Pacific (ex Japan)	3.6	3.3	-8.5	-7.7	-8.5	-7.7	13.8	14.4
Emerging Markets	6.0	5.7	-5.6	-7.5	-5.6	-7.5	11.7	7.2
Global ex UK	0.9	1.1	1.0	0.1	1.0	0.1	24.6	21.9
TOTAL BONDS	17.8	17.3	-4.0	-	-4.0	-	4.0	-
U.K. BONDS	10.4	10.0	-3.2	-3.8	-3.2	-3.8	4.4	-2.4
OVERSEAS BONDS	2.3	2.4	-3.1	-1.5	-3.1	-1.5	4.4	-1.7
INDEX LINKED	4.1	3.9	-6.9	-6.5	-6.9	-6.5	2.6	2.4
POOLED BONDS	1.0	1.0	-2.4	-	-2.4	-	4.7	-
TOTAL CASH	3.1	3.1	0.8	0.1	0.8	0.1	3.0	0.4
ALTERNATIVES	7.7	7.9	1.3	-	1.3	-	10.1	-
Total Private Equity	4.2	4.4	2.6	-	2.6	-	12.4	-
Total Hedge Funds	2.3	2.4	0.1	-	0.1	-	8.0	-
Other Alternatives	1.1	1.1	-1.3	-	-1.3	-	6.4	-
TOTAL POOLED MULTI ASSET	2.2	2.2	-1.2	-	-1.2	-	9.8	-
TOTAL EX-PROPERTY	93.3	93.0	-1.0	-0.9	-1.0	-0.9	15.9	14.8
TOTAL PROPERTY	6.7	7.0	1.9	1.9	1.9	1.9	4.4	4.1
TOTAL ASSETS	100.0	100.0	-0.8	-0.8	-0.8	-0.8	15.1	14.0

WM PERFORMANCE SERVICES
A State Street Business

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 June 2013

LBH PRIVATE EQUITY FUNDS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
LGT CAPITAL PARTNERS									
	£	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
	000		**000**		**000**		**000**		June 13
Crown Private Equity European Buyout Opport.	11,677	1.71	9,692	1.42	7,810	1.15	1,882	0.28	7.62
Crown Global Secondaries Plc (US$)	1,972	0.29	1,721	0.25	1,348	0.20	373	0.05	5.48
Crown Private Equity European Fund	4,274	0.63	3,691	0.54	1,729	0.25	1,962	0.29	7.15
Crown Private Equity European Buyout Opport. II	8,548	1.25	5,189	0.76	1,453	0.21	3,736	0.55	3.24
Crown Asia-Pacific Private Equity Plc (US$)	1,972	0.29	1,668	0.24	511	0.08	1,157	0.17	7.31
Crown European Middle Market II plc	3,419	0.50	1,629	0.24	504	0.07	1,125	0.17	10.17
Crown Global Secondaries II Plc (US$)	1,446	0.21	1,043	0.15	513	0.08	530	0.08	22.82
TOTAL(S) LGT CAPITAL PARTNERS	**33,308**	**4.89**	**24,633**	**3.62**	**13,868**	**2.04**	**10,765**	**1.58**	
ADAMS STREET PARTNERS	**£**	**%**	**£**	**%**	**£**	**%**	**£**	**%**	Mar 13
Adam Street Partnership Fund - 2005 US Fund	9,201	1.35	8,249	1.21	3,573	0.52	4,676	0.69	7.03
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,943	0.58	3,590	0.53	1,279	0.19	2,311	0.34	7.03
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,957	0.43	2,530	0.37	631	0.09	1,899	0.28	6.37
Adam Street Partnership 2006 Direct Fund	986	0.14	944	0.14	176	0.03	768	0.11	2.94
Adam Street Partnership Fund - 2006 US Fund, L.P	5,915	0.87	5,001	0.73	1,857	0.27	3,144	0.46	7.12
Adams Street Direct Co-Investment Fund, L.P.	1,972	0.29	1,883	0.28	523	0.08	1,360	0.20	2.97
Adams Street Partnership 2007 Direct Fund LP	329	0.05	303	0.04	107	0.02	196	0.03	8.32
Adams Street Partnership - 2007 Non -US Fund	1,150	0.17	822	0.12	133	0.02	689	0.10	6.76
Adams Street Partnership - 2007 US Fund	1,807	0.27	1,450	0.21	590	0.09	860	0.13	11.97
Adams Street Partnership - 2009 US Fund	986	0.14	455	0.07	82	0.01	373	0.05	19.33
Adams Street Partnership - 2009 Direct Fund	197	0.03	136	0.02	28	0.00	108	0.02	22.94
Adams Street Direct Co-Investment Fund II.	1,643	0.24	900	0.13	320	0.05	580	0.09	30.61
Adams Street 2009 Non-US Emerging Mkt Fund	197	0.03	76	0.01	0	0.00	76	0.01	-3.57
Adams Street Partnership 2009 Non-US Developed Market	592	0.09	215	0.03	20	0.00	195	0.03	13.88
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**31,875**	**4.68**	**26,554**	**3.90**	**9,319**	**1.37**	**17,235**	**2.53**	

FUND VALUE	**681,123**	
COMMITMENT STRATEGY	59,598	8.75%
TO ACHIVE INVESTMENT	34,056	5.00%
CURRENT INVESTMENT BOOK COST	28,000	4.11%
CURRENT INVESTMENT MARKET VALUE	39,757	5.84%

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◆ LB OF HILLINGDON CONSOLIDATION

Account Number	Account Name	Market Value (GBP) Avg. on Loan	Market Value (GBP) Avg. Available	% on Loan	Gross Earnings (GBP)	On Loan Spread (bp)	Gross BP Return (bp) *	Net Earnings (GBP)
LBH01	LB OF HILLINGDON/CAPITAL INTL	0	0	0.0 %	0	0.0	0.0	0
LBH04	LB OF HILLINGDON-UBS	14,123,767	123,658,555	11.4 %	11,556	32.4	3.7	7,513
LBH11	L B HILLINGDON/RUFFER	13,429,501	73,759,194	18.2 %	5,286	15.6	2.8	3,437
LBH17	L B HILLINGDON/UBS TACTICAL	0	0	0.0 %	0	0.0	0.0	0
LBH97	LB HILLINGDON NOMURA	0	0	0.0 %	0	0.0	0.0	0
Total		**27,553,268**	**197,417,749**	**14.0 %**	**16,842**	**24.2**	**3.4**	**10,949**

* Gross Basis Point Return equals On Loan Spread multiplied by % on Loan. GBPR is the measure of total return on a given asset class or portfolio.

** Market Value and Earnings were converted using the month-end FX rate.

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Portfolio overview – Q2 2013

- 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 0.53x to 0.56x
- Total portfolio gains now amount to Euro 7.5 million, being Euro 20.1 million of NAV less Euro 12.6 million of net invested capital
- The USD weakened by 1.5% against the Euro in the period which had a small negative effect on portfolio performance

Q2 2013		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	23.6	-13.4	10.2	16.2	6.0	0.57	1.25	72%	31%
Euro equivalent Dollar Exposure @	1.3001 USD / Euro	6.3	5.2	-2.8	2.4	4.0	1.6	0.54	1.30	82%	38%
Total Exposure (in Euro millions)		**39.0**	**28.8**	**-16.2**	**12.6**	**20.1**	**7.5**	**0.56**	**1.26**	**74%**	**32%**
Q1 2013	1.2814	39.1	28.5	-15.2	13.3	20.7	7.4	0.53	1.26	73%	34%
Q4 2012	1.3193	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%

Q2 figures as of 30 June 2013
D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2013

Market Update

While equity markets overall continued their strong run into 2013, with the MSCI World Equity Index up nearly 8% during the first three months of the year, returns by market have begun to bifurcate quite meaningfully. Japan's Nikkei 225 had an incredible start to the year, up 20% for the first quarter on the back of a concerted monetary easing effort focused on containing deflationary pressure. US equities also performed well, up over 10% as evidence of a housing recovery, labor market improvement, consumer spending increases and solid corporate earnings combined to create positive momentum that attracted significant investor flows back into the market. European markets were generally higher, but less so than Japan and the US, as recessionary pressures evidenced by cuts in economic growth expectations, reduced ratings on sovereign debt and continued political pressure on governments to maintain public spending levels continued to weigh on investors' minds. Public equities in emerging markets struggled in the first quarter, generating negative absolute returns as the slowdown in Europe spread to its trading partners in other parts of the world.

Our private equity returns exhibited similar regional differences during the first quarter, with returns from US investments generally outperforming those in the developed and emerging markets. The pattern of less volatile quarterly valuation moves in private equity markets relative to those of public equities, which was discussed in last quarter's letter, appears to have continued with first quarter 2013 results.

Portfolio Statistics as of March 31, 2013

	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%**	**82%**	**82%**	**1.20x**	**7.04%**	**4.21%**	**2.47%**
2005 Subscription	02/2005	100%	89%	89%	1.22x	7.03%	3.95%	2.04%
2006 Subscription	01/2006	100%	85%	85%	1.16x	6.29%	4.26%	2.62%
2007 Subscription	01/2007	100%	76%	76%	1.21x	9.80%	6.26%	2.09%
2009 Subscription	01/2009	85%	43%	50%	1.15x	17.79%	12.78%	1.58%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.09x	2.97%	1.77%	4.01%
Co-Investment Fund II	01/2009	100%	49%	49%	1.45x	30.61%	12.00%	4.75%

*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

While we believe that economic growth and the availability of debt financing in certain parts of the world will continue to be modest over the next few years, there are attractive private equity investment opportunities in each of our target markets. Around the world we are finding managers with the ability to invest in companies with substantial growth opportunities, irrespective of the economic cycle, due to their ability to add value to their investments by providing managerial and operational support. Historically, private equity returns have been generated by growth, debt pay down, multiple expansion, and knowledge arbitrage (i.e., leveraging industry and/or market expertise). However, in a slower growth world, it is more difficult to expect broad-based growth across all sectors of the economy, ever-increasing valuations, or robust debt markets to consistently generate attractive returns.

Portfolio Outlook

We recognize that economic and market cycles have a significant impact on **buyout** returns. As a result, Adams Street focuses on buyout strategies that are less dependent on the macroeconomic environment or financial/credit markets to be successful. We invest with general partners that can identify growth and add value to their portfolio companies beyond applying leverage to balance sheets. Typically this value is more easily applied to middle market companies (less than USD500 million in revenue) where management teams can be augmented with successful professionals that are a part of the general partner's network. These management teams and the private equity owners are then able to work together to implement operational and/or strategic improvements to create value. Additionally, the company level investment opportunity set at the middle market segment tends to be more plentiful, with less efficient pricing, resulting in increased potential for reasonable valuations at time of purchase. Our experience points to the fact that small to mid-sized buyout transactions have generated more attractive realized multiples than large and mega-sized deals over numerous economic and market cycles. Across the PE opportunity set, we are attracted to strategies that inherently have multiple exit paths for their portfolio companies. Businesses that have a large pool of potential acquirers tend to be realized more quickly and at higher prices than others, so we want to invest in strategies that produce a healthy mix of M&A and IPO candidates.

When **co-investing** into portfolio companies alongside buyout and growth managers we know well, we simultaneously look to take advantage of robust deal flow while remaining cautious on our revenue assumptions. Although most general partners that Adams Street backs continue to see their funds oversubscribed, the more difficult fundraising environment for the industry overall creates a need for equity co-investors like us. We continue to lever Adams Street's relationships with general partners to position us as a "first call" for co-investment opportunities, thereby allowing us to selectively choose those portfolio companies where pricing allows for meaningful upside potential given reasonable growth assumptions.

In **venture capital**, we invest in managers that have demonstrated the skill and ability to leverage industry and geographic market expertise. While there are pockets of secular change in all market segments driving the growth of markets or changing the composition of spending, the largest changes are driven by technological innovation, business model innovation, and/or execution-oriented growth, which scales proven business models. Venture-backed firms should be able to generate attractive returns with more capital efficient business models and diminished start-up costs. Our 3 to 4 year forecasts include investments in managers that have access to top entrepreneurs and target enterprise infrastructure, internet applications and enterprise software companies.

When **investing directly** into venture capital and growth equity backed portfolio companies, our strategy in technology focuses on more price-rational, less traveled markets. We do not rule out stretching for what we view to be outstanding investment opportunities, but recognize that the market is still frothy in certain areas like mobile, software as a service, cloud and big data. The life science market is full of its own challenges, but we believe it's a good time to be identifying and backing winners in the space. We seek to do so by targeting companies with a high probability of clinical success or by focusing on healthcare service opportunities where success is driven by non-clinical factors.

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EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Deloitte: Report on the financial statement audit for the year ended 31 March 2013 Pension Fund Annual Report and Accounts 2012/13

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2012/13 Pension Fund Annual Report and Accounts. The auditor has indicated that, subject to clearance of final points they expect to issues an unmodified opinion on the financial statements. A verbal update on the final outcome will be given at the meeting.

RECOMMENDATIONS

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

BACKGROUND

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

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

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2013.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report will also be taken to Audit Committee on 26 September 2013.

SCOPE OF THE EXTERNAL AUDIT

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:

- Key audit risks
- Identified misstatements
- Accounting and internal control systems
- Current Accounting and Regulatory Issues

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

COMMENT ON THE CONTENTS OF THE REPORT

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and reports satisfactorily on the key audit risks. There was only one uncorrected misstatement identified and that was in relation to the calculation of deficit funding contributions where an historic split between normal and deficit contributions was used rather that the split from the 2010 valuation.

8. In relation to accounting and internal control systems, Deloitte have made one recommendation and that relates to the misstatement mentioned above. On receipt of the 2013 valuation results a process will be implemented to ensure the updated split is used to produce the next financial statements.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

Deloitte.

London Borough of Hillingdon

Report to the Pension Committee and Audit Committee on the year ended 31 March 2013 Local Government Pension Fund Audit

Final Report

2013

Contents

Executive summary

We have pleasure in setting out in this document our report to the Pension and Audit Committees of the London Borough of Hillingdon for the year ended 31 March 2013 for discussion at the committee meetings scheduled for 24 September 2013 and 26 September 2013 respectively. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

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

Status	Description	Detail
Key findings on audit risks and other matters		
We have concluded satisfactorily on each of the key audit risks identified in our audit plan. We did not identify any additional risks in the course of our work.	We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2012/13 accounts, and which were presented to the Audit Committee in February 2013 as follows: **Key risks** 1. **Contributions**: The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies, has been addressed through our testing. No issues were noted with the exception of an incorrect classification of the contributions between employer deficit and employer normal contributions. As such an adjustment was posted increasing deficit contributions and decreasing normal contributions by £1.5 million; 2. **Benefits:** Complexities in the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified; 3. **Financial instruments**: The unquoted investments have been agreed to independent returns from the investment managers. It was identified that the valuation provided by Northern Trust was as at December 2012 for Adams Street Partners due to the lack of available information to the Hillingdon team. On receipt of updated valuations in July an uncorrected adjustment of £404,000 was identified to increase the value of investments. We continued to identify that some of the private equity funds' audited financial statements included an emphasis of matter paragraph indicating the uncertainties over valuation of equities in illiquid markets. We have held discussions with the managers of these funds to ensure that the valuation techniques represent the most accurate fair value of the equities. In October 2012 the scheme transferred the assets from Marathon to SSgA totalling £60.6m. Subsequently in January 2013 these assets were transferred from SSgA to Kempen and Newton, including a gain of £5.1m whilst the assets were in transition from Marathon to Newton and Kempen. We audited the two transfers between Marathon and SSgA and from SSgA to Kempen and Newton with no issues noted. 4. **Management Override of Controls**: all testing was completed with satisfactory results.	Section 1

Executive summary (continued)

Status	Description	Detail
Audit status		
Subject to the clearance of final points, we expect to issue an unmodified audit opinion on the financial statements.	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. We have substantially completed our audit in accordance with our Audit Plan which was presented to you prior to the commencement of the audit subject to the satisfactory completion of the matters set out below: • receipt of signed management representation letter (see appendix 1); and • update of post balance sheet event review. We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund information that would result in the issuance of a modified audit opinion.	
Identified misstatements		
Uncorrected misstatements are detailed in Appendix 2	Audit materiality was set at £7.5m (2011/12: £7.5m), which is consistent with that of the local government audit. The basis on which this is calculated is set out in our report to the audit committee. This is slightly higher than set out in the planning meeting report, which was based on a preliminary materiality for the Authority before the year end results were available, however we continue to report all unadjusted misstatements greater than £380,000 (2% of materiality) to the Audit and Pension Committees. There is one identified uncorrected misstatement above this level that we wish to bring to your attention in Appendix 2.	Appendix 2
Accounting and internal control systems		
Calculation of deficit funding	We have one area for improvement surrounding the calculation of deficit contributions resulting from the adjustment noted. We have previously identified one area for improvement in relation to the internal control system. This improvement related to the review of the underlying private equity funds. We note that improvements have been made in this area. Further detail on the area for improvement in the internal control system is included in Section 3 of the report.	Section 3

1. Key audit risks

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

Contributions	
Audit risk	Unlike the positions in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • reviewed the design and implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly; • we have received from officers an analysis of contribution rates by employer and signed monthly statements from each Scheduled and Admitted body; • we performed tests of detail to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates; and • we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level. It was noted that an incorrect allocation of the contributions was being disclosed in the fund account. As such £1.5 million has been posted as an adjustment to re-allocate to deficit funding from employer normal contributions. All other testing was completed with satisfactory results.

1. Key audit risks (continued)

Benefits	
Audit risk	The changes that were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits continue to require careful consideration. The changes are in addition to the annual increases required by the 1997 Regulation and Pensions (Increase) Act 1971.
Deloitte response	The following tests were performed to address the significant risk around benefits: • we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing to controls were in force during the year under review; • we obtained a schedule of benefits paid and supporting calculations and tested whether benefits paid were in accordance with the appropriate rules; • we performed tests of detail on a sample of benefits paid, by agreement to supporting documentation, to test whether benefits were in all material respects correctly calculated, by reference to their qualifying service, Fund rules and benefit choices made; and • we developed an expectation based on changes in membership numbers and pension increases to analytically review the benefits paid in the year. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Financial instruments	
Audit risk	The Fund makes some use of investments in unquoted investments vehicles, such as private equity houses. As at 31 March 2013 the scheme had £39.6m (2012: £37.1m) in these holdings. Although these funds are normally subject to third party external audit, up to date audited accounts were not available at the time that the pension fund accounts were compiled and audited. In such cases, year end fair values of investments in such funds will need to be estimated on the basis of unaudited information. In addition, market volatilty raises questions about how to value these investments. It would normally be expected that the reasonableness of the fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the fund year end. As these investments are more complex to value we have identified the Fund's investments private equity funds as a significant risk. In October 2012 the scheme transferred the assets from Marathon to SSgA totalling £60.6m. Subsequently in January 2013 these assets were transferred from SSgA to Kempen and Newton, including a gain of £5.1m whilst the assets were in transition. In addition derivative financial instruments were identified as a risk due to the complexities in the valuations, however the scheme has only £81,000 investment liability relating to these products in the current year.
Deloitte response	The following tests were performed to address the significant risk around investments: • we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports. • we have obtained a further understanding of the valuation of investments. The value of unquoted private equity vehicles represents less than 6% (2012: 6%) of the assets of the Fund as a whole, totalling £39.6m (2012: £37.1m). The majority of the investments held by the Fund are in investments which have a quoted value £564.5m (2012: £512.7m) or are derived from quoted values £75.4m (2012: £61.7m); • we have reconciled the total value of the investments held by the Fund as reported in the investment report from Northern Trust to the value of investments reported in the Net Assets Statement; • we have compared the valuations provided by Northern Trust to the reports provided by the investment manager; • we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources; • we have audited the transition of assets between Marathon and SSgA (totalling £60.6m) and subsequently from SSgA to Kempen and Newton (£44.3m to Kempen and £21.4m to Newton) via agreement to investment manager confirmations and the transition reports; and • we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers.

1. Key audit risks (continued)

Financial instruments (continued)	
Deloitte response (continued)	We identified that the valuations used by Northern Trust for Adams Street Partners are based on the quarterly reporting from Adams Street Partners. The valuation is then maintained until the next report is available. Thus the valuation shown as at 31 March 2013 relates to the December valuations. The valuations as at March are not provided until July by Adams Street which is subsequent to the preparation of the accounts. We received confirmations of these valuations as part of our audit procedures and identified an increase in the value of these investments of £404,000. This adjustment remains as uncorrected and is included in Appendix 2. In addition it was noted that the audited accounts for the LGT funds again contained modified opinions. The scheme has £18.2m (2012: £17.0m) in these funds. The financial statements of the funds included an emphasis of matter paragraph over the valuation of the illiquid investments. We held discussions with the fund manager to satisfy ourselves that the values of the investments are unlikely to contain a material error. Our discussions included gaining a further understanding of the valuation process used and comparing this to the industry standard. In line with the prior year an additional disclosure has been included in the financial statements to give the users of the accounts better information on the risks surrounding this type of investment. Note 16 contains the following wording: *"The Investment Sub Committee have undertaken a review of the audited financial statements for the private equity funds on behalf of the London Borough of Hillingdon Pension Fund by Adam Street Partners and LGTand considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation process is rigorous and result in valuations that, within materiality, represents fair value at the reporting date."* We note that steps have been made for the committee to annually review the funds' audited accounts to satisfy themselves that the valuations provided are sufficiently accurate following our recommendations in the prior year, see section 2. We also note that, whilst not an adjustment, there are pricing differences totalling £768,000 between the custodian and the investment managers. This is due to the different pricing streams available to investment managers and custodians. The total represents 0.1% of the fund which is not considered significant. Other than the above no issues were identified during our audit procedures.

1.Key audit risks (continued)

Management override of controls	
Audit risk	We are required by ISA 240 'The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control
Deloitte response	Our audit work included: • we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements; • we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and • we have made enquiries of those charged with governance as part of our planning and detailed audit processes. We have noted no issues during the completion of the above procedures.

2. Other issues

Administration migration	
Migration of administration to Capita Hartshead	The scheme made a decision to outsource its administration from 1 April 2012. The administration is now completed by Capita Hartshead. There are a number of considerations to monitor during the change over of administration. These include: • Monitoring of the data migration between systems. • Adjustment to processes to incorporate. • Ongoing service level monitoring. The pensions team implemented the monitoring of these areas during the transition and subsequently. The data migration between the historic Heywood system and Capita system was completed through the download of data by Heywood into a set format and this was then provided to Capita. The data was checked for completeness through a reconciliation of record numbers in each system and through the comparison to the final back up data. The relevant processes involving administration were updated to incorporate the use of Capita as set out in the service level agreement. The service levels provided by Capita are monitored on an ongoing basis.
Deloitte response	We have held discussions with management surrounding the monitoring of the transfer of administration to Capita. The process was considered to be appropriate and we have reviewed the final data reconciliations on completion of the transfer with no issues noted.

3. Accounting and internal control systems

Control observation

The following observation was noted in the current period:

Accuracy of deficit contributions allocation	
Observation	It was noted during testing that the calculation of deficit funding contributions was being completed using a historic split rather than the split provided by the latest actuarial valuations. Whilst there is no issue with the total amount being paid, an adjustment was noted to re-allocate £1.5m of contributions between normal and deficit.
Recommendation	We recommend a process be implemented that confirms the appropriate allocation with the latest actuary valuation when the deficit contributions are being calculated.
Management response	On receipt of the 2013 triennial valuation results, a process will be set up which will ensure the appropriate allocation of deficit contributions is included in the working papers for future years accounts.
Owner	Nancy le Roux

Prior period control observation

The following was noted in the prior period for which we detail an update below:

Review of private equity funds financial statements	
Observation	Whilst an annual review process has been implemented to review the annual statements received from the private equity firms, there remains no procedure in place to complete a detailed review of the underlying private equity funds annual audited financial statements. It was again noted that the audit opinion on some of the funds was modified to include an emphasis of matter paragraph raising attention to the possibility the valuation may differ from that shown due to the illiquid market for these securities. This could lead to incorrect valuation of these funds in the pension scheme financial statements.
Recommendation	We recommend that a process is implemented to review annually the audited financial statements for all private equity funds. The committee should consider any issues identified by the auditors and the impact on the scheme should be assessed and disclosure included in the accounts to explain any uncertainties identified.
2013 update	An agenda item has been added to the investment subcommittee meeting in June to review the valuation basis for these funds and confirm this basis is considered appropriate.
Conclusion	The implementation of this review is considered to be satisfactory.

4. Current accounting and regulatory issues

Upcoming financial reporting developments

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

Pensions Act 2013	
	The Pension Act 2013 has received Royal Assent in parliament and hence will come in to force from 2015. The key changes of the bill are: • reform the state pension system through the introduction of a single-tier state pension; • manage future changes to the State Pension age including bringing forward the increase in State Pension age to 67; • reform the range of benefits associated with bereavement; • boost the consolidation of small pension pots; • introduce a new statutory objective for the Pensions Regulator; and • strengthen existing legislation relating to occupational pensions. It is anticipated that LGPS will begin to be regulated by the Pension Regulator as part of this bill from 2015. This will mean that the schemes will need to consider the guidance put in place by the regulator and comply with the best practice advice from 2015. Further information can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197840/pensions-bill-ia-summary.pdf

4. Current accounting and regulatory issues (continued)

The new LGPS 2014 project

On 22 December 2011, an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government. The agreement consists of:

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

During April 2012, following the acceptance by Government of a principles document submitted by the Local Government Association, UNISON and GMB on how to take forward the reform of the Local Government Pension Scheme (LGPS) in England and Wales.

The project is continuing with the largest change being the introduction of the Career Average Revalued Earnings Scheme being introduced from 1 April 2014.

Other changes include:

- Accrual rate changed to 1/49th.
- Retirement age will be consistent with state retirement age.
- Average contribution of 6.5% based on actual pay.
- 50/50 option for members not wishing to contribute to full benefits.

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

5. Other matters for communication

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

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

6. Responsibility statement

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

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

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

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

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

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

Deloitte LLP

Deloitte LLP

Chartered Accountants
St Albans
5 September 2013

Appendix 1: Draft representation letter

Deloitte LLP

Our Ref: ***MGB/HB/2013*** ***Date:***

Dear Sirs

London Borough of Hillingdon Pension Fund (the “Fund”)

This representation letter is provided in connection with your audit of the financial statements of the Fund for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the Fund’s asset and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the Fund year.

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

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

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

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

3. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

4. 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.

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

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

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

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

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

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

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

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

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

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

15. There have been no events subsequent to 31 March 2013 which require adjustment of or disclosure in the financial statements or notes thereto.

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

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

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

19. The Fund has satisfactory title to all assets.

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

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

22. We confirm that:

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

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

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

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

25. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2013 is complete, accurate and consistent with the information that is contained within the Accounts.

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

Yours faithfully

Signed on behalf of London Borough of Hillingdon

Appendix 2: Audit adjustments

Uncorrected misstatements

We report all individual identified unrecorded audit adjustments in excess of £380,000 and other identified misstatements in aggregate not adjusted by management in the table below. The following potential misstatements have been identified during the course of our audit to date but have not been adjusted:

		Credit/ (charge) to current year fund account £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in contributions £'000
Factual / Judgemental misstatements				
Investment valuation	[1]	404	404	-
Total		404	404	-

[1] The private equity valuations for March were noted to be £404,000 higher than the carrying valuation in the accounts. As such, an adjustment is noted to increase the asset value and change in market value.

We will obtain written representations from the authority confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

Disclosure misstatements

No disclosure deficiencies identified.

Pension Fund Annual Report & Accounts for the year to 31 March 2013

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CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2013

Administering Authority	London Borough of Hillingdon
Pension Fund Committee Members as at 31 March 2013	Cllr Philip Corthorne (Chairman) Cllr Richard Lewis (Vice-Chairman) Cllr Paul Harmsworth Cllr Raymond Graham Cllr David Simmonds Cllr Janet Duncan John Holroyd (Pensioner/Deferred Rep) Andrew Scott (Active Member Rep)
Corporate Director of Finance	Paul Whaymand
Investment Consultant	Hymans Robertson LLP
Investment Adviser	Scott Jamieson
Fund Managers	Adam Street Partners Fauchier Partners (Divested Dec 2011) JP Morgan Asset Management Kempen International Investments (Appointed Jan 2013) LGT Capital Partners M&G Investments (Direct Investment) Macquarie Infrastructure Investments Marathon Global Investors (Divested October 2012) Newton Asset Management (Appointed Jan 2013) Ruffer LLP State Street Global Advisors UBS Global Asset Management
Actuary	Hymans Robertson LLP
Legal Services	Raj Alagh, Borough Solicitor LBH
Auditor	Deloitte LLP
Bankers	HSBC Bank Plc Natwest Bank Plc (Capita Employee Benefits)
Custodian for Fund Assets:	Northern Trust Company
AVC Provider	Prudential Assurance Company

Officer Support	Nancy le Roux, Senior Service Manager – Corporate Finance Ken Chisholm, Corporate Pensions Manager Tunde Adekoya, Pension Fund Accountant Harry Lawson, Corporate Accounting Manager
Administration	Capita Employee Benefits

2. Management Report

(a) Introduction

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

The Pensions Accounting team oversee the accounting and management information requirements of the fund. The day to day management of the investment of the funds is undertaken by independent fund managers. The Pensions Administration of the scheme is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

During the year Pensions Committee meet formally on four occasions and the Investment sub-committee also meet four times per year between main committee meetings and on an ad hoc basis as required. Separate meetings are held with Fund Managers to review performance.

b) Membership

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

Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. On 1 February 2013, 530 employees were brought in to the scheme in line with the Governments Workplace Auto Enrolment legislation. Of those, around 50% have remained in the scheme. Within Hillingdon Council, of the 6,902 employees who were eligible to join the scheme as at 31 March 2013, 5,225 were scheme members, which equates to 76% of the workforce.

Over the last few years total membership of the fund has grown steadily as shown in the table below.

5 Year Analysis of Fund Membership

Membership type	2008/09	2009/10	2010/11	2011/12	2012/13	5 year movement
Active	6,249	6,235	6,039	5,948	6,213	-0.58%
Pensioner	4,832	4,991	5,187	5,378	5,498	+13.78%
Deferred	4,541	4,772	4,890	5,492	5,883	+29.55%
Total Membership	**15,622**	**15,998**	**16,116**	**16,818**	**17,594**	**+12.62%**

Early Retirement

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

Type of Retirement	2008/09	2009/10	2010/11	2011/12	2012/13
Redundancy or Efficiency	32	21	26	65	23
Ill Health	20	15	13	12	6
Total	**52**	**36**	**39**	**77**	**29**

The age and membership profile as at 31 March 2013 is shown below-

Age Band	Active	Deferred	Pensioner/Dependent	Total
0 -5	0	0	0	0
6 – 10	0	0	2	2
11 – 15	0	0	18	18
16 – 20	48	41	23	112
21 – 25	246	209	3	458
26 – 30	391	421	0	812
31 – 35	499	492	0	991
36 – 40	695	645	4	1,344
41 – 45	1,042	945	20	2,007
46 – 50	1,222	1,148	48	2,418
51 – 55	983	1,082	115	2,180
56 – 60	726	755	367	1,848
61 – 65	313	135	1,299	1,747
66 – 70	45	8	1,109	1,162
71 – 75	3	2	927	932
76 – 80	0	0	736	736
81 – 85	0	0	479	479
86 – 90	0	0	247	247
91 – 95	0	0	88	88
96 – 100	0	0	13	13
Over 100	0	0	0	0
Total	**6,213**	**5,883**	**5,498**	**17,594**

(c) Key Performance Data

All LGPS funds measure performance against key industry performance indicators. Targets are set at the start of each year and reported quarterly to Pensions Committee. The table below details Hillingdon's performance against target for the year to 31 March 2013 compared to the 2011/12 year:

Performance Indicator	Hillingdon Target	2011/12 Performance %	2012/13 Performance %
Letter detailing transfer in quote	10 days	76.20	98.81
Letter detailing transfer out quote	10 days	46.28	99.31
Process refund & issue payment	5 days	67.57	97.22
Letter notifying estimate of benefit	10 days	88.92	97.85

Letter notifying actual benefit	5 days	79.51	95.21
Letter acknowledging death	5 days	98.17	99.48
Letter notifying amount of dependant's benefit	5 days	72.56	100
Calculate & notify deferred benefits	10 days	54.04	95.65

Performance has improved in all reportable cases over the last year. Hillingdon monitors the performance of CEB on a daily basis, and we aim to continue to improve the services offered to all scheme members.

(d) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2012/13 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	270,085.55	26.30
Belmore Primary School	124,831.13	24.50
Bishop Ramsey School	157,252.52	20.70
Bishopshalt School	233,660.58	28.50
Coteford Junior School	57,979.04	32.20
Cranford Park School	148,837.65	29.90
Douay Martyrs School	193,393.54	32.60
Eden Academy	356,907.38	30.00
Genuine Dining Ltd	54,037.93	21.00
Greenwich Leisure	85,261.82	16.80
Guru Nanak Academy	215,272.02	22.90
Harefield Academy	139,259.97	14.00
Haydon School	272,977.54	16.40
Heathrow Travel care	11,051.82	19.10
Hewens Academy	145,442.56	19.90
Hillingdon & Ealing Citizens Advice	37,609.64	16.60
LBDS Frays Academy	140,146.64	29.10
Look Ahead Housing Care	26,414.50	23.00
London Housing Consortium	109,862.52	20.10
Mitie Cleaning	30,998.20	21.00
Mitie Facilities Management	75,933.12	21.00
Northwood School	74,144.91	25.10
Queensmead School	114,258.40	20.00
Stag Security Services	1,230.24	24.00
Stockley Academy	164,137.10	18.50
Swakeleys Academy	139,125.94	17.80
Uxbridge College	702,085.26	16.80
Uxbridge High School	165,765.45	19.80

Vyners Academy	165,347.02	27.20
Willows Academy	52,045.06	21.60
Wood End Park School	143,274.12	28.90
Total	**4,608,629.17**	

(e) Impact of Contributions received and Benefits paid on cash flow

Total contributions and transfers-in received during the year were £32.2m, an increase of £1.4m over 2011/12, however this was offset by the value of transfer payments into the scheme during the year which fell by £3.4m. However, benefits and leaver payments made were £33.4m, a reduction of £2.1m on last year. The overall deficit was just over £1.2m, a very slight reduction from £1.3m in 2011/12.

The impact of auto-enrolment was very slight for 2012/13 as it impacted only on contributions for February and March. However, going forward employer contributions are expected to be just over £1m higher due to auto-enrolment.

(f) Administrative expenses

Overall administration expenses reduced for the year by £163k, just over 21%. This can be almost entirely attributed to the reduction in costs through the outsourcing of the administration function to Capita.

3. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor the key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated monthly and reported to Pension Committee on an exception basis. A brief narrative description of each risk is set out below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement in Section G of this report.

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

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

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the fund will help further mitigate these risks.

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Commentary for the year to 31 March 2013

General background

Equity markets performed strongly over the 12 months to 31 March 2013. This positive tone contrasted with mixed developments on the economic front, continuing difficulties associated with the financial crisis and debt 'overhangs' in the US and Europe.

Optimism over global economic growth prospects deteriorated progressively over the period, with mixed data in the UK and much of Europe falling into recession. Although the US exhibited consistent growth, policy makers remained cautious. Initiatives taken by central banks in the US, Europe and Japan differed in nature and size. In the US, activity was principally focused on stimulating economic growth. In other regions, it was designed to counter deflationary forces.

In the UK, the Governor of the Bank of England forecast a period of persistently low economic growth, citing problems in the Eurozone as a contributory factor. The Chancellor of the Exchequer presented his March 2013 budget against a background of downward revisions to economic growth forecasts and a cut in the country's credit rating. With rising debt, austerity remains the order of the day. The budget incorporated further unpopular cuts in public spending.

Key events over the 12 month period were:

Global Economy

- Policy makers in the UK, Eurozone, US, Japan and China announced asset purchase programmes to stimulate economies;
- Short-term interest rates were unchanged in US and UK, and reduced (by 0.25%) in the Eurozone;
- The Eurozone reported its third consecutive quarter of economic contraction;
- Economic growth in major Asian markets was impaired by weak external demand;
- France and Italy pressed the case for economic growth rather than austerity as policy priority;
- The UK's credit rating was cut by Moody's, on concerns over continuing economic weakness.

Equities

- Defensive stocks outperformed cyclicals over the period;
- The strongest sectors, relative to the 'All World' Index, were Health Care (+13.1%) and Consumer Services (+8.8%); the weakest sectors were Basic Materials (-15.7%) and Technology (-11.4%).

Bonds

- The European Central Bank announced a bond purchase programme to assist countries struggling to raise funds;
- Corporate bonds outperformed government issues by a comfortable margin.

John Hastings May 2013, for and on behalf of Hymans Robertson LLP

INVESTMENT POLICY

Throughout the year the Investment Sub Committee keep the Fund's asset allocation and investment strategy under review and recommend changes as necessary to Pensions Committee for approval.

Funding and investment strategies

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

Investment strategy

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

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					3.41	
JP Morgan			11.29			
Kempen		7.06				
LGT					2.56	
M&G						2.42
Macquarie						1.21
Newton	0.35	3.09				
Ruffer	2.67	8.86	6.35			0.71
State Street	9.00	7.35	4.68			
UBS Equities	20.01			0.01		
UBS Property				6.99		
Total	**32.03**	**26.36**	**22.32**	**7.00**	**5.97**	**4.34**

(A cash holding of 1.98% is not included in the above table.)

During 2012/13 several changes were implemented:

- As a result of the retirement by Marathon Asset Management of one of its founders, Jeremy Hoskins, Committee decided his absence would affect the overall dynamics of the fund services provided by Marathon and took the decision to divest from Marathon and appoint two new fund managers to manage funds divested from Marathon. The managers appointed were Newton Asset Management and Kempen International Investments. The two managers are similar in style to Marathon and are seen as a continuation of that particular fund management style. Marathon remains part of the fund's preferred fund managers' pool and will be monitored for future placement of investments.

- Following a review of the Fund's asset allocation and style risk profile, Committee decided to address Absolute Return portfolio concentration risks by reducing assets managed by Ruffer LLP from 19% of funds' assets to 12% and to appoint a second Absolute Return manager. Following a selection process Barings Asset Management was appointed. Barings were allocated 9% of the funds' asset derived from 7% withdrawn from Ruffer and a further 2% from UBS Asset Management's UK Equities portfolio. Barings appointment took effect from April 2013.

- A further £15m was committed to further investments with M&G as part of its' Debt Opportunities Fund offering to exploit the lack of credit in the financial market and take advantage of the generous IRR offered by the new offering from M&G. With this investment, Committee made the commitment to further enhance the diversified nature of the fund's assets.

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

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

UBS Global Asset Management - (UK equities) - UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2013 was conducive to their investment style and contributed to their outperforming the benchmark in both one year and since inception categories.

UBS Global Asset Management - Property - The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a fund of funds arrangement with the assets managed in several pooled property funds managed by several managers, but with UBS responsible for selecting the pooled funds. Currently, there is an ongoing major restructure of the UBS Triton part of the fund's property portfolio due to be completed by the fund manager by the end of July 2013.

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

Ruffer LLP - The Absolute Return manager, Ruffer have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year and since inception. However, subsequent performance may suffer a drag due to reduction of assets under management, as explained in the Investment Strategy review above.

Macquarie Investment - The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year. The European Fund MEI4 commenced drawdown during the financial year and had gathered pace tremendously resulting in the overall drawdown investments by Macquarie increasing by 1.01% (1.21%) of Fund's assets in 12/13 compared to (0.20%) in 11/12.

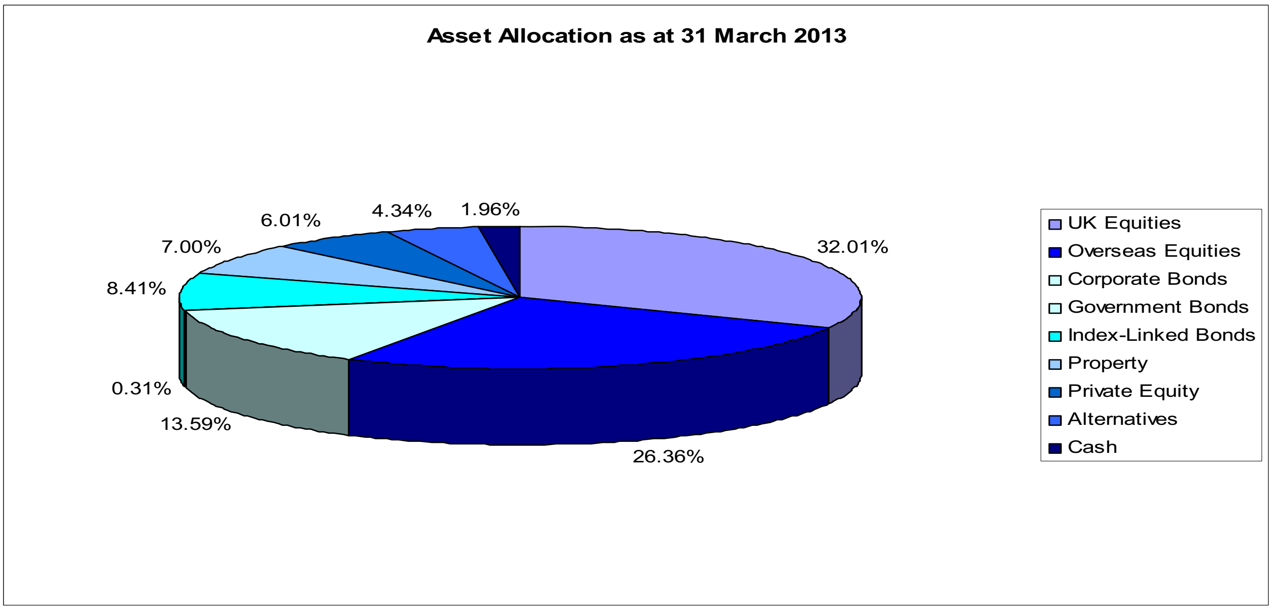
M&G Investments - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. During the financial year under review, commitments to M&G funds were increased with an investment of a further £15 million in the Debt Opportunities Fund. This fund specifically targets distressed companies in which M&G already has vested interest and offer rescue packages at discounted rates.

JP Morgan Asset Management - JP Morgan mandate has been in place for just over 16 months and has performed positively and have taken advantage of the general need for consistent income stream, without the volatility of equities with returns slightly outperforming prescribed benchmark over one year by 0.40% and 1.98% since inception.

Other Fund Managers – Marathon Global Asset Management and Fauchier Partners no longer have assets under management, but are still on the fund's preferred investment managers' list. Kempen International Investments and Newton Asset Management have recently been appointed (Jan 2013), hence no performance data are available to report for both managers.

Fund Value and Asset allocation as at 31 March 2013

At 31 March 2013 the total value of the pension fund investment assets was £679,552k. The following diagram identifies the allocation, by asset class, as at 31 March 2013.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of both market gains and revised asset allocation during the year. Consequently, the fund now has increased exposure to UK and overseas equities, corporate bonds and alternatives.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2013.

INVESTMENT MANAGER	AS AT 31 MARCH 2013		AS AT 31 MARCH 2012	
	£'000	%	£'000	%
Adams Street Partners	23,366	3.44	20,791	3.40
JP Morgan	74,981	11.03	72,012	11.78
Kempen	46,884	6.90	0	0
LGT	18,215	2.68	17,011	2.78
M&G	16,351	2.41	11,149	1.82
Macquarie	8,536	1.26	1,205	0.20
Marathon	0	0	58,670	9.59
Newton Asset Management	22,819	3.36	0	0
Ruffer	131,368	19.33	118,378	19.36
State Street Global Advisors	135,887	20.00	132,251	21.63
UBS	135,737	19.97	112,777	18.44
UBS Property	48,574	7.14	48,628	7.95
Other*	16,834	2.48	18,679	3.05
Total	**679,552**	**100.00**	**611,551**	**100.00**

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

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), Schedule 1, set out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2013 were:

Top 5 Holdings	Market Value as at 31 March 2013 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	74,981	11.03%
SSgA Equity Index	59,893	8.81%
Kempen Int'l Funds	46,884	6.90%
BNY Mellon Newton Global Higher Income Fund	22,819	3.36%
BP Ord USD0.25	16,376	2.41%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2013 £000s	Percentage of Fund Value
BP	16,376	2.41%
Royal Dutch Shell	11,274	1.66%
Vodafone Group	9,943	1.46%
GlaxoSmithKline	9,338	1.37%
Lloyds Banking Group	7,716	1.13%
Rio Tinto	6,093	0.90%
Barclays	5,754	0.85%
BAE Systems	4,846	0.71%
HSBC	4,489	0.66%
3I Group	4,398	0.65%

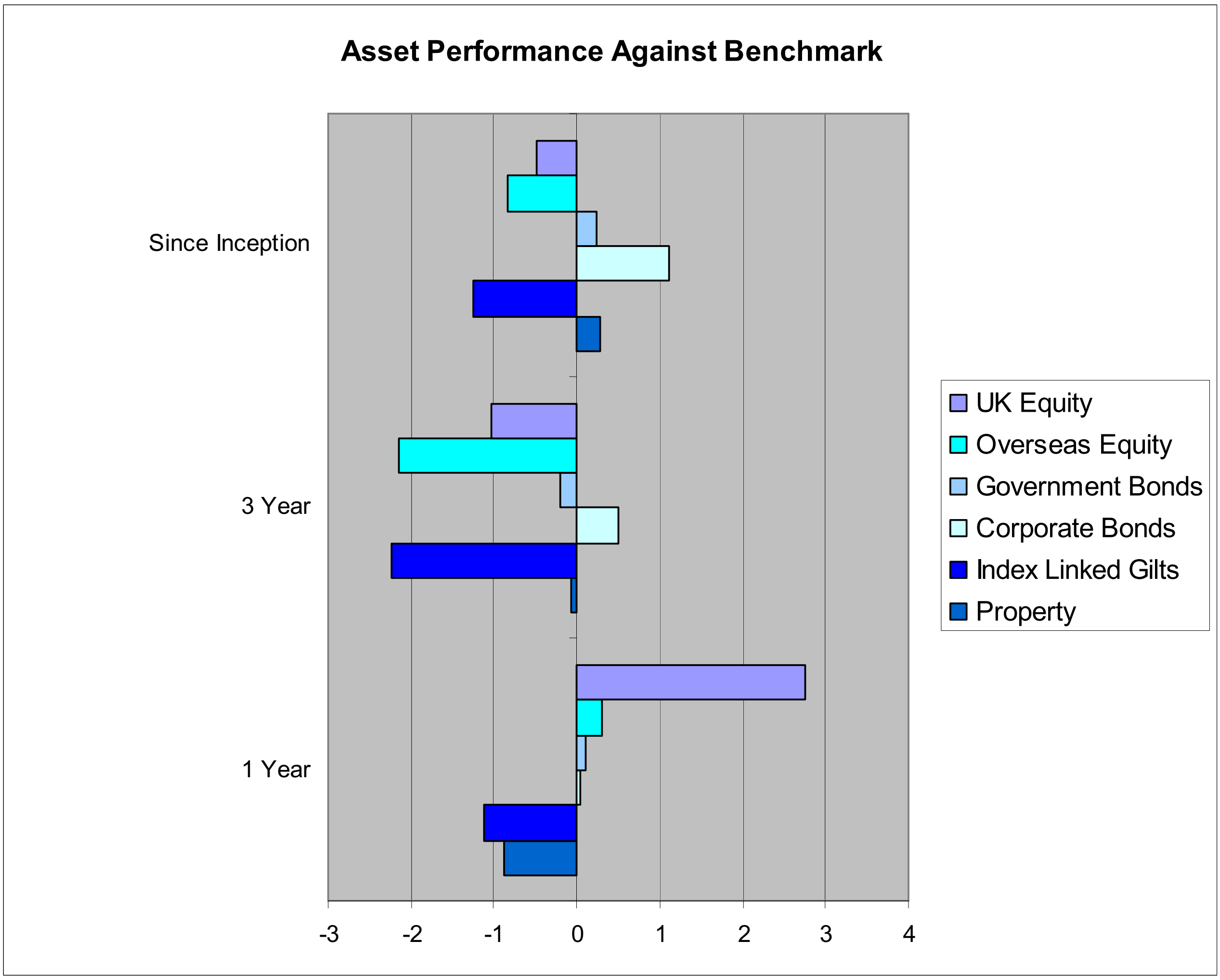
Investment Performance

Markets remained favourable to most of the fund's investments and managers through 2012/13 which helped the fund produce an annual return of 12.33%. All fund managers, produced positive returns over the year, with the exception of UBS Property and SSgA Drawdown. Relative performance between the underlying managers was positive with all outperforming their benchmarks, again with the exception of UBS Property & SSgA Drawdown who underperformed relative to their benchmarks. The total fund outperformed the plan benchmark by 1.68% but underperformed the WM average by -1.47%.

The following table details performance by managers over one and three years and since inception. M&G, Ruffer and JP Morgan were appointed less that three years ago and Newton and Kempen are not included as they were appointed in the last two months of the year under review.

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
JP Morgan	4.12	3.71	0.41	-	-	-	5.87	3.82	2.05
M&G	5.78	4.72	1.06	-	-	-	4.90	4.83	0.07
Ruffer	11.03	0.82	10.21	-	-	-	7.70	0.82	6.88
SSgA	15.82	15.92	(0.10)	8.74	8.68	0.06	14.61	14.55	0.06
SSgA Drawdown	4.39	6.05	(1.65)	3.90	4.50	(0.61)	5.04	5.46	(0.42)
UBS	20.06	16.77	3.29	9.13	8.78	0.35	10.16	9.10	1.06
UBS (Property)	(0.09)	1.38	(1.46)	4.56	5.35	(0.78)	(0.94)	(0.22)	(0.72)
Total Portfolio	**12.33**	**10.64**	**1.68**	**7.09**	**5.89**	**1.20**	**6.78**	**6.75**	**0.03**

Over the financial year under review, the fund grew by 12.33% equating to 169 basis points ahead of the benchmark figure of 10.64%. For the 3 year period to 31 March 2013, the fund has outperformed with a relative return of 1.20% pa. However, since inception in September 1995 the returns come to 6.78% just 3 basis points better than the benchmark.



Performance	**1 Year**			**3 Year**			**Since Inception**		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	19.53	16.77	2.76	7.74	8.78	-1.04	6.85	7.33	-0.48
Overseas Equity	17.08	16.78	0.30	4.82	6.94	-2.14	5.83	6.66	-0.83
Government Bonds	5.36	5.25	0.11	8.01	8.21	-0.20	7.07	6.84	0.23
Corporate Bonds	12.03	11.99	0.04	9.21	8.70	0.51	11.31	10.20	1.11
Index Linked Gilts	9.09	10.21	-1.12	9.25	11.48	-2.23	10.94	12.20	-1.26
Property	0.51	1.38	-0.87	5.28	5.35	-0.07	7.70	7.42	0.28
Total Portfolio	**12.33**	**10.64**	**1.68**	**7.09**	**5.89**	**1.20**	**6.78**	**6.75**	**0.03**

Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements. The contract for Custody was re-tendered during 2011/12 and Northern Trust was re-appointed from 1 April 2012.

Responsible Investing

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

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

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

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

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

PART C – SCHEME ADMINISTRATION

SCHEME ADMINISTRATION REPORT

Overview

The Administration of the Local Government Pension Scheme (LGPS) was outsourced to Capita Employee Benefits (CEB) (formally known as Capita HartsHead) from 1 April 2012. The London Borough of Hillingdon joined a pan-London Framework Agreement for LGPS Administration lead by the London Borough of Hammersmith and Fulham. Currently there are 4 London Boroughs signed up to the framework. They are London Borough of Hammersmith and Fulham, London Borough of Brent, London Borough of Hillingdon and The Royal Borough of Kensington and Chelsea. The Framework covers the full range of administration services for both current, former employees and pensioners of the London Borough of Hillingdon Fund including:

- Administer the Local Government Pension Scheme on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions.
- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme.
- Exploit information technology to improve service standards and efficiency.

The performance of CEB is reported quarterly to Pensions Committee and monitored on a daily basis by pension's officers of London Borough of Hillingdon.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits and redundancy and compensation benefits for non-teaching employees.

The pensions administration service at CEB can be contacted by telephoning 01737 366062 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

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

Review of 2012/13

The number of active scheme members that the Service deals with increased in the last year, as a result of Auto Enrolment. The London Borough of Hillingdon enrolled all non-scheme members in to the pension scheme from 1st February 2013.

Latest available Government SF3 statistics (for 2011/12) indicate the cost per member for all English Authorities was £27.82 compared with an outer London average of £50.01 per scheme member. The cost in 2012/13 for the London Borough of Hillingdon was £34.02, (a decrease of £10.69 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average “cost per member” when compared to all outer London Boroughs.

As a result of the Lord Hutton report to Government on the future of all Public Service Pensions published on 10 March 2011, containing 27 recommendations for change to public service pensions, and endorsed by the government. Amendments to the structure of the LGPS should be completed by spring 2013, and a new scheme in operation from 1 April 2014. A revised scheme structure is currently being consulted upon.

Dispute Resolution

Because pensions are such a complicated issue at times it’s inevitable that occasionally disagreements between members and scheme administrators arise. When disagreements do occur we do all we can to try to resolve them informally and reach an agreement. But this isn’t always possible and the scheme provides a formal way for disagreements to be resolved and the set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme is the Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Director of Operations at CEB at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to the Corporate Pensions Manager at London Borough of Hillingdon or a Senior Officer of the Council, who has not previously been involved with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2012/13, there were 5 stage 1 appeals, 1 of which has progressed to stage 2. No cases have been referred to the Pensions Ombudsman.

PART D – ACTUARIAL REPORT

London Borough of Hillingdon ("the Fund") Actuarial Statement for 2012/13

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Hillingdon Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2013 £m	31 Mar 2012 £m
Present value of Promised Retirement Benefits	1,066	889

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £503m in respect of employee members, £212m in respect of deferred pensioners and £351m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £128m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2013 % p.a.	31 Mar 2012 % p.a.
Inflation/Pensions Increase Rate	2.8%	2.5%
Salary Increase Rate*	5.1%	4.8%
Discount Rate	4.5%	4.8%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2010. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

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

*Future pensioners are assumed to be currently aged 45

This assumption is the same as at 31 March 2012.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Catherine McFadyen FFA, May 2013, for and on behalf of Hymans Robertson LLP

Pension Fund Accounts and Net Asset Statement

	Notes	Year Ended 31 March 2013 £000's	Year Ended 31 March 2012 £000's
Contributions	*4*	31,871	30,520
Transfers In	*5*	284	3,703
Less: Benefits	*6*	(31,424)	(32,007)
Less: Leavers	*7*	(1,957)	(3,509)
Less: Administrative expenses	*8*	(589)	(752)
Net additions from dealings with members		**(1,815)**	**(2,045)**
Investment income	*9*	14,054	9,936
Changes in market value of investments	*10*	61,904	14,213
Taxes on income		(19)	(48)
Investment management expenses	*12*	(3,922)	(3,539)
Net return on investments		**72,017**	**20,562**
Net Increase in the fund during the year		**70,202**	**18,517**
Net Assets at start of year		**612,850**	**594,333**
Net Assets at end of year		**683,052**	**612,850**

		31 March 2013 £000's	31 March 2012 £000's
Investment Assets	*10*	682,984	612,095
Investment Liabilities	*11*	(3,432)	(544)
Current Assets	*13*	4,358	1,956
Current Liabilities	*14*	(858)	(657)
TOTAL NET ASSETS		**683,052**	**612,850**

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Annual Report on pages 21-22 and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
26 September 2013

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

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

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

b) Membership: Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. But since 01 February 2013 all new employees of the Council are automatically enrolled, with option to opt out of the scheme within three months of auto enrolment.

FUND OPERATION AND MEMBERSHIP

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

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

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

Admitted Bodies:

Genuine Dining Ltd
Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Look Ahead Housing & Care
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

Barnhill Community School
Belmore Primary School
Bishop Ramsey School
Bishopshalt School
Coteford Junior School
Cranford Park School
Douay Martyrs School
Eden Academy
Guru Nanak Academy
Harefield Academy
Haydon School
Hewens Academy
LBDS Frays Academy
London Housing Consortium
Northwood School
Queensmead School
Stockley Academy
Swakeleys Academy
Willows Academy
Uxbridge College
Uxbridge High School
Vyners Academy
Wood End Park School

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2013 there were 6,213 active employees contributing to the fund, with 5,498 in receipt of benefit and 5,883 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2013	31 March 2012
Number of employers with active members	32	23
Number of employees in scheme		
London Borough of Hillingdon	5,225	4,987
Other employers	988	961
Total	**6,213**	**5,948**
Number of Pensioners		
London Borough of Hillingdon	5,047	4,969
Other employers	451	409
Total	**5,498**	**5,378**
Deferred pensioners		
London Borough of Hillingdon	4,671	4,363
Other employers	1,212	1,129
Total	**5,883**	**5,492**

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

The fund is overseen by London Borough of Hillingdon Pension Fund Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2012/13:

Pensions Committee

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

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority accounting in the United Kingdom 2012/13 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

3. ACCOUNTING POLICIES

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

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

3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period. Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

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

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

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

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

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

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

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

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

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

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2013 was £39,617k (£37,007k at 31 March 2012).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

item	Uncertainties	Effect if actual results differ from assumptions
Private equity	[illegible] value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £39,617k. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2013 £000's	31 March 2012 £000's
Employers		
Normal	17,050	17,566
Deficit funding	6,677	4,954
Members		
Normal	7,920	7,877
Additional contributions	224	123
	31,871	**30,520**

Deficit Funding:- At the last actuarial valuation as at 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

Schedule of contributions by body	31 March 2013 £000's	31 March 2012 £000's
Employers		
LB Hillingdon	19,118	19,568
Scheduled Bodies	4,286	2,580
Admitted Bodies	323	372
Members		
LB Hillingdon	6,639	6,905
Scheduled Bodies	1,400	971
Admitted Bodies	105	124
	31,871	**30,520**

5. TRANSFERS IN

	31 March 2013 £000's	31 March 2012 £000's
Individual transfers in from other schemes	284	3,703

6. BENEFITS

	31 March 2013 £000's	31 March 2012 £000's
Pensions	26,818	24,874
Commutations and lump sum retirement	4,496	6,440
Lump sum death benefits	110	693
	31,424	**32,007**

	31 March 2013 £000's	31 March 2012 £000's
Schedule of benefits by employer		
LB Hillingdon	30,950	31,525
Scheduled Bodies	380	386
Admitted Bodies	94	96
	31,424	**32,007**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2013 £000's	31 March 2012 £000's
Refunds of contributions	0	4
State scheme premiums	0	1
Individual transfers out to other schemes	1,957	3,504
	1,957	**3,509**

8. ADMINISTRATIVE EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration and processing	545	683
Audit fee	21	37
Actuarial fee	23	32
	589	**752**

9. INVESTMENT INCOME

	31 March 2013 £000's	31 March 2012 £000's
Dividends from equities	6,662	6,132
Income from index-linked securities	396	737
Income from pooled investment vehicles	1,988	1,648
Interest on cash deposits	118	83
Other (for example from stock lending or underwriting)	4,890	1,336
	14,054	**9,936**

10. INVESTMENT ASSETS

	Value at 1 April 2012 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value at 31 March 2013 £000's
Equities	167,191	251,835	(228,265)	2,793	193,554
Government Bonds	0	130	(127)	(3)	0
Index-linked securities	39,594	8,438	(8,701)	2,843	42,174
Pooled investment vehicles	363,215	164,897	(169,778)	56,815	415,149
	570,000	**425,300**	**(406,871)**	**62,448**	**650,877**
Other investment balances	4,217			(685)	3,048
Fund managers' cash	37,878			141	29,059
Total Investment Assets	**612,095**			**61,904**	**682,984**

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

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £357k (£337k in 2011/12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value at 31 March 2013 £000's	Market Value at 31 March 2012 £000's
Adams Street Partners	23,366	20,791
JP Morgan Asset Management	74,981	72,012
Kempen International Investments	46,884	0
LGT Capital Partners	18,215	17,011
M&G Investments	16,351	11,149
Macquarie Infrastructure	8,536	1,205
Marathon Global Asset management	0	58,670
Newton Asset Management	22,819	0
Ruffer LLP	131,368	118,378
State Street Global Advisors	142,038	132,251
UBS Global Asset Management (Equities	135,737	112,777
UBS Global Asset Management (Property	48,574	48,628
Other*	10,683	18,679
Total	**679,552**	**611,551**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency		Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust	GBP - JPY	350	350	0	27/03/2013	02/04/2013
Northern Trust	GBP - USD	900	896	4	27/03/2013	02/04/2013
Northern Trust	GBP - JPY	370	370	0	28/03/2013	02/04/2013
Northern Trust	GBP - JPY	13,496	13,559	(63)	11/01/2013	15/04/2013
Northern Trust	GBP - JPY	4,616	4,614	2	26/03/2013	15/04/2013
Northern Trust	GBP - EUR	26,909	26,347	562	06/02/2013	14/05/2013
Northern Trust	GBP - AUD	2,547	2,668	(121)	06/02/2013	14/05/2013
Northern Trust	EUR - GBP	2,616	2,671	(55)	06/03/2013	14/05/2013
Northern Trust	GBP - USD	17,542	17,997	(455)	13/02/2013	15/05/2013
Northern Trust	GBP - EUR	1,342	1,297	45	11/03/2013	14/06/2013
Total unrealised gains		**70,688**	**70,769**	**(81)**		

As at 31 March 2013 ten forward foreign exchange contracts were in place for £70,769k with unrealised loss of £81k respectively. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class

	31 March 2013 £000's	31 March 2012 £000's
Equities		
UK quoted	147,385	126,322
Overseas quoted	46,169	40,869
	193,554	**167,191**
Index Linked Securities		
UK Public Sector quoted	21,428	13,933
Overseas Public Sector Quoted	20,746	25,661
	42,174	**39,594**
Pooled Investment Vehicles		
UK Managed funds - other	260,800	107,174
UK Unit Trusts - property	46,465	48,076
Overseas Unit Trusts - other	68,267	170,893
Private Equity	39,617	37,072
	415,149	**363,215**
Other Investment balances		
Forward foreign exchange unrealised gain	0	1,688
Amount due from brokers	1,615	1,081
Outstanding dividend entitlements and recoverable withholding tax	1,433	1,448
	3,048	**4,217**
Cash deposits		
Sterling	29,059	37,878
	29,059	**37,878**
	682,984	**612,095**

Note: There are no investments that are more than 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

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

According to provisional information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2013 was £5,298k and as at 31 March 2012 £5,400k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2013 £000's	31 March 2012 £000's
Amount outstanding to brokers	3,351	544
Forward foreign exchange unrealised loss	81	0
	3,432	**544**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2013 £000's	31 March 2012 £000's
Administration, management and custody	3,796	3,412
Performance measurement services	12	4
Other advisory fees	114	123
	3,922	**3,539**

13. CURRENT ASSETS

	31 March 2013 £000's	31 March 2012 £000's
Employers' contributions due	157	151
Employees' contributions due	56	56
Debtor: London Borough of Hillingdon	215	858
Debtor: Other Entities	4	3
Cash balances	3,926	888
	4,358	**1,956**

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

14. CURRENT LIABILITIES

	31 March 2013 £000's	31 March 2012 £000's
Creditor: Other Entities	849	656
Creditor: London Borough of Hillingdon	9	1
	858	**657**

NB: A total of £849k is due to bodies external to government, namely investment managers, with all remaining amounts due to local government bodies.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

	31 March 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fixed Interest Securities	42,174	39,594
Equities	193,554	167,191
Pooled Investments	321,011	276,863
Pooled Property Investments	46,465	48,076
Private Equity/Infrastructure	47,673	38,277
Derivative Contracts	0	1,687
Cash	29,059	37,878
Debtors	3,048	2,529
	682,984	612,095
Financial Liabilities		
Derivative Contracts	(81)	0
Creditors	(3,351)	(544)
	(3,432)	(544)
	679,552	**611,551**

b) Net Gains and Losses on Financial Instruments

	31 March 2013	31 March 2012
Financial Assets	**£000's**	**£000's**
Fair Value through profit and loss	61,985	30,589
Financial Liabilities		
Fair Value through profit and loss	(81)	(16,376)
	61,904	**14,213**

c) Fair Value of Financial Instruments and liabilities

	31 March 2013	31 March 2013	31 March 2012	31 March 2012
	£000's	**£000's**	**£000's**	**£000's**
Financial Assets	Fair Value	Carrying Value	Fair Value	Carrying Value
Fair Value through profit and loss	650,877	650,877	570,000	570,000
Loans and receivables	32,107	32,107	42,095	42,095
Total Financial assets	**682,984**	**682,984**	**612,095**	**612,095**
Financial Liabilities				
Fair Value through profit and loss	(3,432)	(3,432)	(544)	(544)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(3,432)**	**(3,432)**	(544)	(544)

The carrying amount for 31 March 2012 has been restated to show the fair value as stated in the financial statements.

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	552,791	46,465	63,741	662,997
Loans and Receivables	15,150	2,109	2,728	19,987
Total Financial Assets	**567,941**	**48,574**	**66,469**	**682,984**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(3,432)	0	0	(3,432)
Total Financial Liabilities	**(3,432)**	**0**	**0**	**(3,432)**
Net Financial Assets	**564,509**	**48,574**	**66,469**	**679,552**

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

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee have undertaken a review of the audited Financial statements for the Private Equity funds on behalf of the London Borough of Hillingdon Pension Fund by Adam Street Partners and LGT and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation process is rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

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

Risk and risk management

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

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

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

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

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

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	12.90%
Overseas quoted equities	11.80%
UK Public Sector quoted Index-Linked Securities	6.50%
Overseas Public Sector quoted Index-Linked Securities	6.50%
Corporate Bonds	4.00%
UK Managed funds - other	12.90%
UK Unit Trusts - property	2.30%
Overseas Unit Trusts - other	11.80%
Private Equity	4.70%

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

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

Asset type	Value as at 31 March 2013	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
Cash and Cash equivalents	29,059	0.00	29,059	29,059
Investment Assets				
UK quoted equities	147,385	12.90	166,398	128,372
Overseas quoted equities	46,169	11.80	51,617	40,721
UK Public Sector quoted Index-Linked Securities	21,428	6.50	22,821	20,035
Overseas Public Sector quoted Index-Linked Securities	20,746	6.50	22,094	19,938
UK Managed funds - Equities	100,447	12.90	113,405	87,489
UK Managed funds - Bonds	53,742	4.00	55,892	51,592
UK Unit Trusts - property	46,465	2.30	47,534	45,396
Overseas Unit Trusts - Equities	94,622	11.80	105,787	83,457
Overseas Unit Trusts - Bonds	72,200	4.00	75,088	69,312
Private Equity/Infrastructure	47,673	4.70	49,914	45,432
Net Derivative assets	(81)	0.00	(81)	(81)
Investment income due	1,433	0.00	1,433	1,433
Amounts receivable for sales	1,615	0.00	1,615	1,615
Amounts payable for purchases	(3,351)	0.00	(3,351)	(3,351)
Total Assets Available to pay benefits	**679,552**		**739,225**	**620,419**

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

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

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

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2013 £000's**	**31 March 2012 £000's**
Cash and cash equivalents	2,488	11,667
Cash	26,570	26,211
Fixed Interest Securities	168,118	149,625
Total	**197,176**	**187,503**

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

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

Asset Type	**Carrying amount as at 31 March 2013**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash Equivalents	2,488	25	(25)
Cash	26,570	266	(266)
Fixed Interest Securities	168,118	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

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

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

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2013 the Fund had a 100% Euro and 50% AU$ hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2013 and as at the previous period ending 31 March 2012.

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

Currency exposure by asset type

	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£000's	£000's
Overseas quoted Securities	46,169	40,869
Overseas Corporate Bonds	72,200	59,259
Overseas Index-linked Bonds	20,746	25,661
Overseas managed funds	94,622	110,429
Private Equity/Infrastructure	47,673	38,277
	281,410	**274,495**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 5.6%, based on the data provided by WM. A 5.6% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 5.6% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

	Asset value as at 31 March 2013	Change in the net assets available to pay benefits	
		+5.6%	-5.6%
	£000's	£000's	£000's
Overseas quoted Securities	46,169	48,754	43,584
Overseas Corporate Bonds	72,200	76,243	68,157
Overseas Index-linked Bonds	20,746	21,908	19,584
Overseas managed funds	94,622	99,921	89,323
Private Equity/Infrastructure	47,673	50,343	45,003
	281,410	**297,169**	**265,651**

Currency exposure by asset type

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

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

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

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

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

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAm rated Northern Trust Money Market Fund and SSgA Sterling Liquidity sub-Fund which offers the benefits of a diversified pool of underlying investments, ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2013 was £16,046k (31 March 2012: £29,500k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2013	Rating	Balances as at 31 March 2012
Money market funds		**£000**		**£000**
Northern Trust Global Sterling Fund A	AAAm	10,832	AAAm	17,494
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	2,488	AAAm	11,667
Bank current accounts				
Natwest (Capita)	A-	1,169	A-	0
HSBC Plc	AA-	1,557	AA-	388
Total		16,046		29,549

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.
The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments. At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2013 these assets totalled £599,200k, with a further £16,046k held in cash by fund managers.

18. ACTUARIAL POSITION

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

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

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

Price Inflation (CPI) - 3.30% Funding Basis Discount Rate - 6.10%

Pay Increases - 5.30%

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

Description	31 March 2013 % P.a.	31 March 2012 % P.a.
Inflation /Pensions Increase Rate	2.8%	2.5%
*Salary Increase Rate	5.1%	4.8%*
Discount Rate	4.5%	4.8%

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

An IAS 26 valuation was carried out for the fund as at 31 March 2013 by Hymans Robertson LLP with the following results:

Description	31 March 2013 £000	31 March 2012 £000
Present Value of Promised Retirement Benefits	1,066,000	889,000
Assets	683,052	612,850
Deficit	382,948	276,150

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

20. RELATED PARTY TRANSACTIONS

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

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (4) to the Pension Fund accounts. The Council ceased provision of administration services for the pension fund on 01 April 2013. These services have now been contracted out to Capita Hartshead Administration Services and Administration charges for 2012/13 was £535k compared to £683k in 2011/2012 paid to London Borough of Hillingdon for the fund administration services.
No senior officers or Pension committee member had any interest with any related parties to the pension fund.

Notes To Pension Fund Accounts

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

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

Key management personnel

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

	Accrued pension as at 31 March 2013	Accrued pension as at 31 March 2012
	£000's	£000's
Corporate Director of Finance	1,107	658
Senior Service Manager - Corporate Finance	622	442

21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2013, securities worth £34,022k were on loan by Northern Trust from our portfolio and collateral worth £46,480k was held within the pool including Hillingdon. In the same period, a net income of £46k was received.

22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

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

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2012/13.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2013 totalled £45,175k (31 March 2012: £53,800k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

25. CONTINGENT ASSETS

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

26. POST BALANCE SHEET EVENTS

Barings Asset Management was appointed in March 2013 to reduce style concentration risk in the Absolute return strategy of Ruffer LLP, with a mandate total of circa £63,000k (9% of fund's assets). The funding for the new mandate was derived from a reduction of Ruffer assets under management from 19% to 12% and the remaining 2% from UBS UK Equities Portfolio, thus increasing absolute return portfolio holdings to 21% and reducing UK Equities to 19%. Transition of assets and funding of the new mandate took place between 17-24 April 2013 and was overseen by Nomura International Plc.

Statement of Responsibilities for the Statement of Accounts

1. Council's Responsibilities

The Council is required:

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

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

- To approve the statement of accounts.

2. The Corporate Director of Finance

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

In preparing this statement of accounts, the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

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

- Kept proper accounting records which were up to date;

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

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2013 and its income and expenditure for the year then ended.

Paul Whaymand

Corporate Director of Finance

26 September 2013

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

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2013, and approved by the Chairman on 24 September 2013.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

24 September 2013

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 26 September 2013.

Signed on behalf of the London Borough of Hillingdon

John Morley

CHAIRMAN (AUDIT COMMITTEE)

26 September 2013

PART F – POLICY STATEMENTS

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

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in September 2012.The statement is available at:
http://www.hillingdon.gov.uk/media/pdf/t/t/2008_FSS.pdf
The FSS will be reviewed following the 2013 triennial valuation.

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2013, and has been added to the website. The latest SoIP can be accessed at:
http://www.hillingdon.gov.uk/media.jsp?mediaid=26876&filetype=pdf

Communication Policy Statement

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

Governance Policy Statement

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

PART G SCHEME BENEFITS

SCHEME BENEFITS

Introduction

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

Normal Retirement Age

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

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

Pension (Normal)

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

Pension (Ill Health)

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

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

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

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

Lump Sum Retirement Grant

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

Death Grant

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

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

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

Spouses, civil partners and nominated cohabiting partner's Pension

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

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

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

Children's Pension

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

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

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

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

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

Pension Increases

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

Contracting Out Status (with effect from 1 April 2002)

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

Additional Voluntary Contributions

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

REGULATIONS

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

PART H AUDITORS' REPORT

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

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

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2013under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Corporate Director of Finance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

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

Heather Bygrave
for and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
26 September 2013

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ACADEMIES – VALUATION APPROACH

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

SUMMARY

During late 2010, schools gained the right to apply to the Secretary of State for Education to convert to Academy status. Over the period 1 November 2010 to 31 March 2013, 19 schools in London Borough of Hillingdon have converted to Academy Status. The initial decision by the Pension Fund was to treat all Academies as individual employers and to assess their employer contribution rates on an individual basis.

Recently, there has been increasing 'guidance' from Central Government on how local authorities should treat Academies for valuation purposes with the inference that treatment should be similar to local authority controlled schools.

This report is being brought to Pensions Committee to enable a review of the approach taken by London Borough of Hillingdon.

RECOMMENDATION

That Committee discuss the treatment of valuations and setting of employer contribution rates for Academies and agree an approach.

Background

Under the Academy Act 2010, when a school converts to an Academy they become a separate scheduled body within the LGPS. The Academy's employer contribution rate is calculated by the Fund actuary on an individual basis and the calculation method assesses a contribution rate based on the school's assets and liabilities and share of the fund's deficit at the date of transfer and includes liability for all future Deferred and Pension entitlements. Hillingdon retains liability for all benefits of employees who left employment of the school, before it became an Academy as there is no easy mechanism to calculate these liabilities.

Hillingdon currently has 28 Academies and their individual employer pension contribution rates have been assessed between 16.4% and 32.6%. Additionally each Academy has been informed of its notional value of assets within the fund, and their share of the pension fund deficit. Currently the deficit recovery period for Academies has been set at 20 years.

For comparison, for London Borough of Hillingdon the employer's contribution rate is 20.1% and the deficit recovery period is 25 years.

With the introduction of the Academies Act 2010, the Department for Communities and Local Government introduced a top slice mechanism of local authority funding to reflect the transfer of responsibilities away from the local authority onto the new Academy schools. Additionally local authorities Dedicated Schools Grant (DSG) funding was reduced based on the converting schools delegated budget share plus a top slice of the retained DSG (known as the Local Authority Central Spend Equivalent Grant (LACSEG) adjustment). This funding mechanism was replaced with the Education Services Grant, with effect from 1 April 2013, which effectively provides funding to the local authority and Academy schools based on a set rate per pupil (although the local authority base rate is £116 per pupil whereas the Academy school base rate is £150 per pupil). This funding is provided to cover the costs of delivering an Education service and in the case of Academy schools procuring a range of services that the local authority would have provided to schools. As more schools convert to Academy status, the less funding will be retained by a local authority to deliver an Education service. For Hillingdon this has resulted in a significant shrinkage in the size and shape of the Education service over the last few years to reflect the number of schools that have converted to Academy status.

In December 2011, the Secretaries of State for the Department of Education (DfE) and Communities and Local Government (CLG) issued a joint letter of understanding on the treatment of Academies in the LGPS. This set out a recommendation that Administering Authorities of the LGPS Pensions Funds should favourably consider “pooling arrangements” for Academies. A “pooling arrangement” is an arrangement which is generally set up for groups of employers which have similar characteristics and experiences, to protect employers in the pool from fluctuations in contribution rates between valuation periods.

One of the concerns raised by Administrating Authorities and actuaries was that the joint letter did not define what type of pooling arrangements should be applied to Academies, and who would take on the responsibility for deficits should, an Academy fail. If a failed Academy is unable to meet its pension liabilities then ultimately these liabilities would fall to the Fund and be spread across all employers within the Fund.

Then on 2 July 2013, the Secretary of State for Education confirmed in a statement to Parliament that the DfE would provide a guarantee to meet the outstanding pension liabilities, should an Academy close. However, the guarantee has a number of conditions applied. These include:

- An annual ceiling limit, which will mean no further payments would be made when the ceiling has been exceeded.
- HM Treasury reserve the right to withdraw the guarantee due to spending considerations or policy developments.

Additionally, projected costs of the guarantee are no longer affordable within the DfE’s existing budget and projected costs are not approved by HM Treasury.

A key problem with this issue is that DfE are keen for Academies in the fund to be treated equitably with LEA schools, whereas the Fund needs to balance the interests of all employers in the fund, which would not necessarily result in similar contributions for two types of employer.

REVIEW OF VALUATION APPROACH

In light of the above communications and the change to funding Academies directly rather than through local authorities, it is timely for Pensions Committee to review their approach to Academy valuations. Also as the 2013 valuation is underway and change in approach needs to be incorporated into the revised Funding Strategy Statement. Further, two Academies have approached the Council to ask if it would be possible for Academies to be treated as part of the Council for valuation purposes, effectively 'pooled' with Hillingdon. (It should be noted that there have been no formal instructions received from CLG as to how Administering Authorities should move forward with Academies and the question of setting up pooling arrangements.)

The Pension Fund has three options in how Academies should be treated for valuation purposes:

1. To treat each as separate individual employers, fully responsible for their own liabilities, the current status quo;
2. To pool all Academies with London Borough of Hillingdon, effectively transferring part of the financial burden on to the Council; or
3. To create a separate pool for Academies.

If Committee agreed to one of the pooling options then all Academies would retain the right to remain wholly responsible for their own employer's contribution rate, rather than join any "pooling arrangement" agreed.

Option 1 - Retain current arrangements

When a school converts to an Academy the fund actuary calculates an employers' contribution rate for the school. The calculation method assesses a contribution rate based on the school's assets and liabilities and share of the fund's deficit at the date of transfer and includes liability for all future Deferred and Pension entitlements. Hillingdon retains liability for all benefits of employees who left employment of the school, before it became an Academy as there is no easy mechanism to calculate these liabilities.

Option 2 - Allow Academies to be "Pooled" with the London Borough of Hillingdon Pension Fund.

This option would allow Academies to elect to remain within the London Borough of Hillingdon Pension Fund, and continue to pay the same employers contribution rate as that of the Council. This option would provide the largest "pool" and therefore the most stable contribution rate for Academies. However, strict conditions would need to be placed on Academies that elected to join a pool, to ensure that the transfer of risk to the Council was managed as far as possible and that there was not an adverse impact on Hillingdon's Employer rate. These conditions are explained later in this report and, it should be noted, could cause Academies operational problems. In effect they would be giving up part of their financial autonomy as they would loose control over non-teaching staff wage policies. Regulations stipulate that Academies, as independent financial units, must have separate accounts and have their individual FRS17 liability calculated. As part of a Hillingdon pool this liability would effectively be a share of Hillingdon's liability and they would loose any right to control or manage any funding deficit. Contributions rates would be agreed by the Council and then applied to the Academy.

Option 3 - Set up a separate Academy "Pool" within the Pension Fund

Academies would be able to elect to participate in their own specific Academies Pool. This would require all Academies joining the pool to pay the same employers contribution rate, which would be would be based on the combined membership of all the Academies within the pool, as at the valuation date. The employer's contribution rate would be reassessed on the aggregate experience of the pool over the inter-valuation period, as is the case with the London Borough of Hillingdon Fund. We have received some "very approximate" employer's contribution rates from the Actuary, which produced an example "pooled rate" of 24.8%, based on Funding Assumptions as at 1 March 2012. Currently, there are 10 Academies with an employer's rate in excess of 24.8%.

While pooling can provide a less volatile employer contribution rate, which has benefits for the Academy when setting budgets, there is a risk that the Academy may pay a higher contribution as a result of subsidising other Academies in the pool, where their staff profile is younger than the rest of the pool, since funding rates are lower for younger scheme members. Membership of a pool would also result in loss of control for individual Academies; however, this may be considered an acceptable trade off in order to enjoy greater stabilisation of employer contributions.

Pooling Conditions

If any of the pooling options given above are agreed, all Academies, and any future converting schools, would have to sign a formal agreement, which would set out conditions for joining. These conditions would include but would not be restricted to: controls on the value of pay awards; controls on early retirement policies; and controls on any other discretion afforded to an employer which could affect the underlying employer contribution rate. Academies would also remain liable for early retirement costs.

In addition, a decision would also have to be made as to whether an Academy would have a "once only" option to join the pool, or retain the right to join at any time. The Council would have absolute discretion as to the conditions applying to membership of any pool.

FINANCIAL IMPLICATIONS

With employer contribution rates set at an individual Academy level, there is a broad range of rates currently in force. Two of the earliest Academies to convert enjoy a relatively low rate, but some of the more recent conversions are suffering considerably higher rates than Hillingdon's. Whilst the direct financial benefit from pooling with Hillingdon to the Academies could be significant, Hillingdon would need to put strong conditions in place to ensure that the Council did not effectively subsidies the Academies. From the Academies perspective, the loss of financial autonomy through pooling may be a price that is too high too pay.

LEGAL IMPLICATIONS

None at this stage.

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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 first quarter of 2013/14. 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 1st Quarter 2013/14

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
2008/2009	19	3	24	29
2009/2010	26	0	12	37
2010/2011	20	0	11	34
2011/2012	65	0	12	24
2012/2013	23	0	6	14
2013/2014	3	0	0	11

From 1st April 2008, employees retired on the grounds of permanent ill health, have been 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 £000s	Payroll Total £000s	Cost as a % of payroll
2011/12	£1,108	£102,450	1.08
2012/13	£983	£95,114	1.03
1st quarter 2013/14	£148	£95,114	0.16
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 2013. The figures for 2011/12 have been restated based on this amount following receipt of year end figures.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

PENSIONS ADMINISTRATION PERFORMANCE

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	

SUMMARY

This report summarises pension administration performance across key areas of work for the period 1 April 2013 to 30 June 2013. Performance targets were agreed as part of the service level agreement with Capita and conform to national targets set for England and Wales. Comparisons, by performance indicator for the year 2012/13 against 2011/12, are included in the Annual Report for the Fund and all show a significant improvement. However, significant issues in terms of data quality have come to light in the last few months which are explained in this report and Officers are working to find a resolution to these issues.

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 potential 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 fifth 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 1st quarter performance reports for 2013/14 indicated an overall average performance of 94.16**%** per month over the quarter. Actual performance for each month was:

- April - 98.38%
- May - 86.21**%**
- June - 93.75**%.**

Details of performance by area are shown in the table attached. The monthly performance on reportable areas has decreased over the last quarter compared to quarter 4 of 2012/13 which reported performance of 99.01%.

Significant problems have come to light over the last few months with the Capita contract which are of considerable concern, the most significant of these being the quality of their data and records which has caused a severe delay in the submission of the valuation data to the scheme actuary. Officers have worked closely with the actuary and CEB over the summer months to help clean up their data records to enable the submission of the valuation data. Whilst CEB have given assurance that they will pick up any additional costs incurred, the real concern remains as to how the data quality deteriorated to such an extent over a period of 12 months.

Plans are being developed with Corporate Procurement both to raise these issues at the highest level within CEB and to try to develop new working practices and access to data by Hillingdon officers to improve the situation going forward.

As the focus has been on the valuation submission, it is not surprising that the performance level has dipped, although that does not make the dip acceptable.

This has led to a delay in the production of the triennial valuation report, which will not now be presented to Pensions Committee until December 2013.

PENSIONS ADMINISTRATION PEFORMANCE
April to June 2013

WORK TASK	ACTION REQUIREMENTS	APRIL 2013		MAY 2013		JUNE 2013	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	23	100	13	100	19	94.74
Actual Retirement Benefits	3 Days	38	100	20	85	28	96.42
Letter notifying Dependants Benefits	5 Days	11	100	10	100	8	100
Process Refund	10 Days	45	100	17	100	41	100
Transfers in Actual	10 Days	n/a	n/a	n/a	n/a	n/a	n/a
Transfers in quote	10 Days	n/a	n/a	n/a	n/a	n/a	n/a
Answer General Letter	5 Days	158	98.10	109	100	116	95.69
Calc/Notify Deferred	15 Days	25	100	17	100	26	100
Estimate of Retirement Benefits	5 Days	29	100	17	88.24	61	88.52
Transfers Out Quote	5 Days	4	100	9	100	5	100
Transfers Out Actual	9 Days	4	100	n/a	n/a	n/a	n/a
New Entrants	20 Days	12	100	54	100	11	100
Added Years	10 Days	9	100	47	87.23	n/a	n/a

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Agenda Item 11

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