



HILLINGDON
LONDON



Pensions Committee

Date: WEDNESDAY, 23
SEPTEMBER 2009

Time: 5.30 PM

Venue: COMMITTEE ROOM 3 -
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

George Cooper, Chief Whip
Philip Corthorne, Cabinet Member for
Social Services, Health and Housing and
Chairman of the Pensions Committee
(Chairman)
Michael Cox, Leader of Liberal Democrat
Group
Paul Harmsworth, Chief Whip of Labour
Group
Holroyd
Manthorpe
Michael Markham, Deputy Chief Whip
(Vice-Chairman)
Thomas

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further information.**

Published: 14 September 2009

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INVESTOR IN PEOPLE

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Agenda

- 1 Apologies for Absence
- 2 Declarations of Interest in matters coming before this meeting
- 3 To receive the minutes of the meeting held on 24 June 2009
- 4 To confirm that the items of business marked Part 1 will be considered in Public and that the items marked Part 2 will be considered in private
- 5 Update from Valentine Furniss - oral
- 6 Review of Performance Measurement of the Fund
- 7 Report on the update to the Statement of Investment Principles
- 8 Pension Fund Annual Report & Accounts and Auditor's opinion
- 9 Retirement Performance Statistics
- 10 Cost of early Retirements
- 11 Election of Scheme Member Representatives
- 12 Corporate Governance & Socially Responsible Investment
- 13 Review of Investment Strategy
- 14 Investment Sub Committee

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Minutes

Pensions Committee

Wednesday, 24 June 2009

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



Published on: 30th June 2009

Come into effect on: Immediately

Members Present:

Councillors George Cooper
Philip Corthorne (Chairman)
Michael Cox
Paul Harmsworth
Michael Markham (Vice-Chairman)

Advisory Members / Co-optee Members present:

Nicholas Manthorpe
John Holroyd

Apologies:

John Thomas

Officers Present:

Nancy Leroux
Ken Chisholm
Jame Lake
Tunde Adekoya
Nav Johal

Also Present

John Hastings
Valentine Furniss

1. APOLOGIES FOR ABSENCE

John Thomas (UNISON)

2. DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING

Councillors' Corthorne, Cooper, Cox and Harmsworth declared an interest, as they are members of the Local Government Pension Scheme.

3. TO RECEIVE THE MINUTES OF THE MEETING HELD ON 31ST MARCH 2009

Agreed as a correct record.

4. TO RECEIVE THE MINUTES OF THE MEETING HELD ON 14TH MAY 2009

Agreed as a correct record.

5. TO CONFIRM THAT THE ITEMS OF BUSINESS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND THAT THE ITEMS MARKED PART 2 WILL BE CONSIDERED IN PRIVATE

It was agreed that item 9, 10 and 11 would be considered in private for the reason stated in the agenda. Members of the press and public were therefore excluded from the meeting during the consideration of these items.

6. REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

The Chairman introduced the report. This report reviewed the fund management performance for the London Borough of Hillingdon Pension Fund for the quarter to 31 March 2009. It was noted that there was further under performance against the benchmark.

Resolved

- 1. That the contents of the report be noted and performance in the fourth quarter of 2008/09 be noted.**

7. REPORT ON THE UPDATE TO THE STATEMENT OF INVESTMENT PRINCIPLES

The Chairman introduced the report. This report explained the revisions made to the Statement of Investment Principles (SoIP) following the launch six revised Myners' principles in October 2008. In addition it had been updated to reflect the termination of Capital International as a Fund Manager and the change to Goldman Sachs benchmark. Specific reference was made to Principle 1 – Effective Decision Making – and the Chairman explained that he would be meeting with the Leader to discuss setting up an Investment Sub Committee and following this would report back to the Committee.

Resolved –

- 1. That the Committee approved the revised Statement of Investment Principles.**
- 2. Officers will update Principle 9, and bring an update back to Committee to the 23rd September meeting.**

8. RETIREMENT PERFORMANCE STATISTICS

The Chairman introduced the report. This report summarised the number of early Retirements in the last year.

Resolved -

1. That the contents of the report were noted.

9. REVIEW OF INVESTMENT STRATEGY - PROGRESS UPDATE

This item was discussed as a Part 2 item without the press or public present since the information under discussion contains confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985.

This is because it will discuss '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).

10. CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT

This item was discussed as a Part 2 item without the press or public present since the information under discussion contains confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985.

This is because it will discuss '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. PROPOSAL ON MEMBER DEVELOPMENT FROM CLLR MARKHAM

This item was discussed as a Part 2 item without the press or public present since the information under discussion contains confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985.

This is because it will discuss '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. AOB

Members noted the Annual Report, which was going to Audit Committee for approval.

Members agreed to meeting with Alliance Bernstein and UBS on the afternoon before the next Committee meeting on 23 September 2009.

Meeting Closed: 6.32pm

Next Meeting: 23rd September 2009, 5.30pm

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers

James Lake, 01895 277562

Papers with this report

Northern Trust Executive Report
WM Local Authority Annual and Quarter Reports
Private Equity Listing
Private Equity reports from Adams Street and LGT

SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the quarter to 30 June 2009. The value of the fund as at 30 June 2009 was £447m.

RECOMMENDATIONS

1. That the content of this report be noted and the performance of the Fund Managers be discussed.
2. That committee note the inclusion of information on the Fund Managers absolute returns.

INFORMATION

1. The performance of the whole fund for the quarter to 30 June 2009 showed an outperformance of 0.19% with a positive return of 7.21%, compared to the benchmark 7.02%. The long term performance figures have improved slightly on the previous quarter with one, three and five year figures now underperforming by 1.59%, 2.23% and 1.92% compared to Q1's figures of 3.10%, 2.46% and 1.96%. The since inception figure also shows an improvement but still remains just below the benchmark by 0.27% compared to 0.29% for Q1.

Performance Attribution

	Q2 2009 %	1 Year %	3 Years %	5 Years %	Since Inception %
Capital International	(1.07)	0.35	(1.86)	(1.80)	(1.11)
Goldman Sachs	3.12	(3.35)	(1.44)	(1.02)	(0.97)
UBS	2.16	2.21	(1.96)	(1.84)	1.23
Alliance Bernstein	(1.72)	(7.68)	(3.83)	-	(3.62)
UBS Property	0.02	0.80	0.69	-	0.31
SSgA	0.00	-	-	-	(0.01)
Total Fund	0.19	(1.59)	(2.23)	(1.92)	(0.27)

(The performance of Capital International is included in the above table as it impacted on the total fund performance, however, as their agreement has now been terminated we have made no specific comments about their performance in this report.)

2. The positive performance this quarter was primarily derived from stock selection with UK and overseas equities contributing 0.50% and 2.74% respectively. However much of the overseas gains were lost as a result of the negative currency effect. Fixed income also provided a positive contribution as did holding cash within the property portfolio.
3. Alliance Bernstein underperformed over the quarter returning 7.69% compared to a 9.41% benchmark. Stock selection in both the UK and North America detracted from performance with overall negative relative returns in these areas of 1.99% and 2.90%. Underperformance was also seen in Emerging Markets and Asia but to a lesser extent. Two regions had a positive impact, namely Japan and Europe. Amongst holdings the largest detractors included Vodafone and Apollo. Additionally not holding HSBC also hurt performance. Positive influences were obtained with Barclays, Credit Suisse and Nissan.
4. GSAM returned 5.46% against their benchmark of 2.34%, outperforming by 3.12%. The cross-sector allocation strategy added to excess returns with mortgage credit and corporate credit performing well. Over the quarter, investor risk appetite returned to the market causing credit spreads to tighten and the demand for riskier assets to increase. The corporate security selection had a positive influence led by the choice of financial names. The finance sector benefited from a variety of government support measures which reduced the perceived risk in that sector increasing asset values.
5. UBS performance over the quarter showed a return of 13.04% compared to the benchmark of 10.88%, outperforming by 2.16%. The largest positive influences on performance resulted from overweight positions in Aviva, and Prudential. Positive performance was also enhanced by not holding the poor performing BG Group and BHP Billiton. In terms of negative influences, holdings which performed poorly included BP, HMV, Vodafone and GSK. An additional detractor from performance included HSBC which was not held in the fund but performed well.
6. UBS Property slightly outperformed their benchmark by 0.02% delivering negative returns of 3.28% against a negative benchmark of 3.30%. The high cash holding currently within the fund had a positive influence on performance adding 1.20% to returns. Within the property sub funds, the Lothbury fund outperformed against the benchmark by 0.30% albeit with negative returns.
7. The requirement for SSgA as a passive manager is to replicate their performance benchmark. This was achieved for Q2 with positive returns of 8.68%.

Absolute Returns

	Alliance Bernstein £k	GSAM £k	SSgA £k	UBS £k	UBS Property £k
Opening Balance	79,839	52,789	73,732	70,618	40,513
Appreciation	5,001	2,842	6,397	7,986	-1,683
Income Received	1,118	40	-	1,239	356
Investment Movement	-765	22	1,435	-1,435	-
Closing Balance	85,193	55,693	81,564	78,408	39,186
Active Management Contribution	(1,394)	1,647	-	1,542	10

8. The above table provides details on the impact of manager performance on absolute asset values. The outperformance of GSAM and UBS had a positive impact on the appreciation of holdings contributing £1,647k and £1,542k respectively. In contrast the underperformance of Alliance Bernstein reduced asset appreciation by £1,394k. The flat returns against benchmark by SSgA and UBS Property show little active contribution to absolute values.
9. At the end of June 2009, £24.83m has been invested in private equity, which equates to 5.56% of the fund against the target investment of 5%. However this level still remains within the limits of the over-commitment strategy. The strengthening of Sterling against Euro and US Dollar denominated funds contributed to a reduction in the value of the holding compared to the previous quarter. In terms of cash movements, over the quarter £478k was called by Adams Street and £491k by LGT. There were no distributions received during the quarter.
10. Private Equity, like many other asset classes has suffered from the global recessionary environment. Problems within the financial system have slowed deal flows and exit opportunities. In addition the performance figures being reported by partners show a decline, basing valuations on public market comparables. However as public market prices improve the figures being reported should improve going forward.
11. The latest information available from Adams Street shows negative returns throughout the funds in which we are invested. In addition to the economic environment a major contributing factor is the age of the fund, which is relatively early in its development, being only 54% drawn. However despite the difficulty in recent conditions Adams Street remain confident about the future. The diversified portfolio should help mitigate future losses and current conditions provide opportunities to buy good companies at lower prices. In addition the secondary market is robust, with liquidity forcing managers to sell high quality funds at distressed prices.
12. LGT have advised the fund has withstood the downturn well with the overall value of the fund being at cost and with 30% of invested capital returned. Small and medium size buyouts have been affected by economic conditions but LGT feel reduced valuations have reached a low point. The fund shows positive internal rates of return in some of the older funds, with CEB 1 and CGS currently returning 7%

and 1% respectively. LGT feel investments should pick up before distributions as they take advantage of attractive buying opportunities.

13. The securities lending activity for the quarter resulted in income of £99k. Offset against this was £35k of expenses leaving a net figure earned of £64k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 June 2009 the assets on loan totalled £49m representing approximately 12% of this total.
14. Following the positive results for Q2 there was an improvement in the Hillingdon returns compared to the WM Local Authority summary figures. For the second quarter to 30 June 2009 Hillingdon outperformed the average by 0.81% compared to underperformance of 1.15% Q1 2009. The one year performance figure has also improved and the deficit has reduced from 4.40% Q1 2009 to 2.28% for Q2.
15. The WM Local Authority League Table figures for 2008/2009 show the Hillingdon Pension Fund at position 86 out of the 100 participating funds. This is an improvement on 2007/2008 when Hillingdon were ranked at position 93. The current revision to the investment strategy is aimed to deliver stronger returns going forward.

M&G UK Companies Financing Fund - update

16. M&G are in conversation with around ten companies with the possibility of two or three of these leading to investments over the next few weeks. However, some of the target companies are now less concerned about funding and are becoming more aggressive on the pricing they will accept. This is driven by a number of factors including Quantitative Easing, which has driven in spreads of public corporate bonds and the continued inflows into retail and institutional bond funds.
17. M&G have stated they will not chase the market and fully expect bank lending to remain weak with many foreign banks pulling away from lending in the UK. M&G feel the non-bank lending sector will need to take up the slack but also that the non-bank lending sector in general remains unprepared to invest in the quantities required. Given this analysis, they believe that there will be many opportunities for the Fund over the rest of the year and in 2010.
18. M&G are continually meeting with investors and the fund remains on track to reach the £2bn funding target by the end of the year. Volatility in the equity and debt markets is masking the true underlying picture of lending. While this may delay some investments in the next few months, it is likely to lengthen the duration of the investment opportunity for the fund.

Market Commentary

19. Equity markets showed strong performance in April and May but fell back in part during June. The improvement for the quarter reflected the growing confidence in global economic conditions, attractive pricing and a higher risk appetite. Small cap stocks helped drive the UK market, however emerging markets and Asia (ex Japan) showed the best performance despite sterling strength reducing gains.

20. An improvement in liquidity helped corporate bonds increase in value and push yields down as money flowed into the asset class. The impact of quantitative easing depressed gilt yields which remained low. The overall effect was corporate bonds outperformed gilts by over 10%.

21. UK commercial property values continued to fall but the pace of the decline appeared to be slowing. Rising unemployment has meant there is weak demand for commercial property and rental levels have fallen as a result of this.

Risk Management

22. The loss of pension fund value due to the credit crisis and market conditions, causing a need for increased employer contributions has been included as a risk within the Council's Corporate Risk Management Report over the last year. The likelihood of this risk has been noted as significant whilst its impact is shown as medium.

23. Within the actions to address this risk it is noted that whilst the drop in the equity market is significant, the pension fund is a long term investment and so the ongoing effect should be containable. A review of the investment strategy is underway to address the overall risk profile of the fund's investments along with measures to increase returns.

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, 2009

Executive Report

3	International Overview
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7	Scheme & Manager Performance
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10	Combined Fund Performance
15	Manager Fund Performance

Appendix

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35	Glossary of Equity Characteristics
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37	Disclaimer
38	Benchmarks

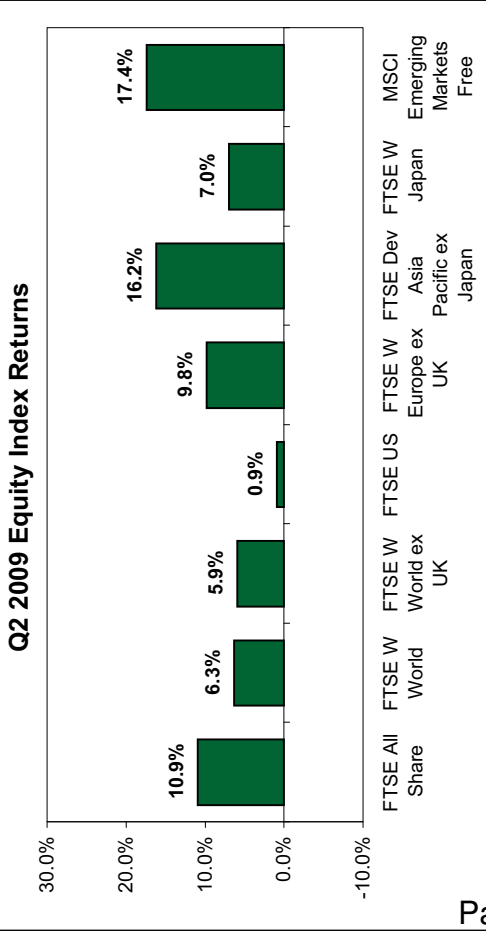
Confidence has undoubtedly grown over the 2nd quarter as the rate of economic deterioration generally slowed following the steepest downturn the world economy has experienced since the 40's. Emerging markets continued to build on the gains made in Q1, leading the way in Q2 and the price of oil more than doubled from the lows of February. Fears of a long term inflation threat and the unknown shape of the recovery curve, be it L, U, V or W are providing a reality check while Western governments continue to apply stabilising measures. Global manufacturing output has grown following the sluggish rates seen in Q1. The International Monetary Fund (IMF) continues to predict a return to sustained growth towards the end of next year, in all regions other than the EU, following its annual health-checks of leading economies. Political instability in Iran, the world's 5th largest supplier of oil, has failed to make a real impact as global production capacity can cover any potential change in supply. The FTSE World was up 6.3% (GBP) in quarter 2 2009 despite a weaker June return (-2.6%) (GBP).

The finalised UK GDP figures for Q1 concluded a contraction of 1.9%, the largest quarter on quarter fall since 1979. From this low point the UK has followed the global rally enjoyed by equities with Large Caps leading the stock market increase of Q2. The sentiments of the CBI are that the rate of decline is slowing and that is mirrored by the IMF claim (albeit subject to uncertainty) that the pace of the slump is easing, hailed by Brown and Darling as a vindication of their strategy in "averting a systemic breakdown". The FTSE All Share was up 10.9% (GBP) over the second quarter. The Bank of England persevered with the all time low base rate of 0.5%. Unemployment climbed to reach more than 7% (more than 2.2 million people unemployed) and some predictions for 2010 go as high as 10%. The Chancellor is expected to set out a new tripartite system of financial regulation with roles for the FSA, Treasury and Bank of England to boost confidence within the investment community.

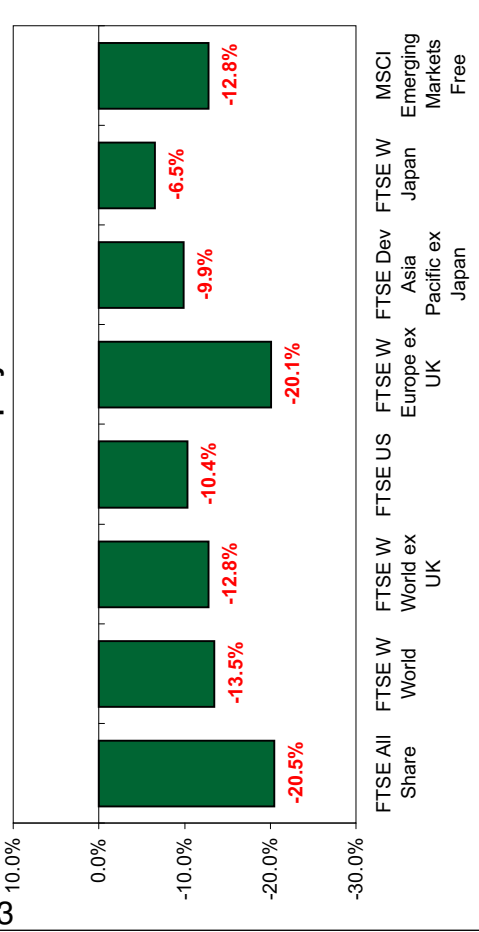
In Europe, the FTSE Europe ex UK returned 9.8% (GBP). Investor confidence has been running high, the best performing sectors; basic materials, oil & gas and financials making up for losses in consumer services and industrials. The pace of the contraction of the Eurozone economy slowed throughout Q2. Italy and Germany continue to struggle while France and Spain lead the improvement. Germany asked for a temporary relaxation of the Basle 2 capital requirements in order to stimulate lending. The fear that the exponential increase in the size of banks led us to the verge of financial Armageddon is well illustrated by the plight of Iceland, where the banks were considerably larger than the economy. The country is now surviving on loans from the IMF and enforcing savage cuts to public services. The European Central Bank continued in line with other central banks cutting the lending rate to 1% in May, it's lowest since the Euro started in 1999. Some analysts have suggested that these measures do not go far enough but Trichet has proclaimed his satisfaction with the Europe wide refinancing project although he admitted that inflation will undoubtedly turn negative in the coming months. Unemployment has continued to rise, inevitably impacting industrial production. President Obama's plans to sweep aside the "culture of irresponsibility... from Wall Street" continued with the announcement of a plan to give the Fed the authority to police all major financial institutions and not just banks. Critics claim this goes too far and overestimates the Fed's expertise in being able to prevent future catastrophes. The first quarter 2009 US GDP figure was revised up from -6.1% to -5.7% following improved corporate profits inspired by financial institutions exploiting their access to record low lending rates. A significant measure of this progress was observed when 10 financial companies (including Northern Trust) were given permission by the US Treasury to repay \$68 billion received through the Troubled Asset Relief Programme. The FTSE US index was up 0.9% (GBP) over the second quarter of 2009. The chapter 11 bankruptcy filing of General Motors was the big company news story of Q2, \$30 billion of government support means that the restructured company will be majority state owned. 1,100 dealerships will shut and a quarter of staff will lose their jobs. Despite this and the 26-year high, 9.5% unemployment rate, tentative signs of improvement are evident within unemployment statistics. May and June represent the first 2 months when less than 500k US jobs have been lost from the economy following 6 straight months of +500k job losses. The federal funds target rate was maintained at its all time low of between 0% and 0.25% throughout Q2. Oil prices, following a highly volatile 2008, and the February low finished June at \$69 per barrel. Notorious grifter Bernard Madoff was sentenced to a maximum 150 years in prison in a message of intent from the US authorities.

Official figures show that in Q1 the Japanese economy shrank at the fastest rate seen since 1955. Due to the fact that this was widely anticipated and a slight upturn in production was seen over the start of Q2, predictions are that we have already experienced the low of the current cycle. Asia Pacific as a region was only just behind the Emerging Markets in posting impressive Q2 returns. The FTSE Japan returned 7% (GBP) for Q2, the FTSE AW Asia Pacific ex Japan returned 16.2% (GBP). Emerging economies continue to grow at a faster rate than their developed counterparts. The victory in India of the Congress Party inspired confidence with the promise of economic reform boosting equity returns significantly. China added further to the region's performance with talk of sustainable recovery. Brazil continued in fine fashion following a strong Q1, benefiting from rising commodity prices and cuts in domestic interest rates. MSCI Emerging Markets Free index returned 17.4% (GBP) for the second quarter.

Equity Overview



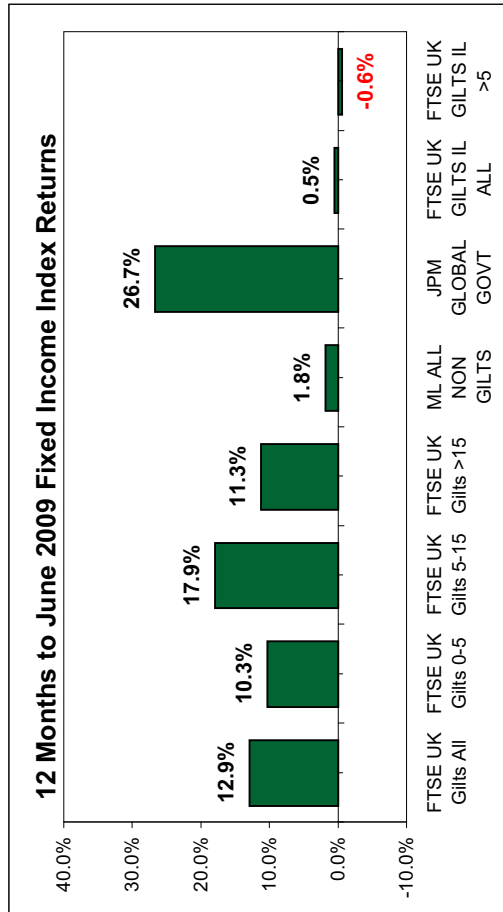
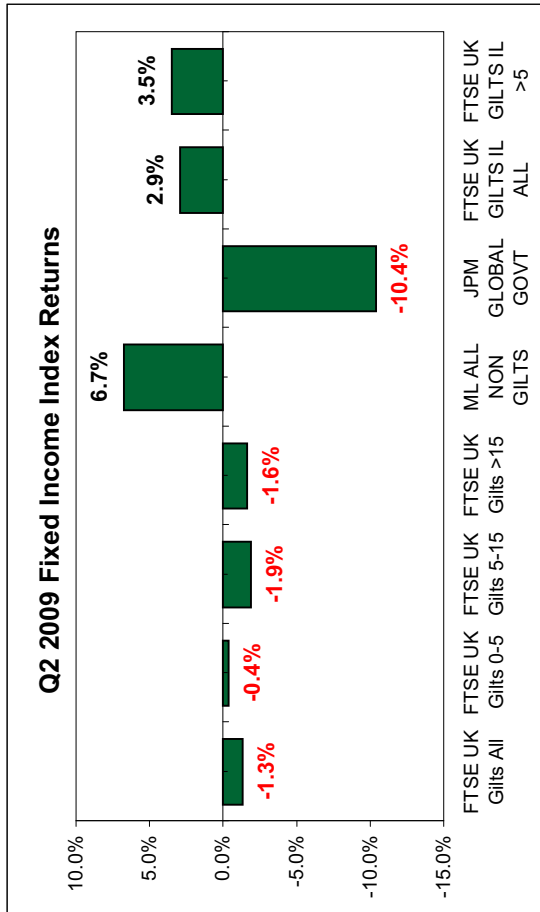
12 months to June 2009 Equity Index Returns



All index returns are in GBP terms unless stated otherwise.



Fixed Income Overview



The global contraction continued into Q2 as the World Bank predicted that the economies of the developed countries would grow by only 1.2%, significantly below last year's growth of 5.9%. However, despite the steepest global economic downturn since the 1940's with global trade expected to contract by 12% this year - the markets have turned from worrying about how bad the downturn is going to be, to looking for when the recovery will start. Leading indicators of economic activity continued to improve from their cycle lows raising optimism that the global economy is stabilising. Corporate credit conditions improved as equity markets consolidated earlier gains. Signs that the recovery may have started were indicated as manufacturing figures from major economies showed that the pace of contraction is slowing.

In the UK the Bank of England left the all time low base rate unchanged at 0.5% and the focus of attention has been on quantitative easing. The UK Budget 2009 announcements were as grim as expected however it was the scale of the projected public sector borrowing, soaring to £175bn - 12.4% as a share of the economy for the current fiscal year that caused the most concern. This and the preliminary official estimate showing UK real GDP had contracted by 1.9% in Q1 kept pressure on the central bank to keep monetary policy loose. The main message of the Bank of England's May Inflation Report was that the UK economic outlook remained very uncertain while rising unemployment underlines the prediction of a large negative output gap. This in turn raised concerns of an increased risk of price deflation and provided justification for the Bank of England announcing in May that it would extend its asset purchase programme by £50bn to £125bn. Following the surprise increase in the UK services Purchase Managers Index (PMI) to 51.7 in May (a rise above 50 signals expansion) and the National Institute of Economic and Social Research (NIESR) report that the UK economy expanded in May; optimism that economic recovery was on its way triggered a sell off in government bonds and a sharp rise in gilt yields and UK swaps. 10 year yields increased to peak at just over 4% for the first time since early November and closed the quarter at 3.69%, up considerably from the 3.17% close for Q1. The FTSE UK Gilts All Stocks ended the quarter in negative territory returning -1.3%.

In Europe the European Central Bank reduced its main interest rate in April and May to 1%. On the heels of data confirming the unemployment rate in the euro zone rose in March to 8.9%, the ECB also announced in May their decision to purchase €60bn in covered euro zone bonds. These are high quality bonds typically backed by mortgages and widely used in German capital markets. While not strictly quantitative easing, bunds fell on the announcement as the measure may improve the flow of credit to the wider economy. The German ZEW Survey of investor sentiment came in significantly stronger than expected at 44.8 in June from 31.1 in May. Credit conditions were further eased by the ECB offering €42.5bn of 1 year funds at 1%. The iTraxx Europe Index, representative investment grade entities across 6 sectors including Consumers, Financials and Industrials reflected improved liquidity as spreads tightened from 172.9 at the end of March to 112.2 at quarter end. Concern over recovery prospects were raised as the June unemployment rate for the 16 countries showed a rise to 9.5%, the highest for a decade.

In the US the Federal Reserve left the target interest rates unchanged at 0-0.25%. With unemployment rising and households more inclined to save rather than spend, concerns have arisen that a sharp increase in long term yields and the resulting rise in mortgage rates could delay a recovery in the US housing market. Against this backdrop, interest rates are expected to hold. Longer term bond yields continued to rise over the quarter as stronger economic data, including the better than expected 345,000 non farm job losses in May supported the view that the global economy is stabilising. At the same time fears over government debt levels increased the upwards move in US treasury yields. Towards the end of June concerns about the strength and sustainability of any economic recovery have pushed market rates lower as weak US earnings reduced inflation expectations. The 2 year Treasury yields rose on the quarter from 0.85% to 1.12% while the 10 year Treasury yields increased from 2.70% to 3.52%.

All index returns are in GBP terms unless stated otherwise.



Northern Trust

Prepared by Investment Risk & Analytical Services

Currency Market Overview

Financial market sentiment improved over the quarter as global economies showed commitment to keeping interest rates at record lows and implemented various forms of easing; targeting expansion of the money supply. Global equity markets bounced back supporting the emerging market currencies while key commodity prices including oil rose quickly. Crude oil increased to peak at just over \$70 per barrel while gold edged over \$980 per ounce before falling back to \$927 at the end of June. The high yielding commodity currencies (AUS\$, CAN\$ and NZ\$) also performed strongly, weighing on the safe haven US\$ as investors sought riskier trading alternatives. Towards the end of June the financial markets have turned more sceptical about the 'green shoots of recovery story' as the monthly economic data suggests that the growth momentum has slowed. Currency volatility eased back over the quarter as indicated by the VIX volatility index from 44.14 at the end of Q1 to close at 26.35, the lowest level since last September.

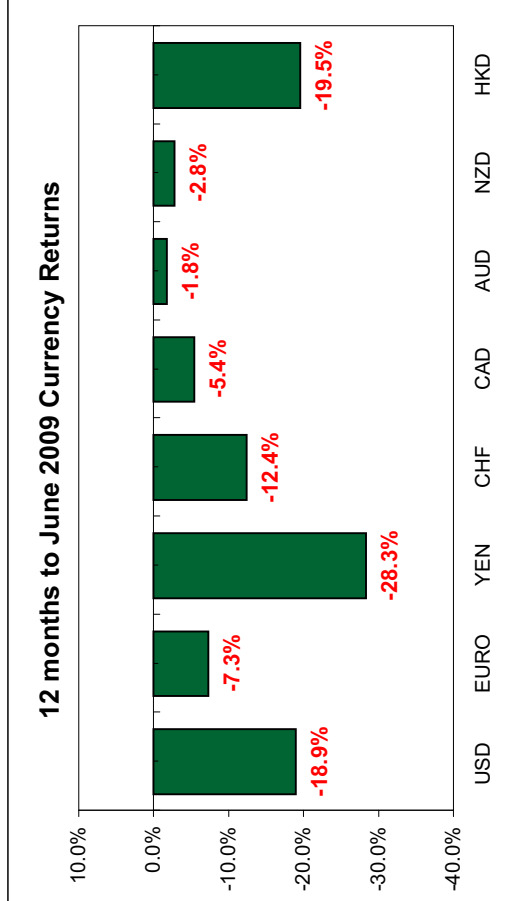
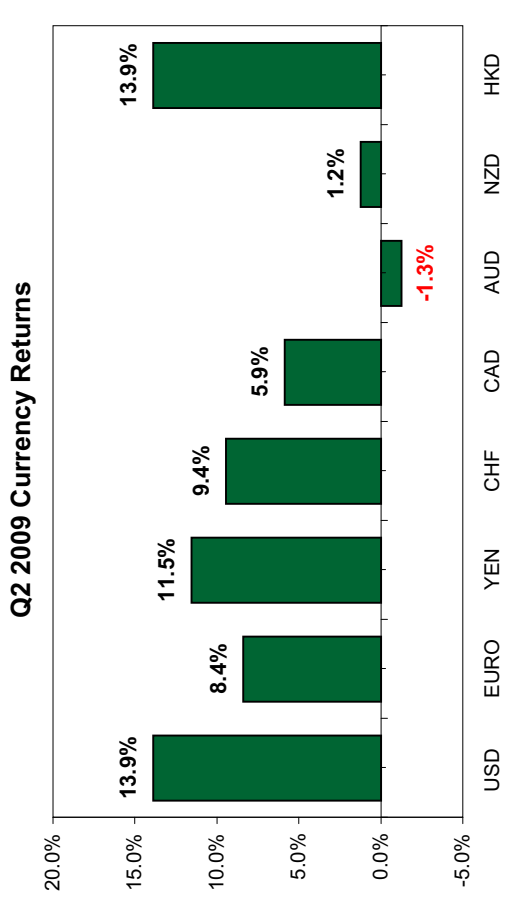
Sterling appreciated against all major currencies, bar the AUS\$ over the quarter, aided by stronger than expected economic data particularly in May when the services Purchasing Managers' Index (PMI) picked up for the first time in a year while strong increases came from the manufacturing and construction PMIs. In June, the UK economic data had a mixed impact on the pound. Positive effects came from the smaller than expected fall in the UK CPI, which declined to 2.2% in May from 2.3% in April compared to market expectations of a fall to 2%. However heightened political turmoil, the downward revision of the Q1 GDP to -2.4%, concerns over record UK public sector borrowing and the expectation that the Bank of England will need to increase the size of its asset purchase programme from its current £150bn, all weighed on the pound. Sterling has stabilised from its fall during 2008, to close up 13.9% against the dollar, 8.4% against the euro and 11.5% up against the yen.

The dollar depreciated against all major currencies, losing ground as a safe haven currency as investors switched to riskier assets as market confidence was improved. Global equity markets were buoyant earlier in the quarter supporting the emerging market currencies gains. However profit taking in June occurred following mixed economic data providing a reality check that a recovery to growth is not yet assured. Both commodities and their associated currencies soared with the AUS\$ gaining 15.1%, the CAN\$ gaining 8.0% and NZ\$ 12.7% against the US\$ over Q2. Consumer confidence as published by the Conference Board faltered in June falling to 49.3 from 54.8 in May after rising in the previous three months. Combined with the worse than expected monthly non-farm payrolls report that 467,000 jobs were lost in June and that the unemployment rate increased to 9.5%, the dollar pulled back previous losses against the euro and yen to depreciate 5.5% and 2.3% respectively for the quarter. The dollar depreciated 13.9% against the pound for the quarter.

The European Central Bank reduced euro-zone interest rates to 1.0% in May and in June surprised markets by injecting a massive €442bn of 1 year funds into the banking system. This helped to contribute to a fall in the Euro-zone money rates. The unemployment rate rose to 9.5% across the 16 euro-zone countries in May while consumer prices fell for the first time in the year to June. Economic data appears to be improving with the PMI manufacturing and services survey rising from 44.0 to 44.4 in June, while the German IFO business climate survey rose in June from 84.3 to 85.9 the highest level this year to date. The euro gained against the dollar and the yen by 5.5% and 3.2% respectively while depreciating against sterling by 8.4%.

Poor economic data from Japan continues to weigh on the yen, while higher yielding currencies may boost capital outflows and the return of carry trade based strategies. The unemployment rate rose to 5.2% in May up from 5% in April, however according to the Bank of Japan's quarterly Tankan survey big manufacturing firms were less gloomy in June than they had been in March. Over the quarter, the yen depreciated 11.5% and 0.2% against sterling and the euro respectively however it gained 2.3% on the dollar.

Prepared by Investment Risk & Analytical Services



All index returns are in GBP terms unless stated otherwise.



Scheme Performance

The London Borough of Hillingdon Fund outperformed the Total Plan Benchmark by 0.18% during the second quarter of 2009 (7.21% vs. 7.02%). Outperformance was due largely to favourable stock selection, particularly in Overseas Equities (2.74%). Unfortunately, the Fund experienced a heavy negative currency effect (-3.23%) which offset a great portion of gains earned by the stock selection. Fixed Income holdings also contributed (0.46%) to the overall return. Asset allocation bore a negative effect on the Fund's profits. While there were gains from underweighting less profitable Real Estate (0.29%) and Overseas Equities (0.08%), overall stock selection was at a loss(-0.30%).

Year to date, the Fund outperforms the benchmark (-1.95% vs. -2.02%). However, the Fund underperforms the benchmark over all longer term periods.

During the last part of this quarter, the Fund has also begun a restructure. The first step of this process was to close Capital International. More changes are to

Manager Performance

Alliance Bernstein

Continuing a pattern of underperformance, Alliance Bernstein returned 7.69% compared to the benchmark's 9.41%. Stock selection (-1.61%) was the primary source of underperformance. UK Equity (-0.94%) and North American Equity (-0.55%) were the more negative holdings in the portfolio. European ex UK Equity (0.10%) and Japanese Equity (0.05%) added some value back to the Fund. Asset allocation, although fairly closely aligned with the benchmark, also detracted from overall returns (-0.21%). The decision to hold a negative cash position cost Alliance Bernstein -0.25%. Since inception in March 2006, the Fund underperforms the benchmark -8.54% to -4.93%. Over the last twelve quarters, the Fund has outperformed the benchmark in only two.

Goldman Sachs

Goldman Sachs saw a profitable quarter with an outperformance over the index (5.46% vs. 2.34%). Favourable Fixed Income holdings selection (3.04%) and a strong hedging effect (1.21%) helped the Fund achieve the outperformance. Allocating funds away from Index Linked Gilts to Cash (0.07%) and Futures Offsets (0.32%) added value to the overall performance. While this was a strong quarter, weak historical returns cause the Fund to fall short of the benchmark over all long term periods.

SSGA

While stock selection (-3.47%) and asset allocation (-0.07%) proved weak for SSGA, a strong currency effect (3.69%) allowed the portfolio to match the composite benchmark (8.68%). Since inception in November 2008, SSGA returns 6.90% compared to the benchmark's 6.91%.

UBS

UBS proved strong against the benchmark with a return of 13.04% compared to 10.88%. These favourable returns brought the Manager closer to the benchmark. However, since the last ten quarters have been challenging ones, UBS falls short in longer term periods. Historically, the Fund is still strong and maintains a lead since inception in December 1988 (9.05% vs. 7.81%).

UBS Property

For the fourth quarter in a row, UBS Property edged over the benchmark (-3.28% vs. -3.30%). The Fund remains above benchmark levels for all time periods.

Scheme Performance

	Market Value £m	% of Fund	Three Months			Year To Date			One Year					
			Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	419.9	100.00	7.21	7.02	0.19	0.18	-1.95	-2.02	0.06	0.06	-15.88	-14.29	-1.59	-1.86
<u>By Manager</u>														
Capital International	0.1	0.03	4.26	5.33	-1.07	-1.02	-4.50	-5.43	0.93	0.98	-15.27	-15.62	0.35	0.41
Goldman Sachs	55.7	13.26	5.46	2.34	3.12	3.05	1.91	-0.19	2.10	2.11	1.51	4.85	-3.35	-3.19
UBS	78.4	18.67	13.04	10.88	2.17	1.95	0.73	0.81	-0.08	-0.08	-13.76	-15.98	2.21	2.64
Alliance Bernstein	85.2	20.29	7.69	9.41	-1.72	-1.57	-3.23	-1.41	-1.82	-1.85	-24.23	-16.55	-7.68	-9.21
UBS Property	39.2	9.33	-3.28	-3.30	0.02	0.03	-10.59	-10.84	0.25	0.28	-26.39	-27.19	0.80	1.09
SSGA	81.6	19.43	8.68	8.68	0.00	0.00	-0.76	-0.67	-0.09	-0.09	-	-	-	-

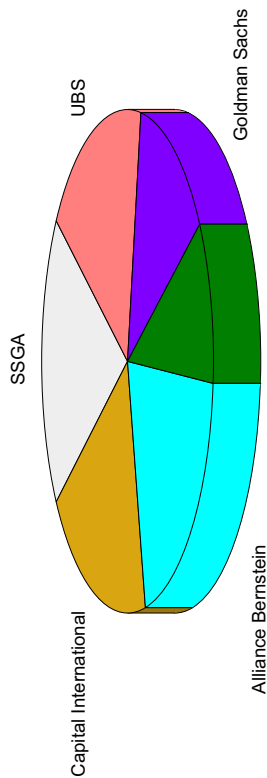
Total Fund Market Value at Qtr End: £419.9 M

Scheme Performance

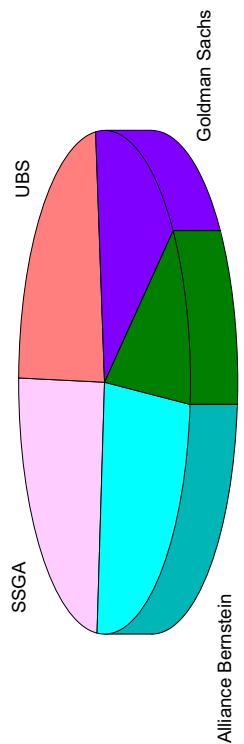
	<u>Three Years</u>			<u>Five Years</u>			<u>Inception To Date</u>					
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	-5.49	-3.26	-2.23	-2.30	2.39	4.31	-1.92	-1.84	5.00	5.27	-0.27	-0.25
<u>By Manager</u>												
Capital International	-5.01	-3.15	-1.86	-1.92	2.92	4.72	-1.80	-1.72	1.91	3.02	-1.11	-1.08
Goldman Sachs	2.54	3.97	-1.44	-1.38	7.63	8.65	-1.02	-0.94	4.57	5.54	-0.97	-0.92
UBS	-5.91	-3.94	-1.96	-2.04	1.63	3.47	-1.84	-1.78	9.05	7.81	1.23	1.15
Alliance Bernstein	-7.74	-3.91	-3.83	-3.99	-	-	-	-	-8.54	-4.93	-3.62	-3.80
HBS Property	-10.85	-11.47	0.61	0.69	-	-	-	-	-8.94	-9.26	0.31	0.34
SSGA	-	-	-	-	-	-	-	-	6.90	6.91	-0.01	-0.01

Total Fund Market Value at Qtr End: £419.9 M

Weighting at Beginning of Period



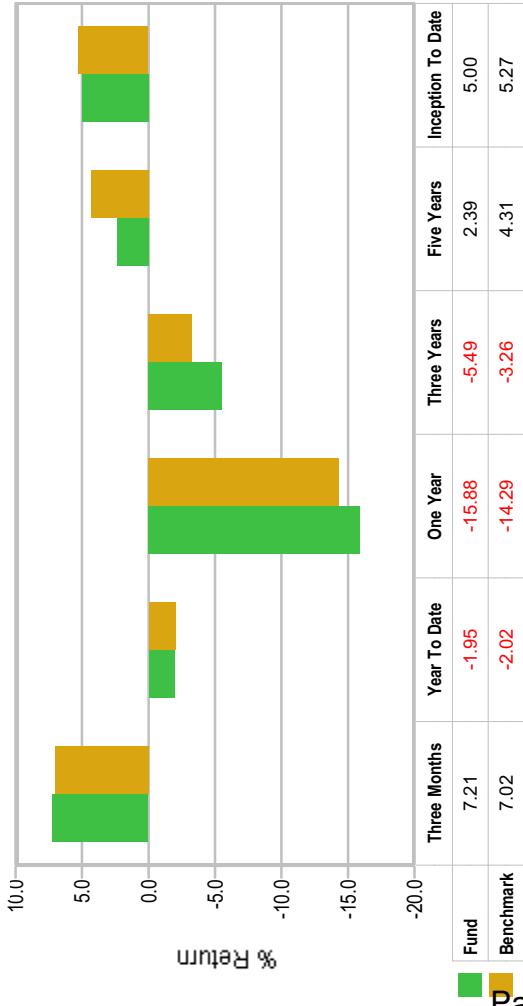
Weighting at End of Period



	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	392,345	100.00	-744	24,891	3,386	419,878	100.00
Capital International	74,853	19.08	-79,794	4,776	290	124	0.03
Goldman Sachs	52,789	13.45	22	2,842	40	55,693	13.26
UBS	70,618	18.00	-1,435	7,986	1,239	78,408	18.67
Alliance Bernstein	79,839	20.35	-765	5,001	1,118	85,193	20.29
UBS Property	40,513	10.33		-1,683	356	39,186	9.33
SSGA	73,732	18.79	1,435	6,397		81,564	19.43

London Borough of Hillingdon

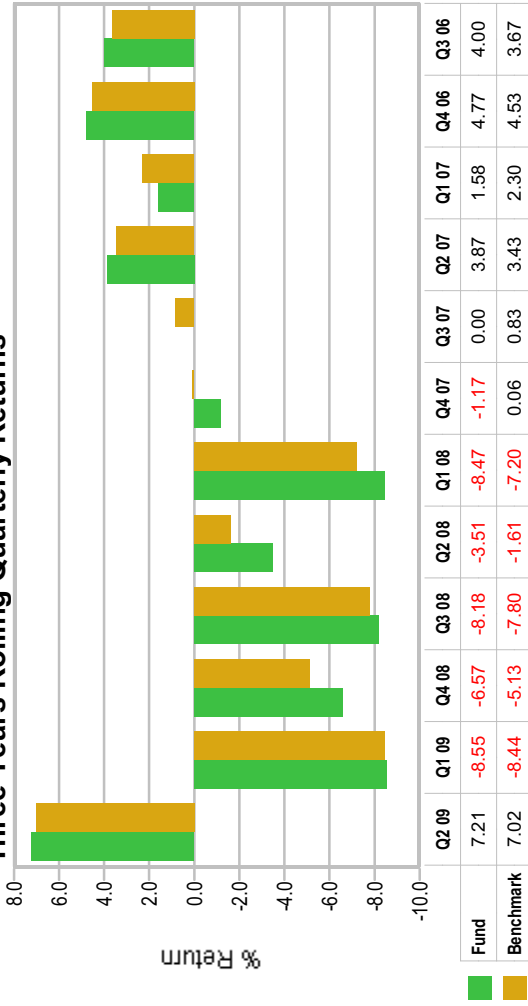
Historical Plan Performance



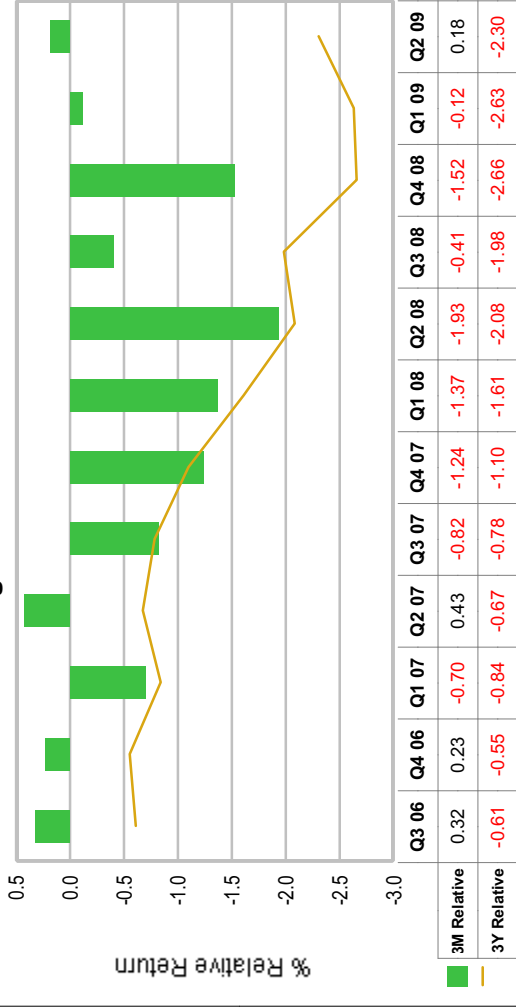
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-5.49	-3.26
Standard Deviation	14.14	13.60
Relative Return	-2.30	
Tracking Error	1.34	
Information Ratio	-1.66	
Beta	1.04	
Alpha	-1.94	
R Squared	0.99	
Sharpe Ratio	-0.79	-0.66
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	392,345	
Net Investment (£000)	-744	
Income Received (£000)	3,386	
Appreciation (£000)	24,891	
Closing Market Value (£000)	419,878	

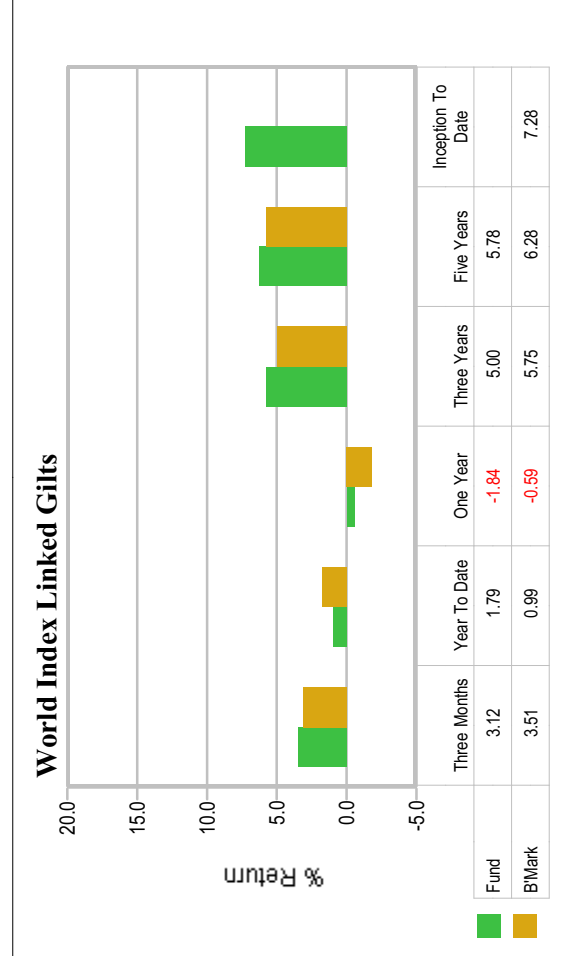
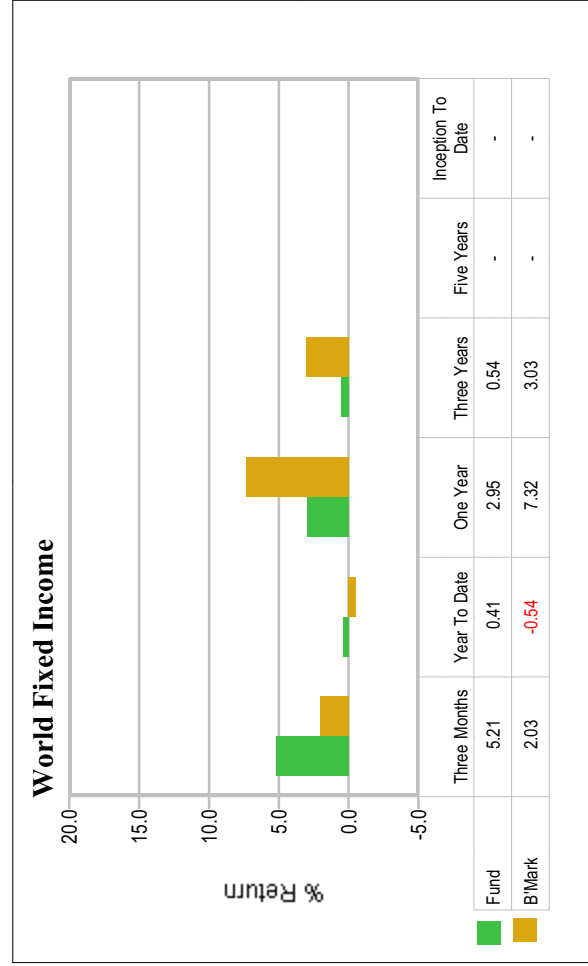
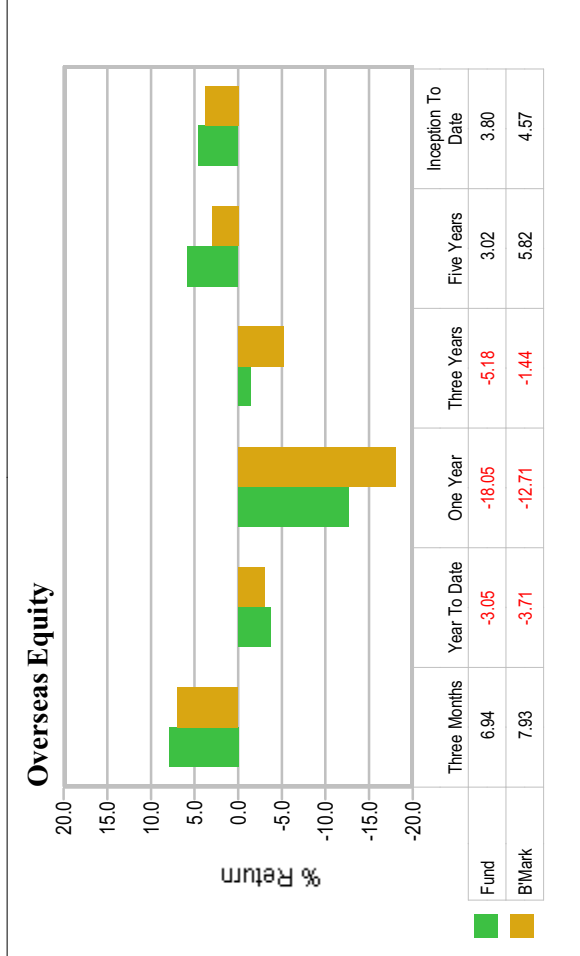
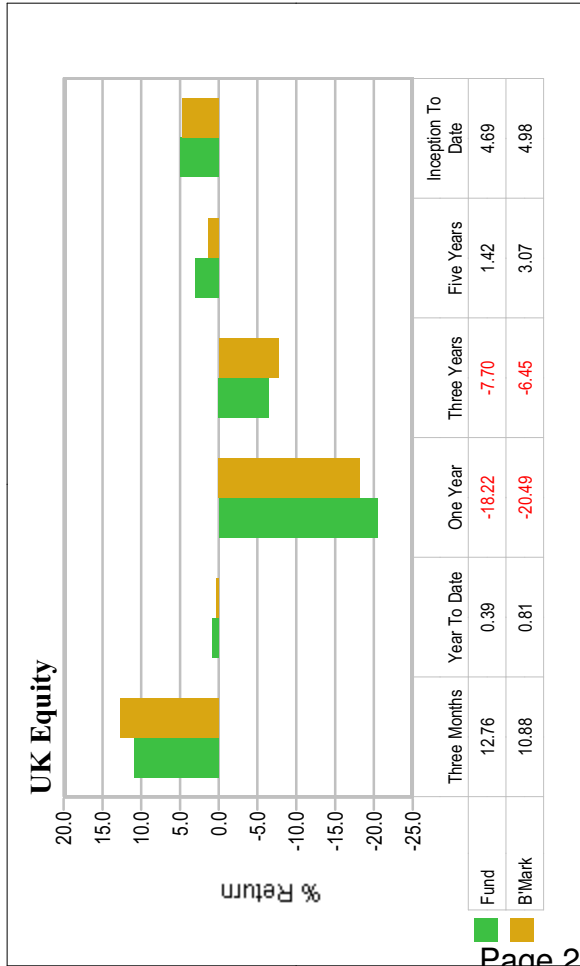
Three Years Rolling Quarterly Returns



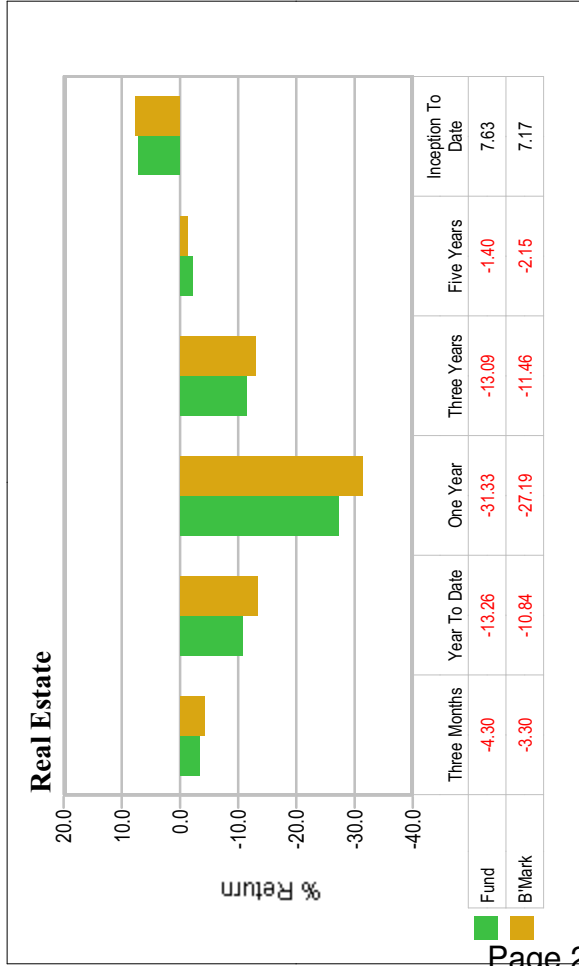
Three Years Rolling Relative Returns



London Borough of Hillingdon

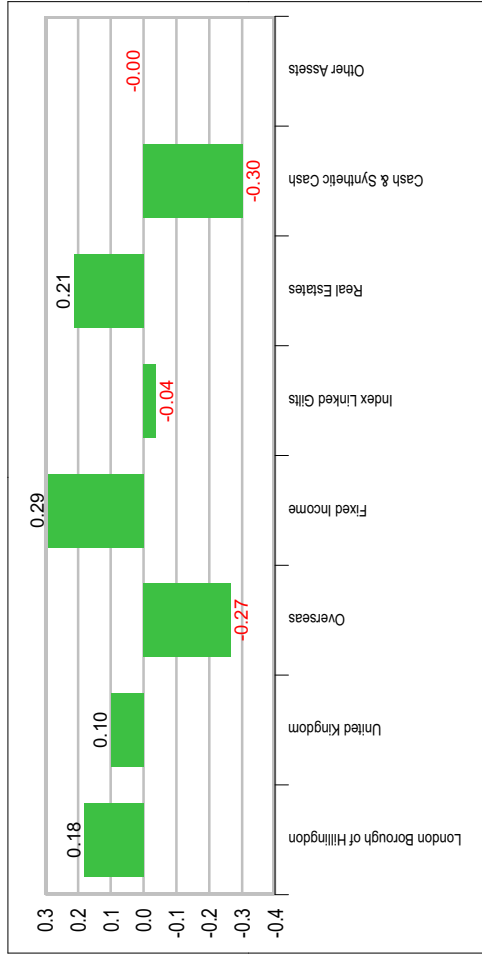


London Borough of Hillingdon

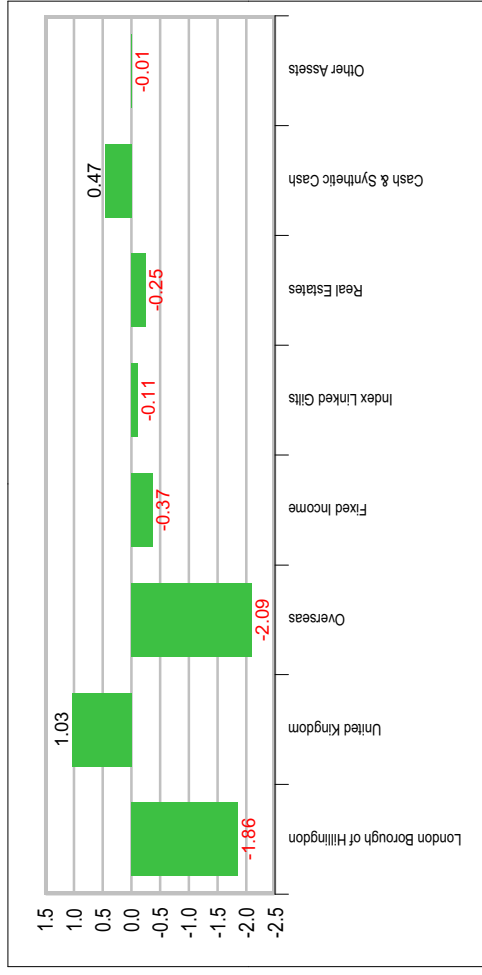


London Borough of Hillingdon

Relative Contribution - Three Months



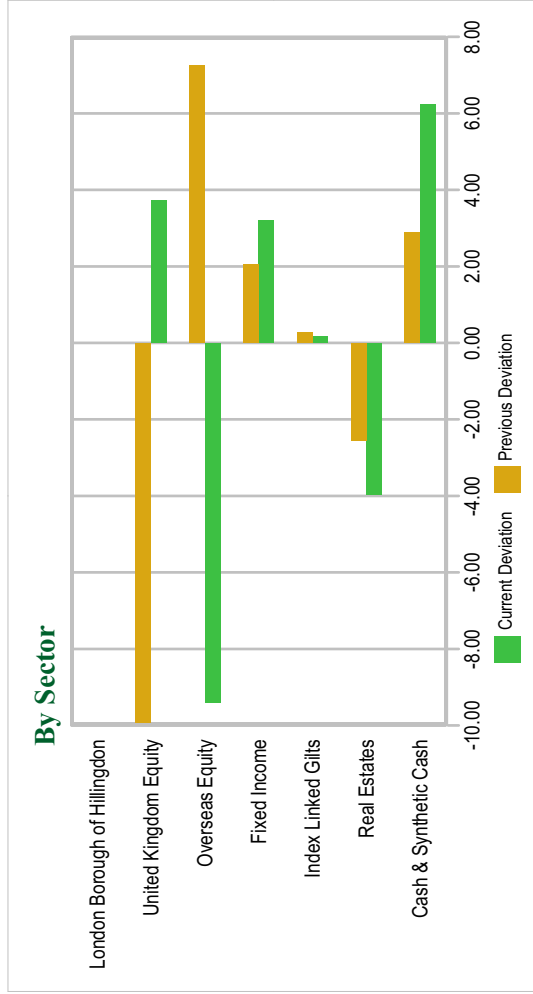
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
London Borough of Hillingdon	7.21	7.02	0.18	0.18	-3.23	-0.30	3.64	0.18
United Kingdom	12.76	10.88	1.69	0.00	-0.00	-0.40	0.50	0.10
Overseas	6.94	7.93	-0.92	0.00	-3.01	0.08	2.74	-0.27
Fixed Income	5.21	2.03	3.12	0.00	-0.09	-0.08	0.46	0.29
Index Linked Gilts	3.12	3.51	-0.37	0.00	-0.00	-0.02	-0.02	-0.04
Real Estates	-4.30	-3.30	-1.04	0.00	-0.00	0.29	-0.07	0.21
Cash & Synthetic Cash	-3.08	-	-3.08	0.00	-0.14	-0.16	0.00	-0.30
Other Assets	-	-	0.00	0.00	0.00	-0.00	0.00	-0.00

	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
London Borough of Hillingdon	-15.88	-14.29	-1.86	-0.48	3.97	1.02	-6.08	-1.86
United Kingdom	-18.22	-20.49	2.85	0.00	-0.00	-0.03	1.07	1.03
Overseas	-18.05	-12.71	-6.12	0.00	3.78	0.20	-5.84	-2.09
Fixed Income	2.95	7.32	-4.08	0.00	0.24	0.15	-0.75	-0.37
Index Linked Gilts	-1.84	-0.59	-1.26	0.00	-0.00	-0.05	-0.06	-0.11
Real Estates	-31.33	-27.19	-5.68	0.00	-0.00	0.25	-0.49	-0.25
Cash & Synthetic Cash	4.04	-	4.04	0.00	-0.04	0.51	0.00	0.47
Other Assets	-	-	0.00	0.00	0.00	-0.01	0.00	-0.01

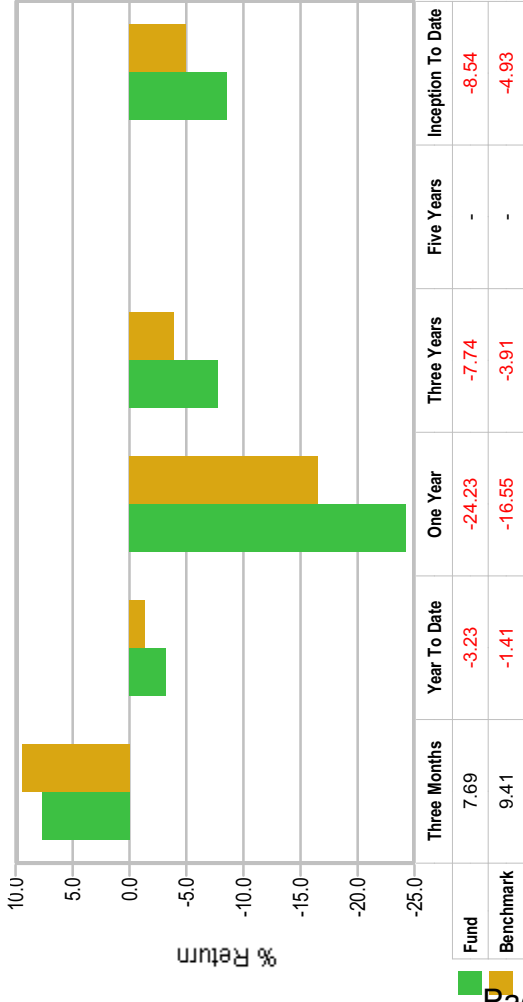
London Borough of Hillingdon



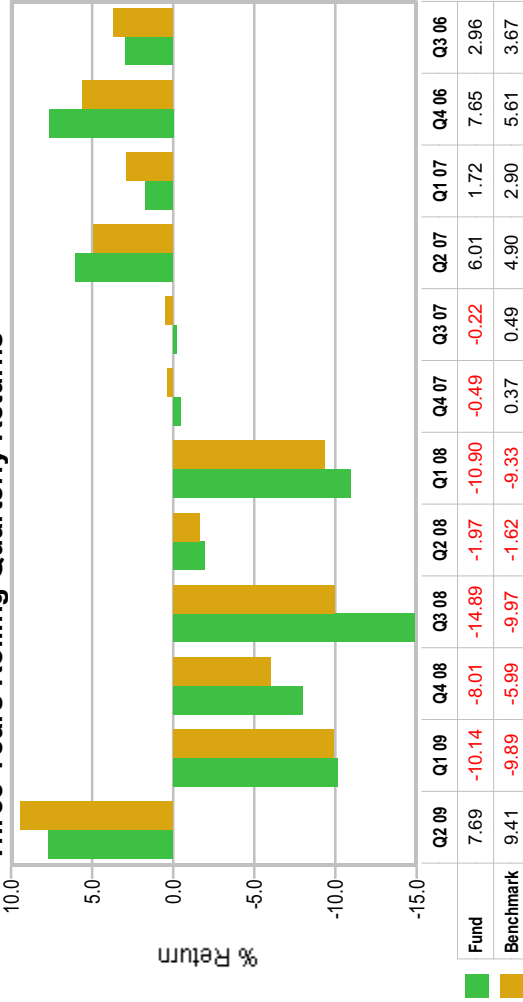
	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
London Borough of Hillingdon	100.00	100.00	100.00		100.00	
United Kingdom Equity	40.56	26.91	36.84	3.72	36.84	-9.93
Overseas Equity	27.46	44.12	36.85	-9.39	36.85	7.27
Fixed Income	13.73	12.58	10.52	3.21	10.52	2.06
Index Linked Gilts	5.44	5.53	5.26	0.18	5.26	0.27
Real Estates	6.56	7.97	10.53	-3.97	10.53	-2.56
Cash & Synthetic Cash	6.23	2.89		6.23		2.89

Alliance Bernstein

Historical Plan Performance



Three Years Rolling Quarterly Returns

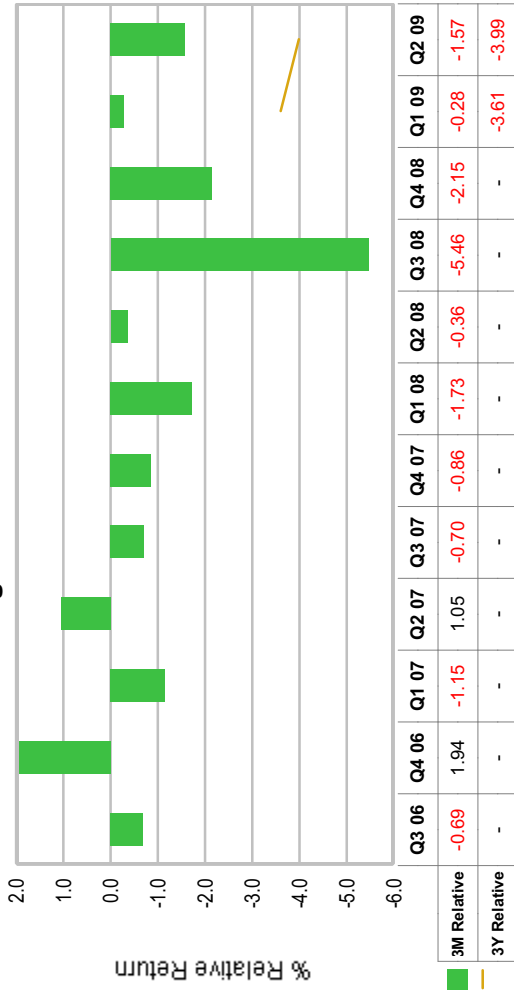


Risk Statistics - 3 years

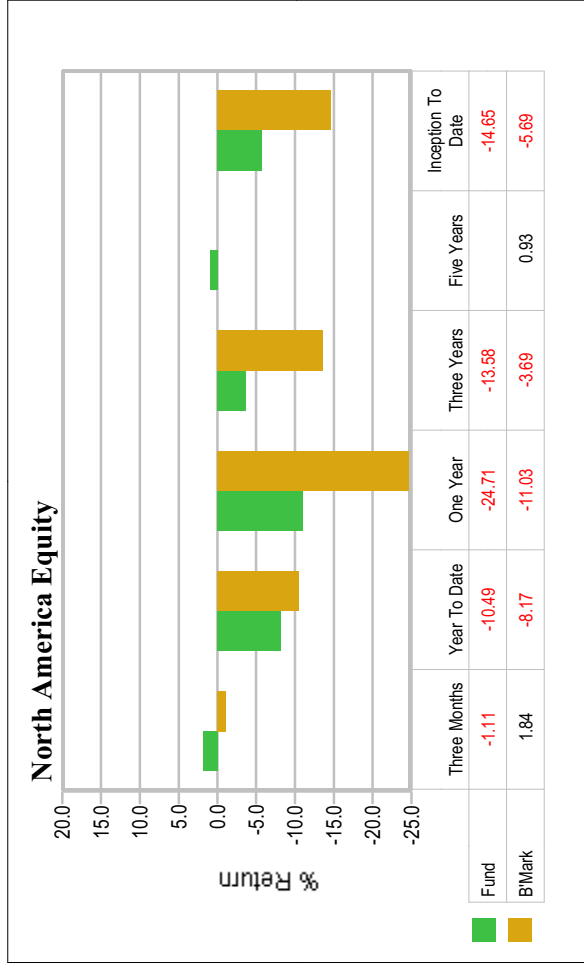
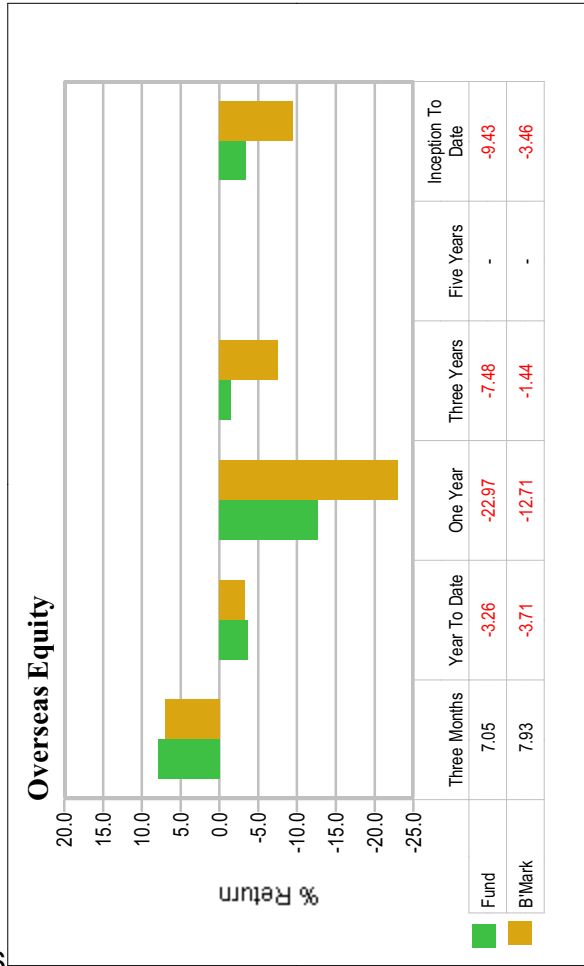
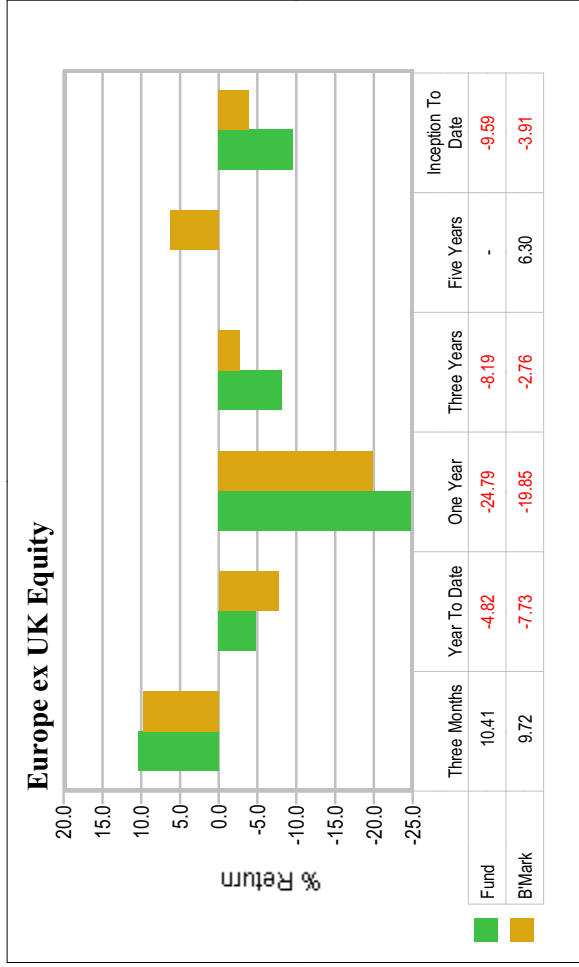
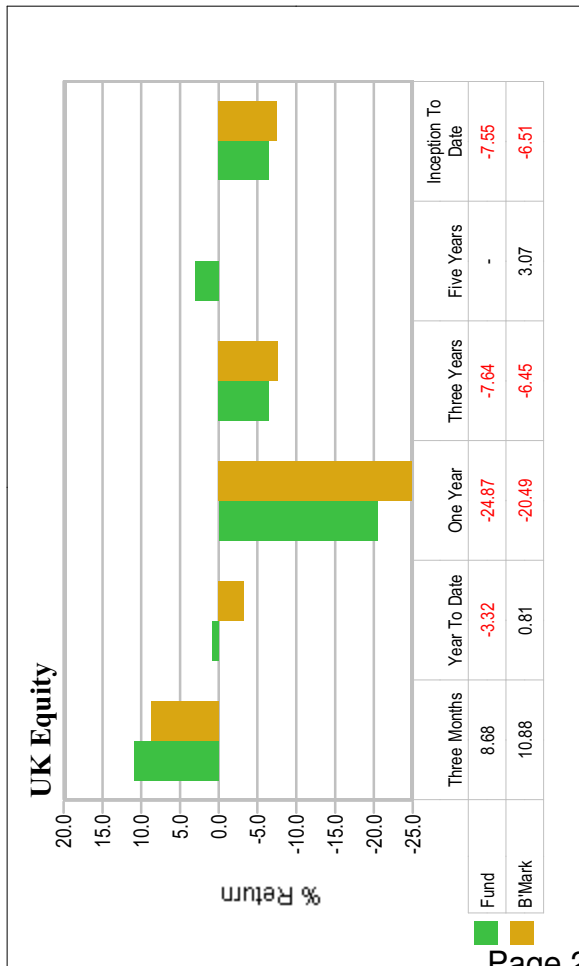
	Fund	Bmark
Performance Return	-7.74	-3.91
Standard Deviation	18.45	17.54
Relative Return	-3.99	
Tracking Error	2.38	
Information Ratio	-1.61	
Beta	1.04	
Alpha	-3.46	
R Squared	0.99	
Sharpe Ratio	-0.73	-0.55

Percentage of Total Fund	20.3
Inception Date	Mar-2006
Opening Market Value (£000)	79,839
Net Investment £(000)	-765
Income Received £(000)	1,118
Appreciation £(000)	5,001
Closing Market Value (£000)	85,193

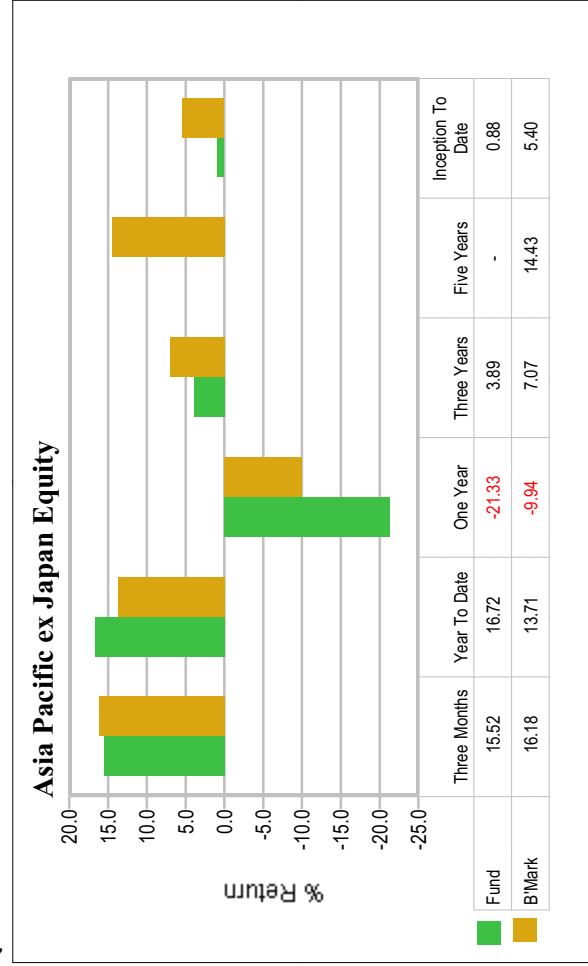
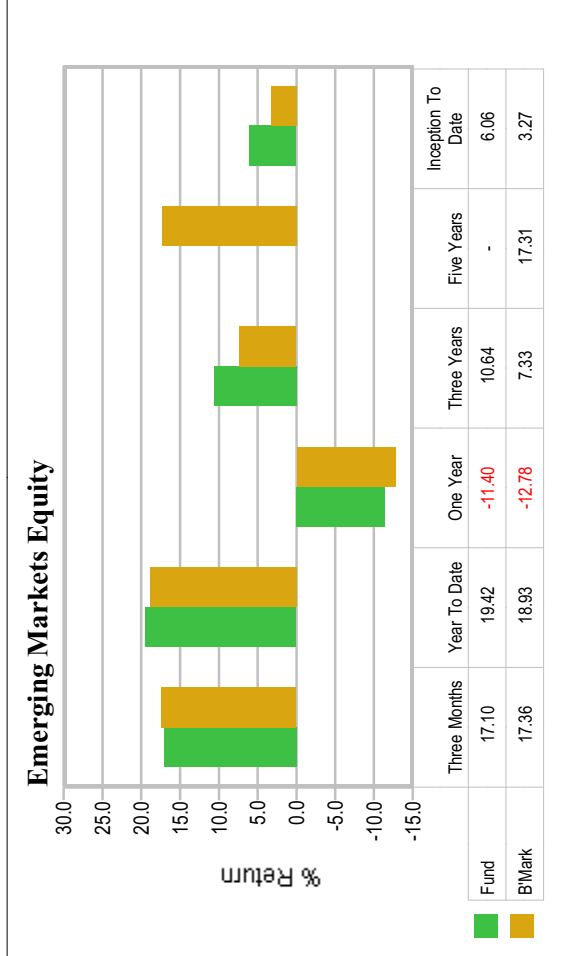
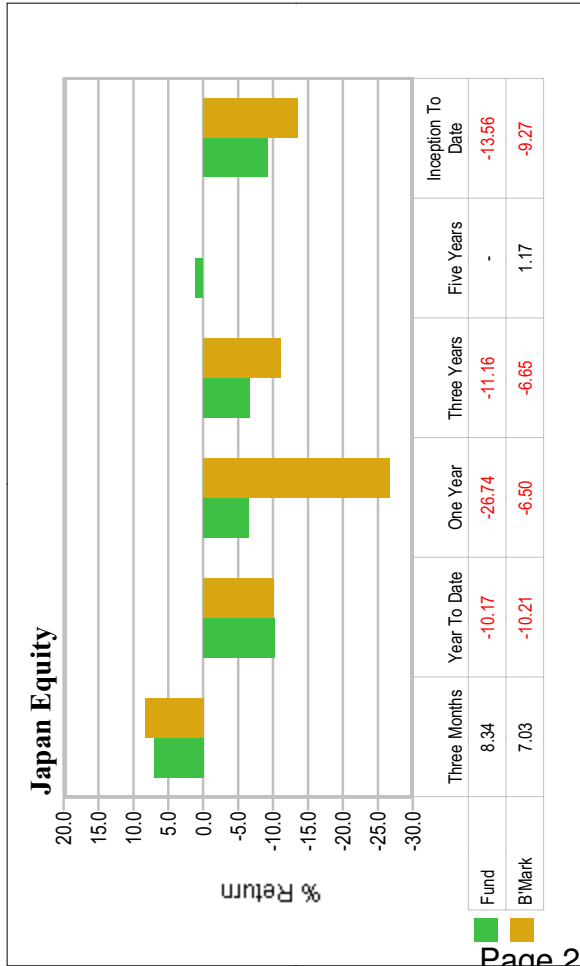
Three Years Rolling Relative Returns



Alliance Bernstein

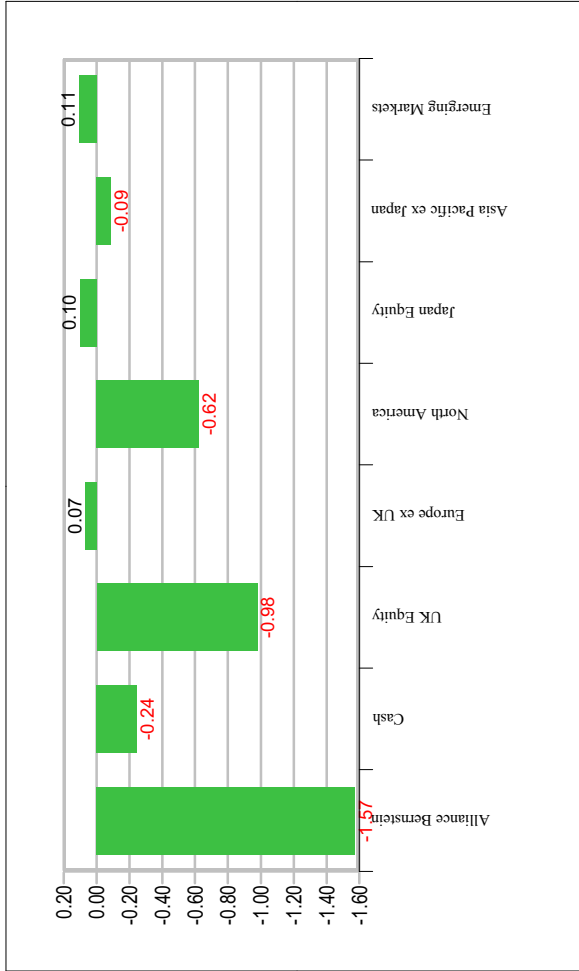


Alliance Bernstein

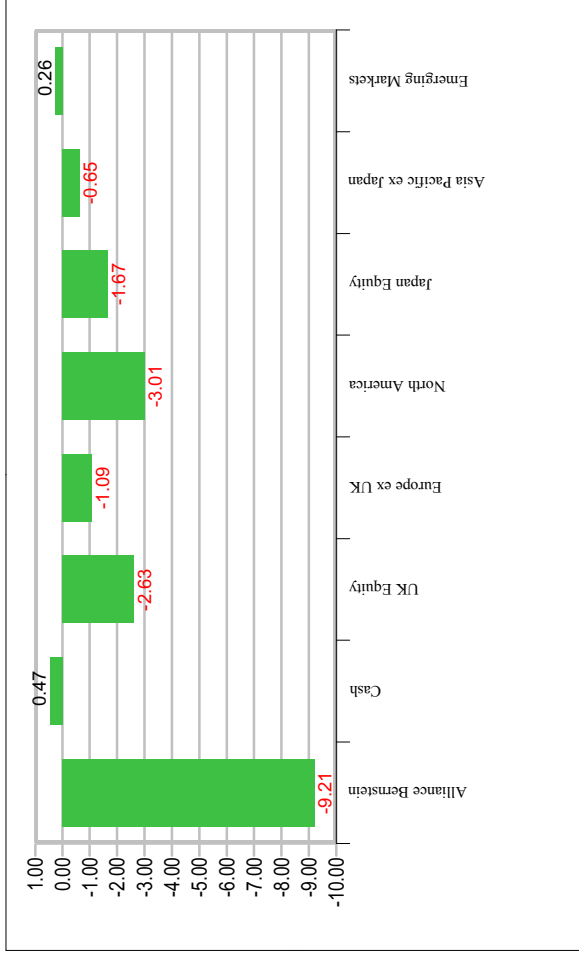


Alliance Bernstein

Relative Contribution - Three Months



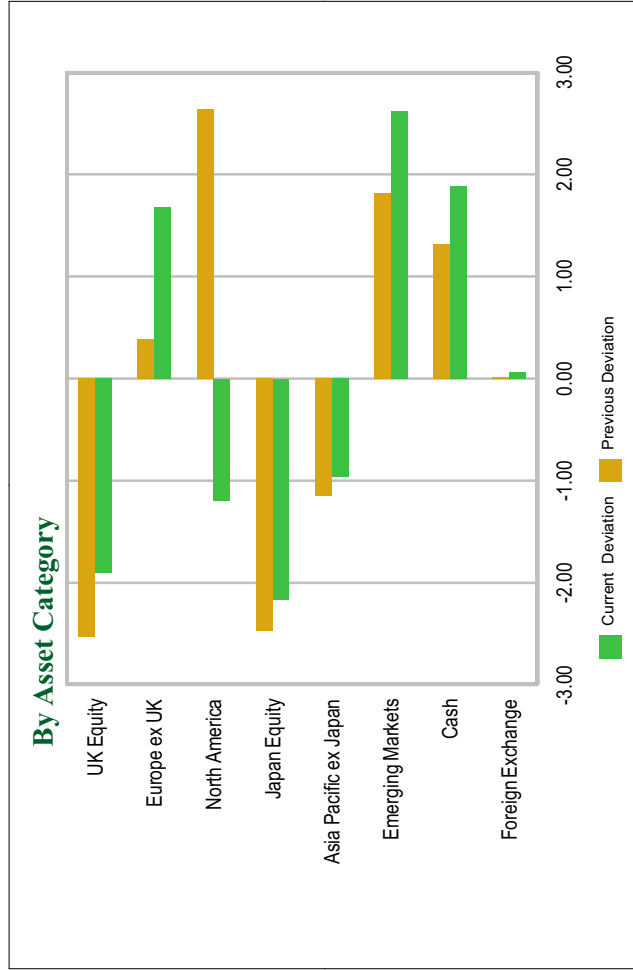
Relative Contribution - One Year



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	7.69	9.41	-1.57	0.05	0.17	-0.21	-1.61	-1.57
UK Equity	8.68	10.88	-1.99	0.00	-0.12	0.08	-0.94	-0.98
Europe ex UK	10.41	9.72	0.63	0.00	-0.04	0.01	0.10	0.07
North America	-1.11	1.84	-2.90	0.00	-0.03	-0.04	-0.55	-0.62
Japan Equity	8.34	7.03	1.23	0.00	0.16	-0.10	0.05	0.10
Asia Pacific ex Japan	15.52	16.18	-0.57	0.00	0.21	-0.08	-0.22	-0.09
Emerging Markets	17.10	17.36	-0.23	0.00	-0.01	0.17	-0.05	0.11
Cash	-4.71	-	-4.71	0.00	0.00	-0.25	0.00	-0.24

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	-24.23	-16.55	-9.21	-1.26	-0.52	0.42	-8.00	-9.21
UK Equity	-24.87	-20.49	-5.50	0.00	0.08	-0.08	-2.63	-2.63
Europe ex UK	-24.79	-19.85	-6.16	0.00	0.01	-0.10	-1.00	-1.09
North America	-24.71	-11.03	-15.38	0.00	0.10	-0.22	-2.89	-3.01
Japan Equity	-26.74	-6.50	-21.64	0.00	-0.16	0.05	-1.56	-1.67
Asia Pacific ex Japan	-21.33	-9.94	-12.65	0.00	-0.11	-0.14	-0.39	-0.65
Emerging Markets	-11.40	-12.78	1.58	0.00	-0.20	0.19	0.26	0.26
Cash	-1.78	-	-1.78	0.00	-0.24	0.72	0.00	0.47

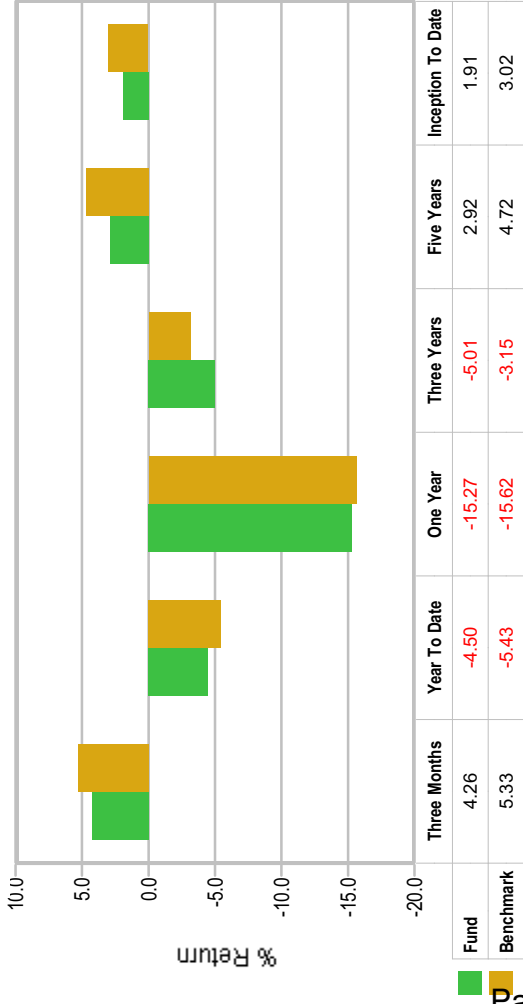
Alliance Bernstein



	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
UK Equity	48.09	47.47	50.00	50.00	-1.91	-2.53
Europe ex UK	16.68	15.39	15.00	15.00	1.68	0.39
North America	16.31	20.14	17.50	17.50	-1.19	2.64
Japan Equity	5.34	5.02	7.50	7.50	-2.16	-2.48
Asia Pacific ex Japan	4.03	3.84	5.00	5.00	-0.97	-1.16
Emerging Markets	7.62	6.81	5.00	5.00	2.62	1.81
Cash	1.88	1.31			1.88	1.31
Foreign Exchange	0.06	0.02			0.06	0.02

Capital International

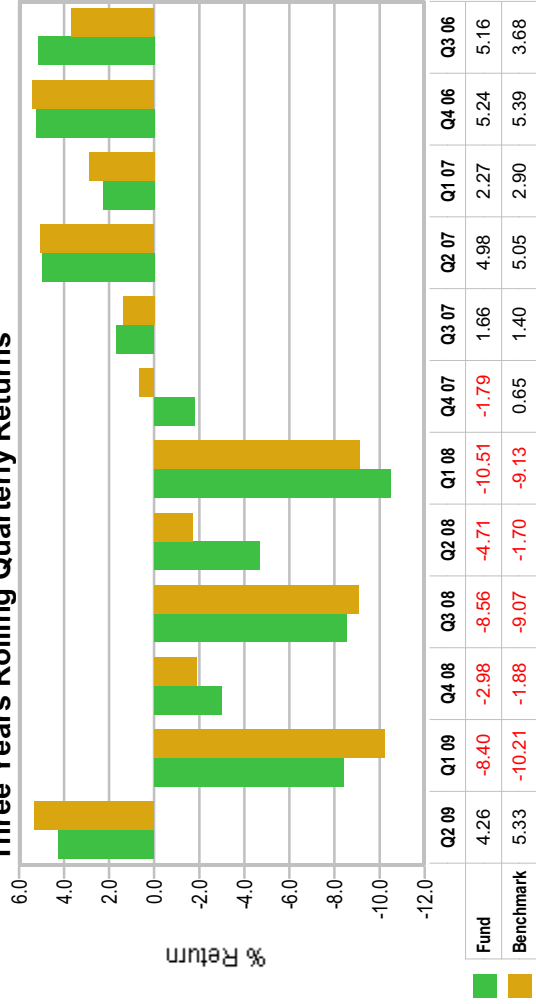
Historical Plan Performance



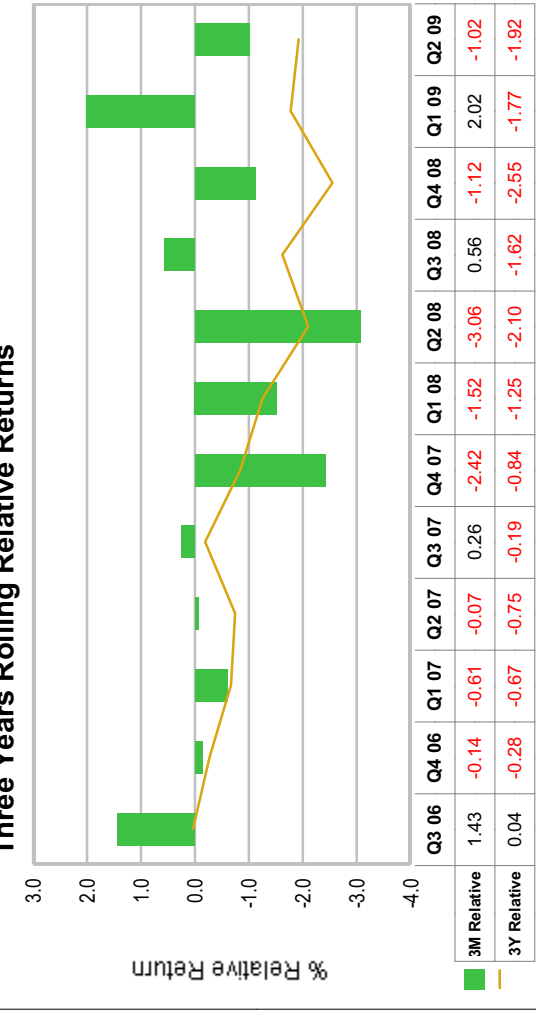
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-5.01	-3.15
Standard Deviation	18.88	19.26
Relative Return	-1.92	
Tracking Error	2.68	
Information Ratio	-0.69	
Beta	0.97	
Alpha	-2.18	
R Squared	0.98	
Sharpe Ratio	-0.57	-0.46
Percentage of Total Fund	0.0	
Inception Date	Dec-2001	
Opening Market Value (£000)	74,853	
Net Investment £(000)	-79,794	
Income Received £(000)	290	
Appreciation £(000)	4,776	
Closing Market Value (£000)	124	

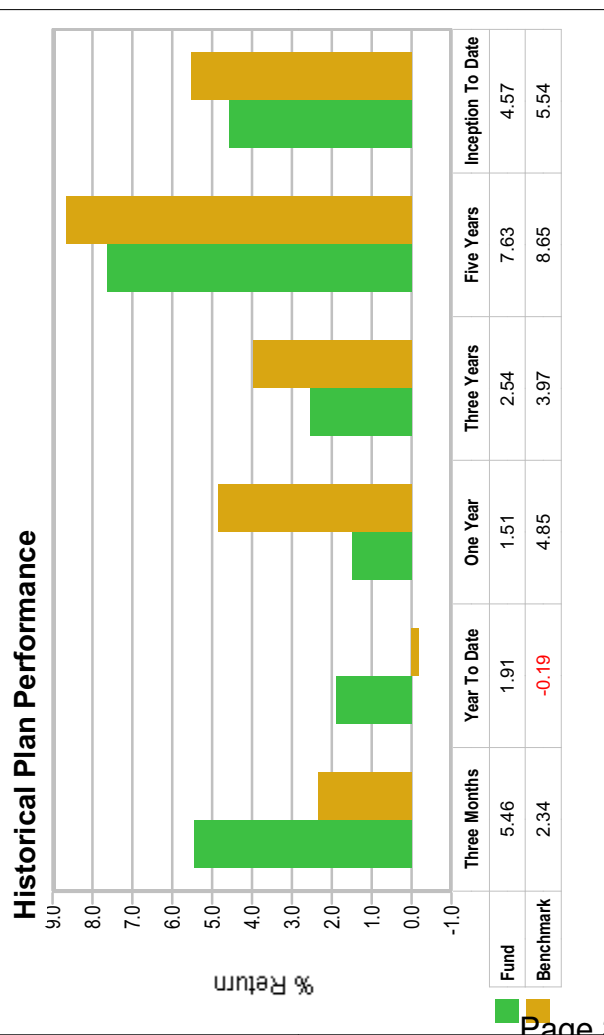
Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns

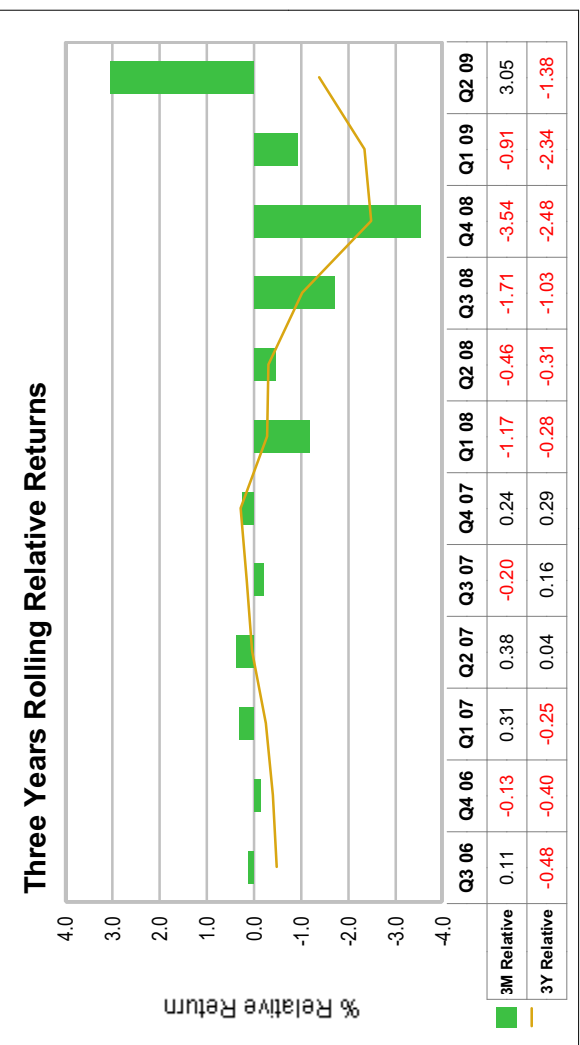
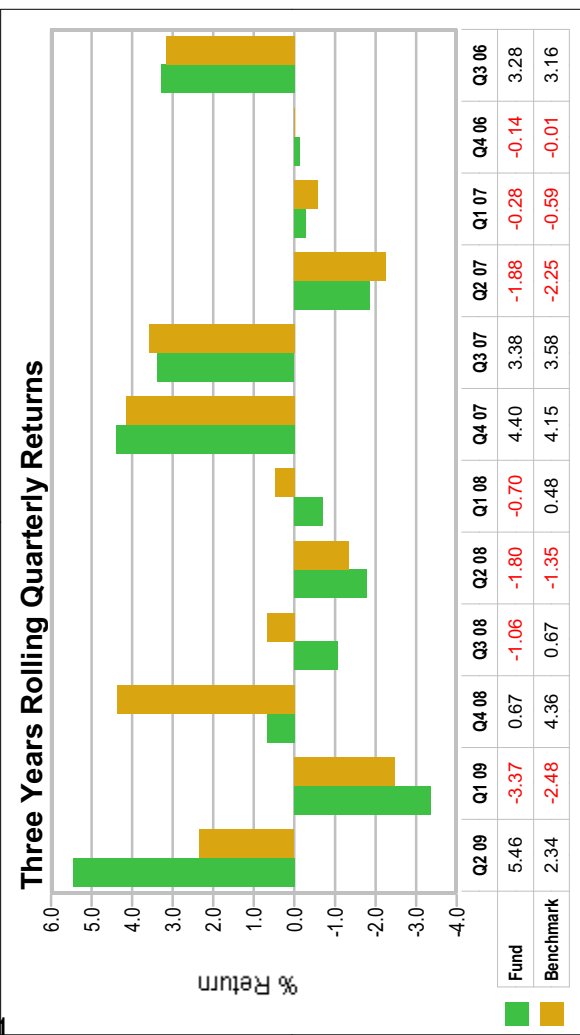


Goldman Sachs

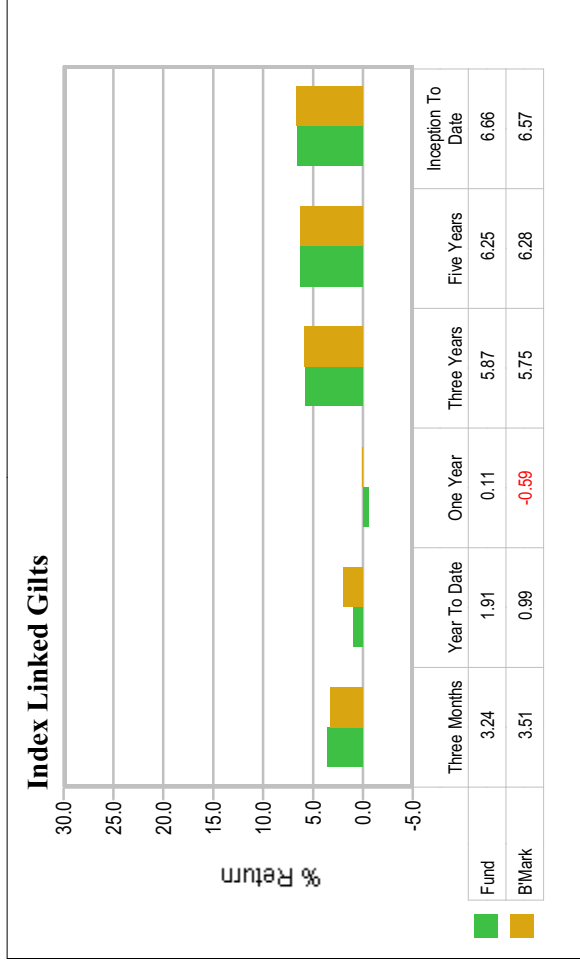
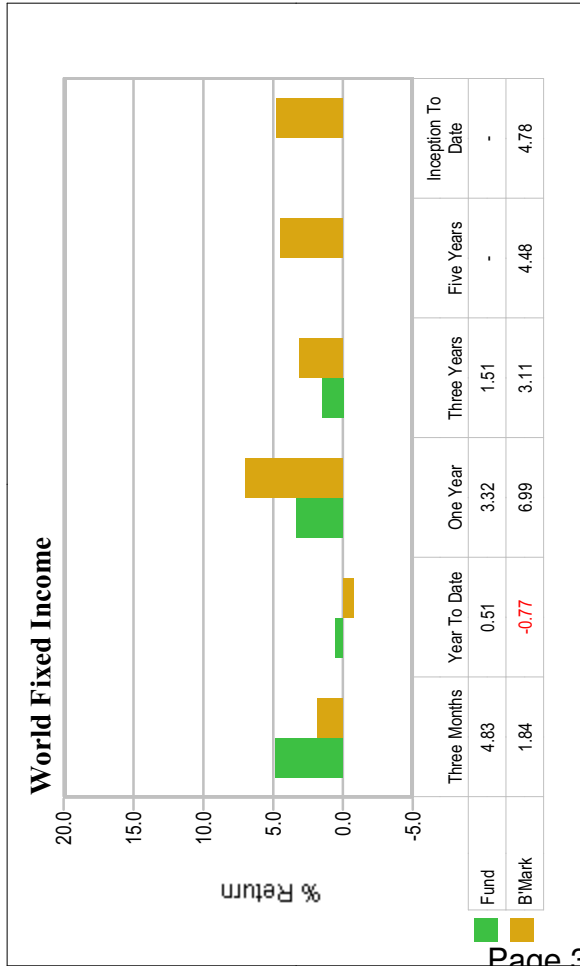


Risk Statistics - 3 years

	Fund	B'mark
Performance Return	2.54	3.97
Standard Deviation	6.79	6.33
Relative Return	-1.38	
Tracking Error	2.00	
Information Ratio	-0.72	
Beta	1.04	
Alpha	-1.30	
R Squared	0.92	
Sharpe Ratio	-0.46	-0.27
Percentage of Total Fund	13.3	
Inception Date	Dec-2001	
Opening Market Value (£000)	52,789	
Net Investment £(000)	22	
Income Received £(000)	40	
Appreciation £(000)	2,842	
Closing Market Value (£000)	55,693	

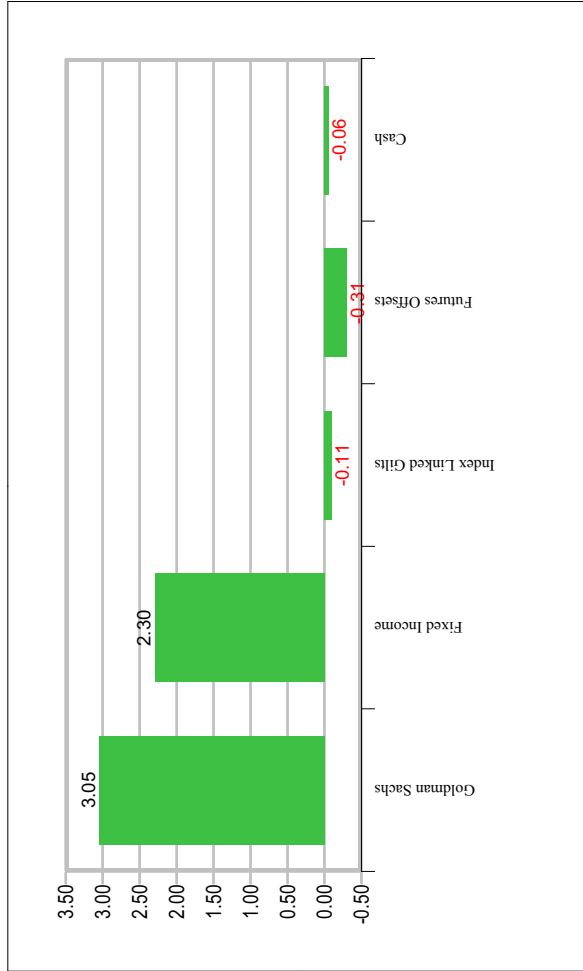


Goldman Sachs

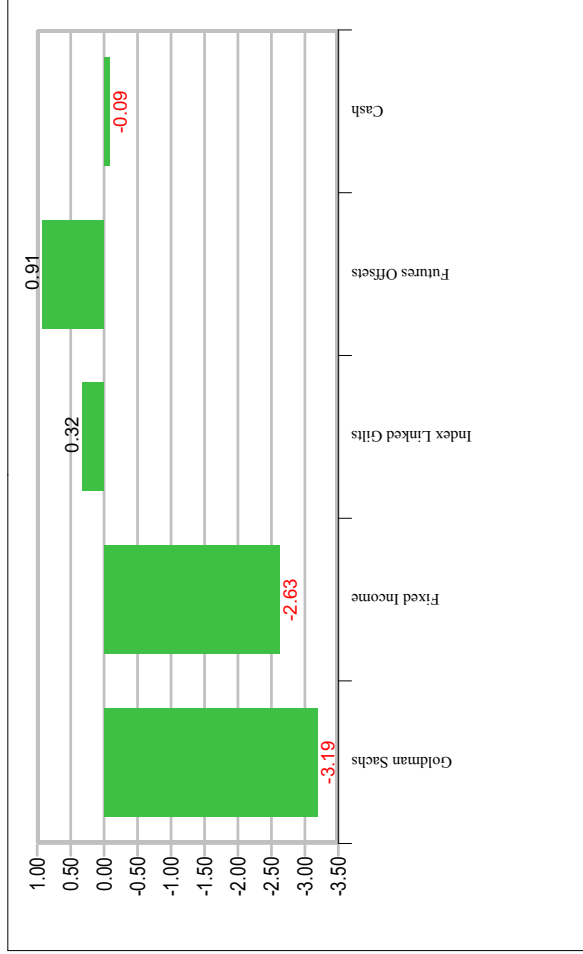


Goldman Sachs

Relative Contribution - Three Months



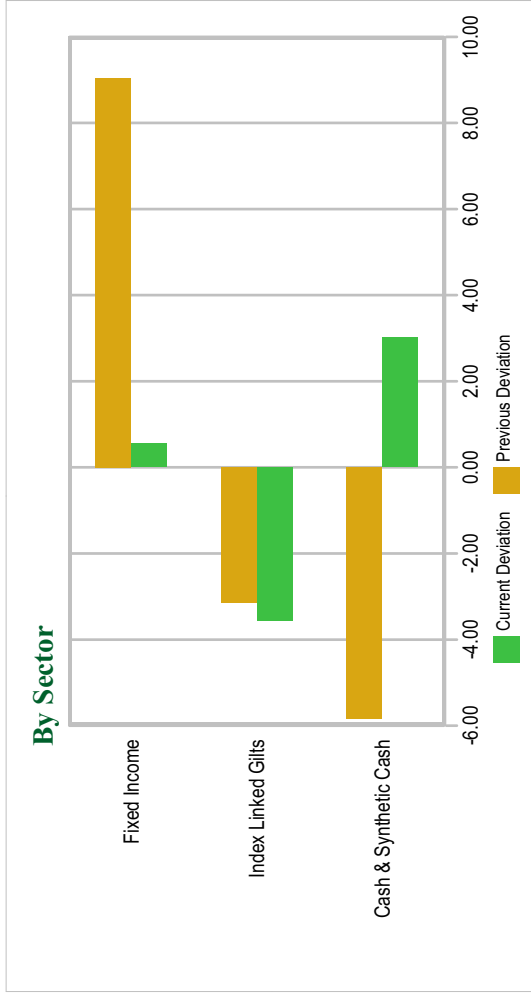
Relative Contribution - One Year



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Goldman Sachs	5.46	2.34	3.05	1.21	-1.44	0.31	2.97	3.05
Fixed Income	4.83	1.84	2.93	0.00	-0.67	-0.05	3.04	2.30
Index Linked Gilts	3.24	3.51	-0.25	0.00	0.00	-0.04	-0.07	-0.11
Futures Offsets	5.76	-	5.76	0.00	-0.63	0.32	0.00	-0.31
Cash	2.33	-	2.33	0.00	-0.14	0.07	0.00	-0.06

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Goldman Sachs	1.51	4.85	-3.19	-1.75	1.81	1.18	-4.38	-3.19
Fixed Income	3.32	6.99	-3.43	0.00	1.78	0.24	-4.56	-2.63
Index Linked Gilts	0.11	-0.59	0.70	0.00	0.00	0.13	0.19	0.32
Futures Offsets	0.78	-	0.78	0.00	0.08	0.83	0.00	0.91
Cash	5.43	-	5.43	0.00	-0.05	-0.04	0.00	-0.09

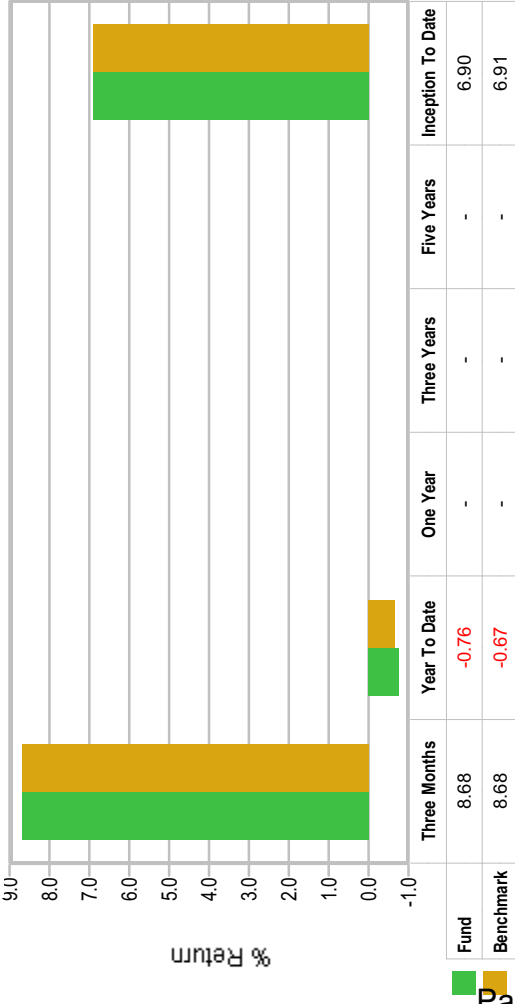
Goldman Sachs



	Current Qtr	Previous Qtr	Current Benchmark	Previous Benchmark	Current Deviation	Previous Deviation
Fixed Income	70.55	79.05	70.00	70.00	0.55	9.05
Index Linked Gilts	26.43	26.85	30.00	30.00	-3.57	-3.15
Cash & Synthetic Cash	3.02	-5.83			3.02	-5.83

SSGA

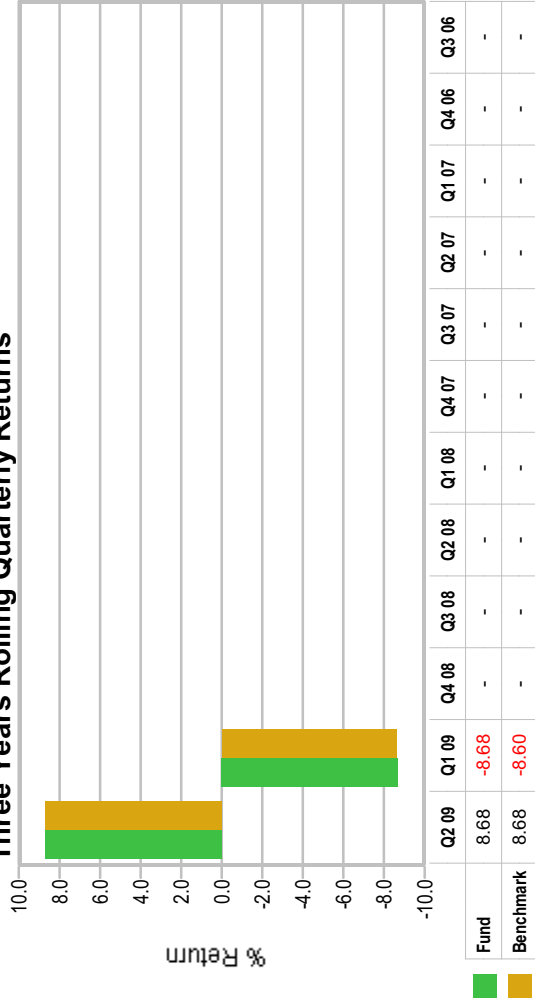
Historical Plan Performance



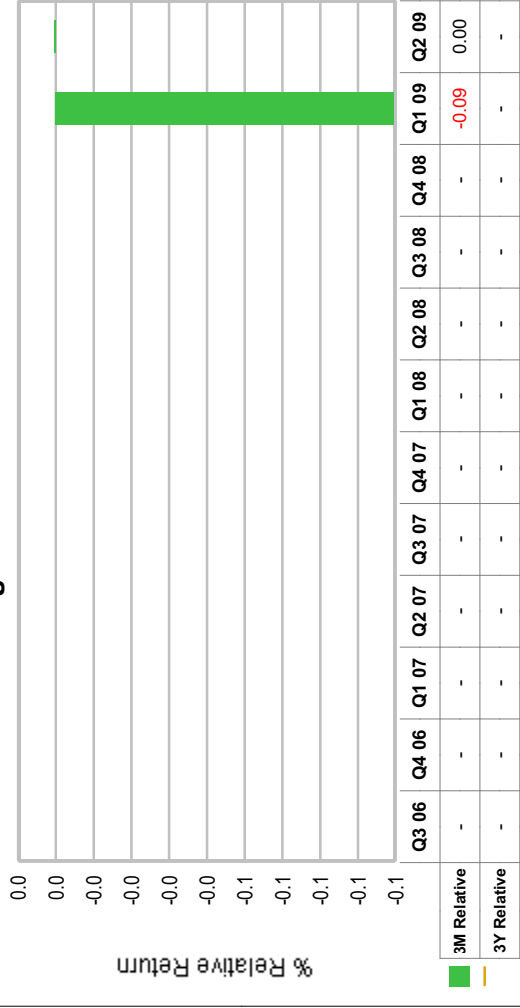
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	-
Standard Deviation	-	-
Relative Return	-	-
Tracking Error	-	-
Information Ratio	-	-
Beta	-	-
Alpha	-	-
R Squared	-	-
Sharpe Ratio	-	-
Percentage of Total Fund	19.4	
Inception Date	Nov-2008	
Opening Market Value (£000)	73,732	
Net Investment £(000)	1,435	
Income Received £(000)	0	
Appreciation £(000)	6,397	
Closing Market Value (£000)	81,564	

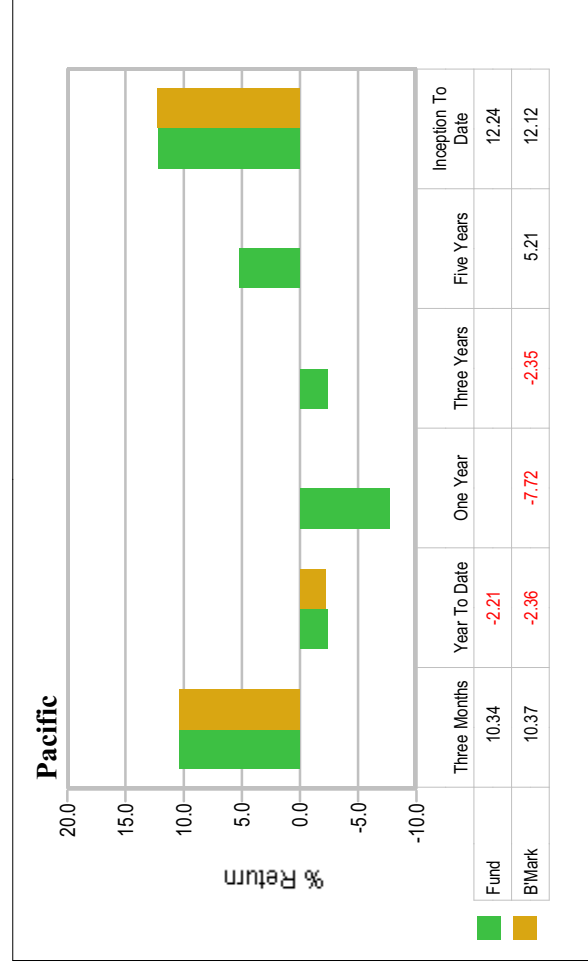
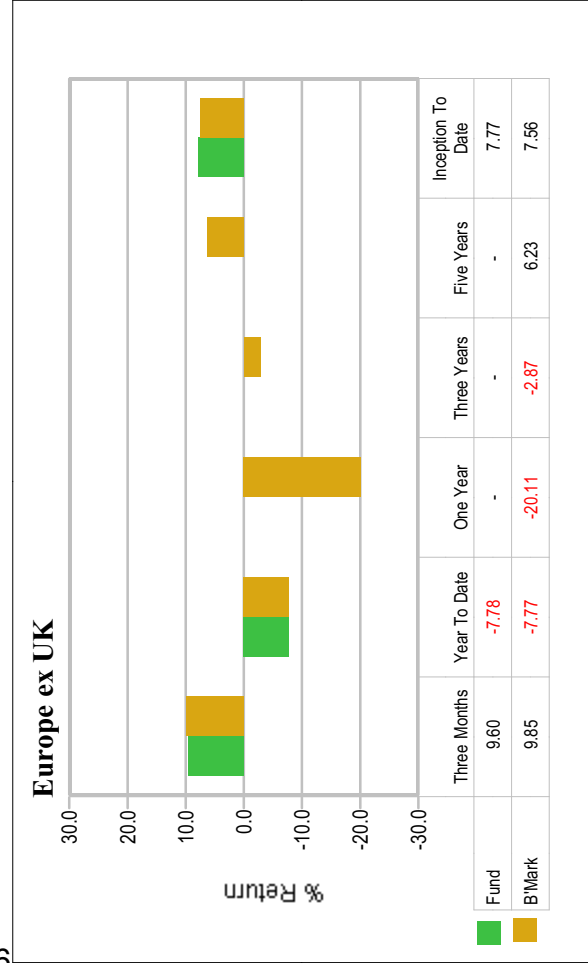
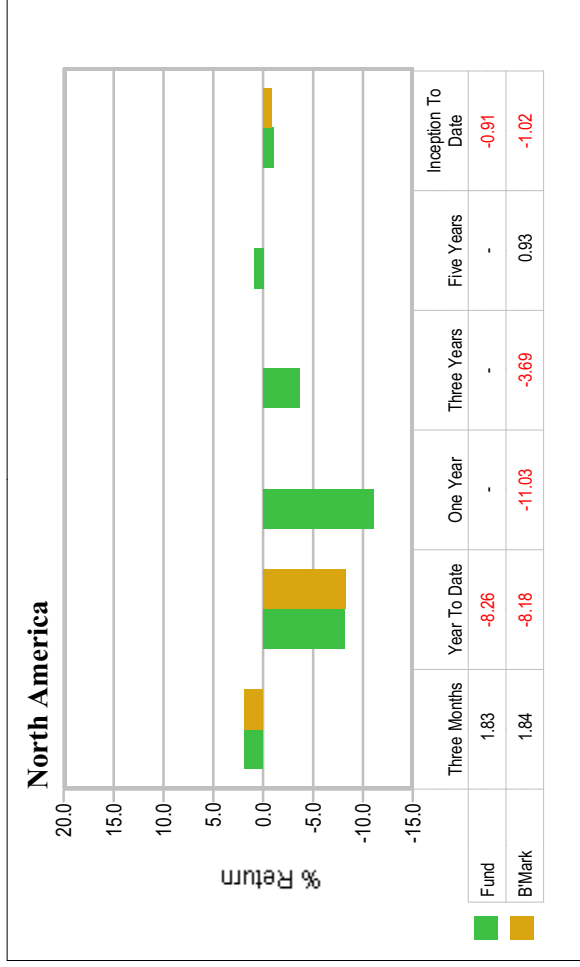
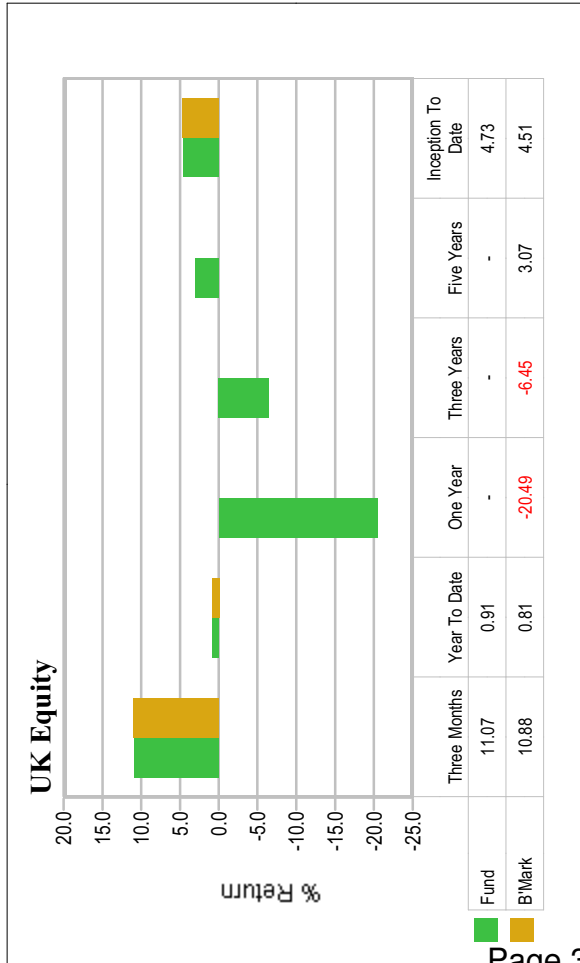
Three Years Rolling Quarterly Returns



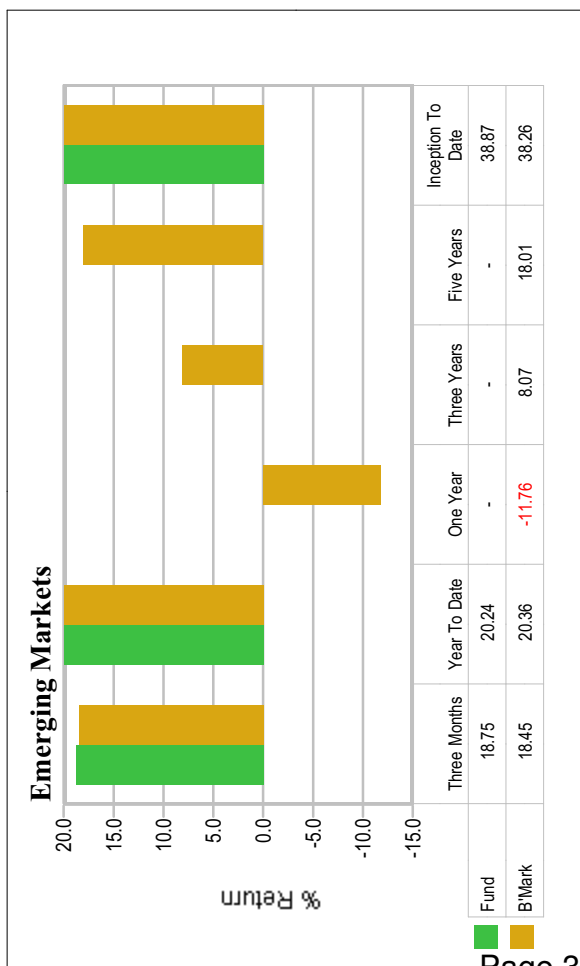
Three Years Rolling Relative Returns



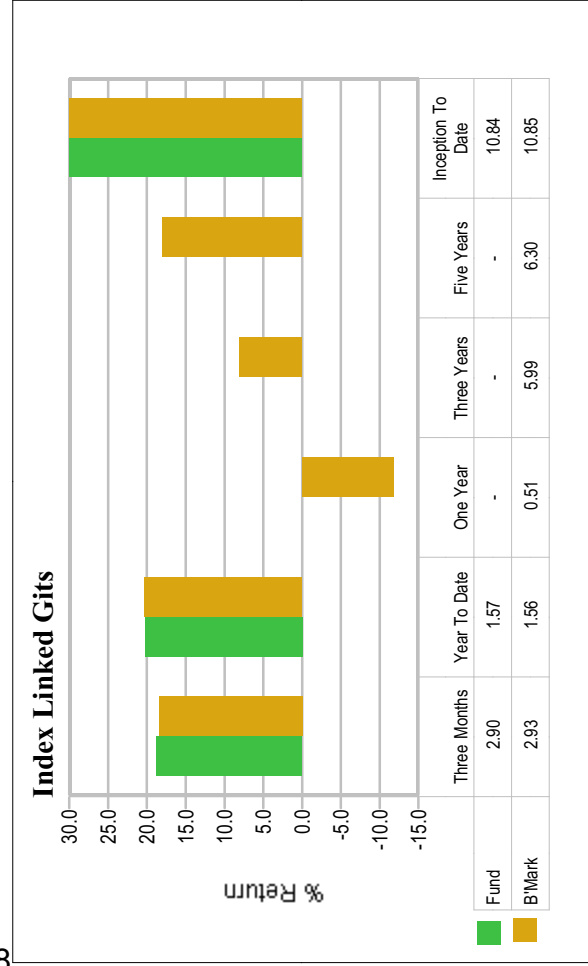
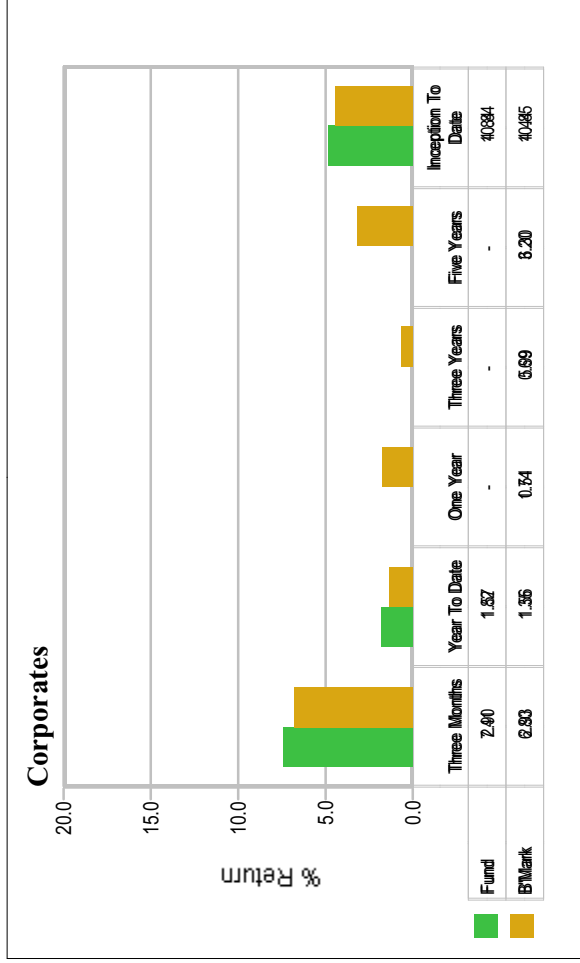
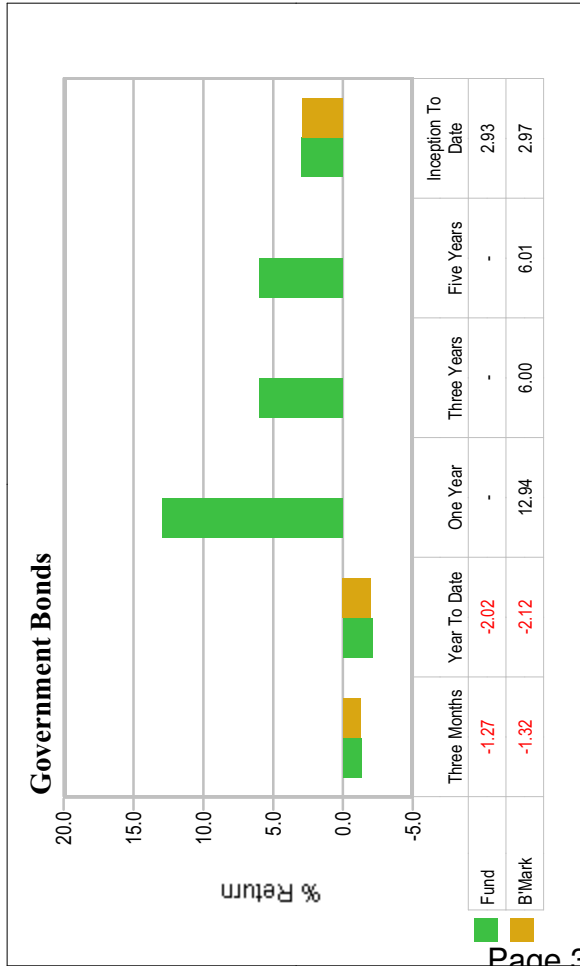
SSGA



SSGA

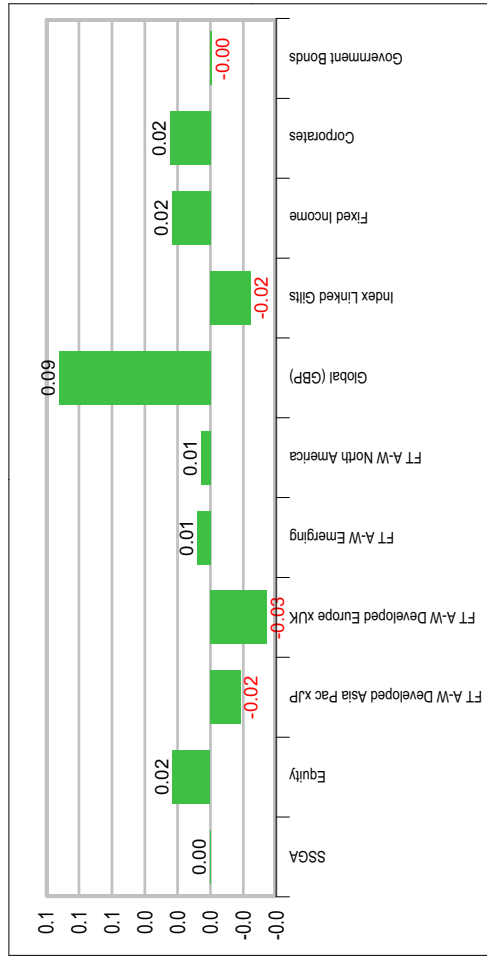


SSGA



SSGA

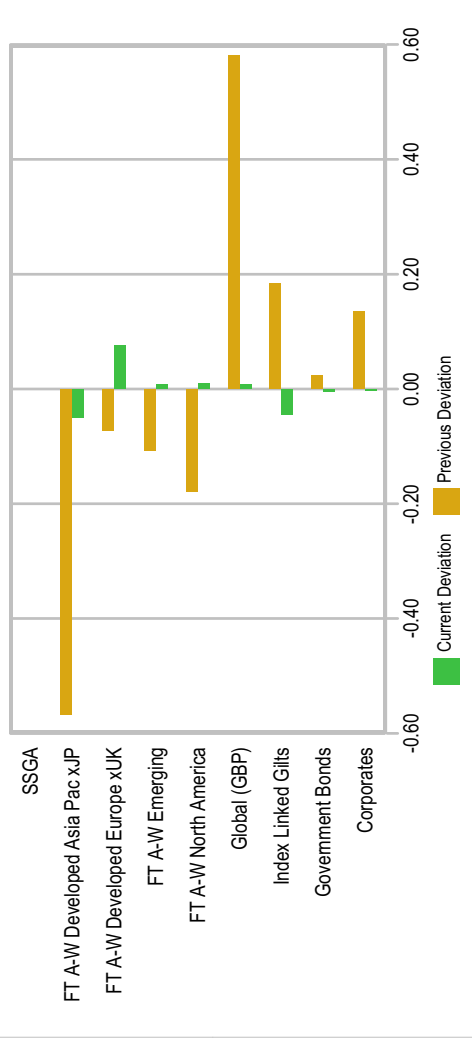
Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
SSGA	8.68	8.68	0.00	0.00	3.69	-0.07	-3.47	0.00
Equity	9.74	-	9.74	0.00	3.72	-0.05	-3.51	0.02
Global (GBP)	11.07	10.88	0.17	0.00	0.06	-0.04	0.07	0.09
FT A-W Developed Asia Pac xJP	10.19	10.37	-0.17	0.00	1.04	-0.01	-1.04	-0.02
FT A-W Developed Europe xUK	9.60	9.85	-0.23	0.00	0.95	-0.00	-0.98	-0.03
FT A-W Emerging	18.75	18.45	0.26	0.00	0.19	0.01	-0.19	0.01
FT A-W North America	1.83	1.84	-0.01	0.00	1.44	-0.01	-1.40	0.01
Fixed Income	6.10	-	6.10	0.00	-0.01	-0.01	0.05	0.02
Corporates	7.41	6.80	0.57	0.00	-0.01	-0.01	0.05	0.02
Government Bonds	-1.27	-1.32	0.05	0.00	-0.00	0.00	0.00	-0.00
Index Linked Gilts	2.90	2.93	-0.03	0.00	-0.02	-0.01	-0.00	-0.02

SSGA

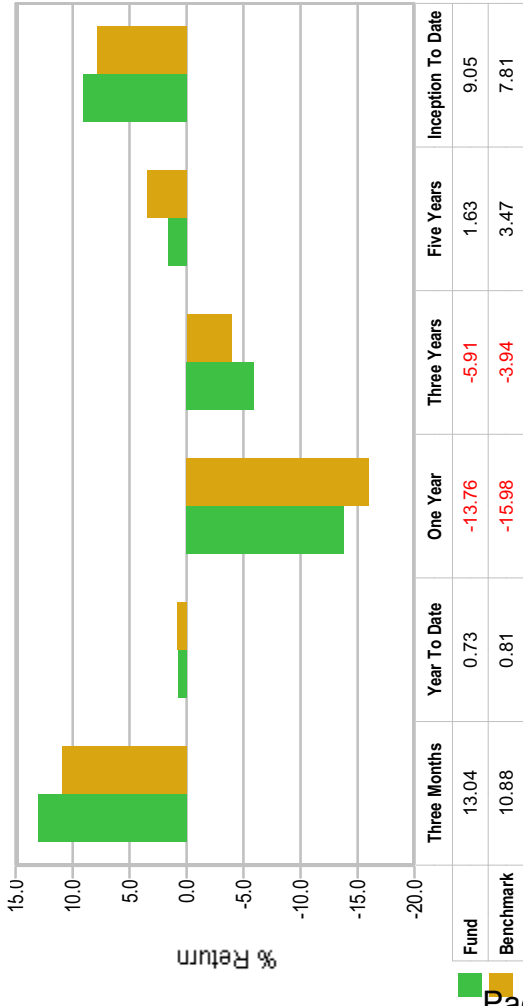
By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
SSGA	100.00	100.00	100.00		100.00	
Equity	80.05	79.66		80.05		79.66
FT A-W Developed Asia Pac xJP	10.95	10.43	11.00	-0.05	11.00	-0.57
FT A-W Developed Europe xUK	11.08	10.93	11.00	0.08	11.00	-0.07
FT A-W Emerging	3.01	2.89	3.00	0.01	3.00	-0.11
FT A-W North America	11.01	10.82	11.00	0.01	11.00	-0.18
Global (GBP)	44.01	44.58	44.00	0.01	44.00	0.58
Fixed Income	9.99	10.16		9.99		10.16
Index Linked Gilts	9.96	10.18	10.00	-0.04	10.00	0.18
Government Bonds	1.50	1.52	1.50	-0.00	1.50	0.02
Corporates	8.50	8.63	8.50	-0.00	8.50	0.13

UBS

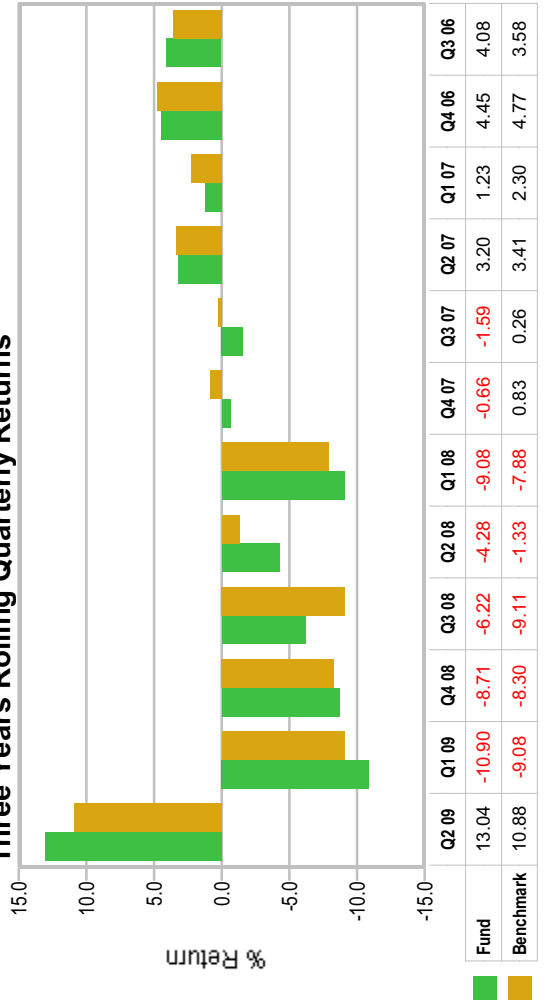
Historical Plan Performance



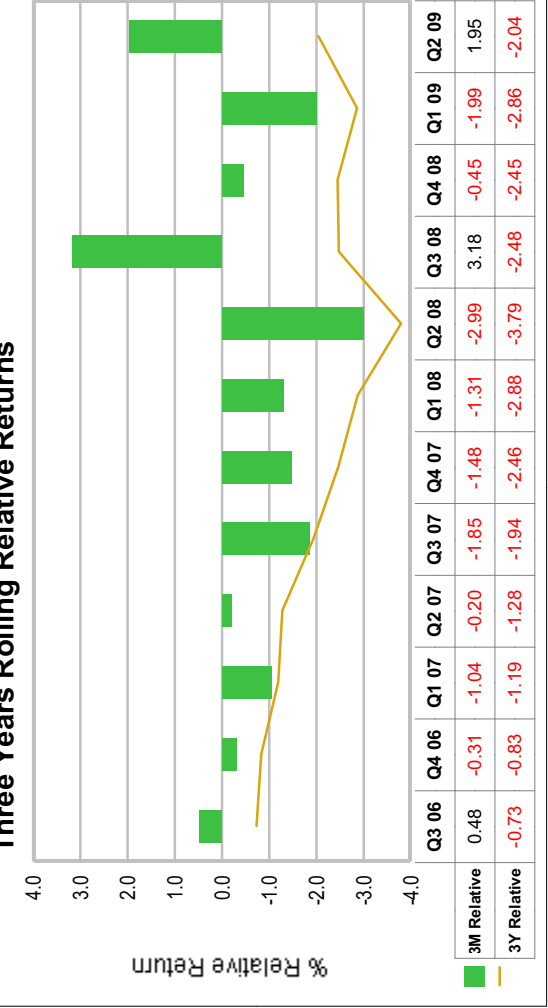
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-5.91	-3.94
Standard Deviation	16.52	14.97
Relative Return	-2.04	
Tracking Error	3.83	
Information Ratio	-0.51	
Beta	1.08	
Alpha	-1.17	
R Squared	0.95	
Sharpe Ratio	-0.70	-0.64
Percentage of Total Fund	18.7	
Inception Date	Dec-1988	
Opening Market Value (£000)	70,618	
Net Investment £(000)	-1,435	
Income Received £(000)	1,239	
Appreciation £(000)	7,986	
Closing Market Value (£000)	78,408	

Three Years Rolling Quarterly Returns

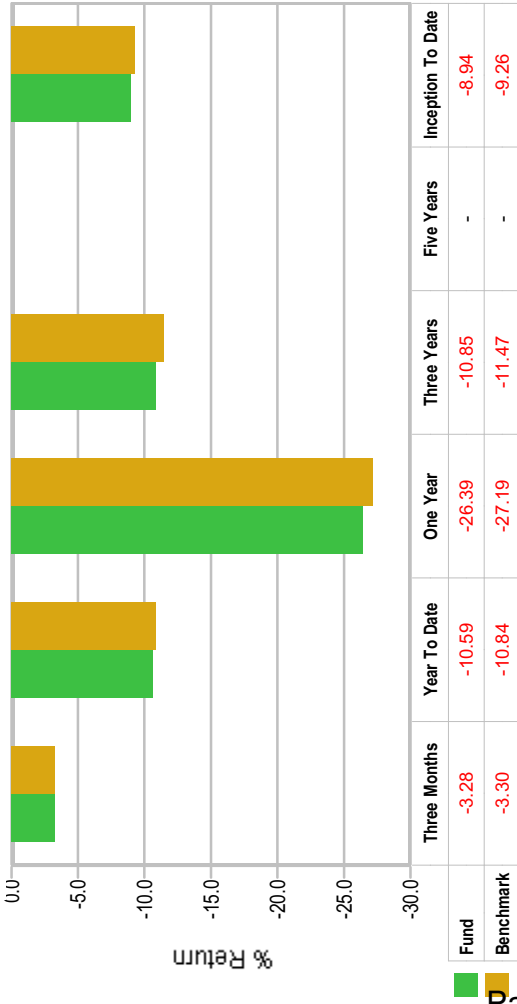


Three Years Rolling Relative Returns



UBS Property

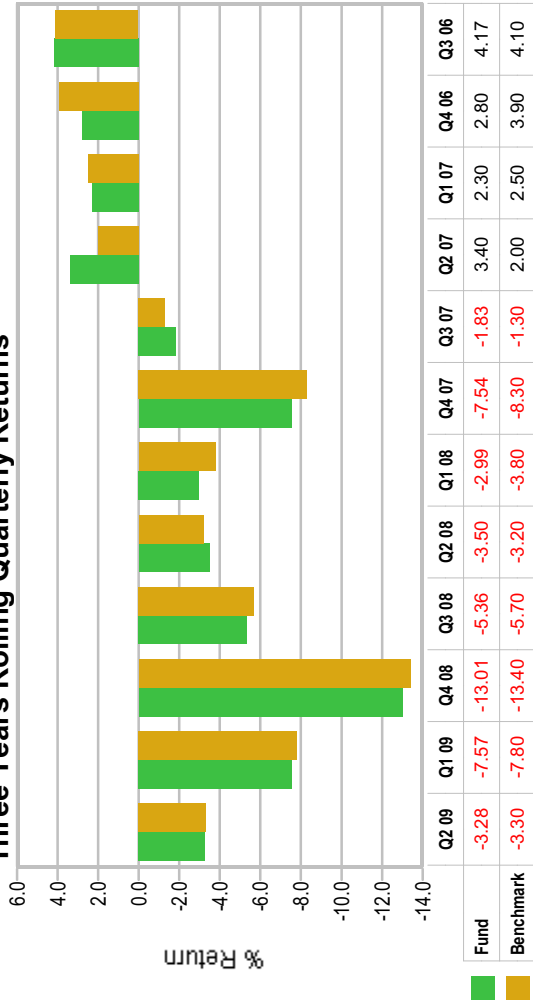
Historical Plan Performance



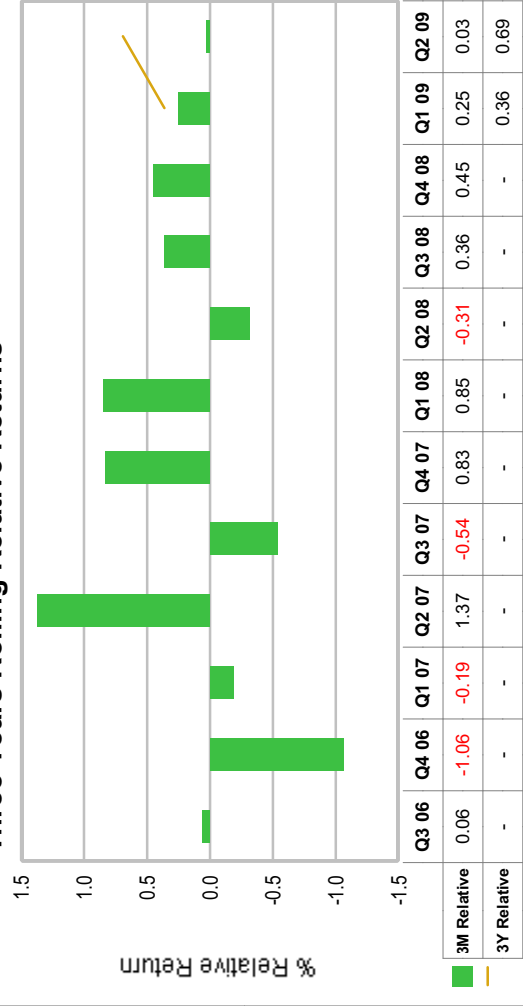
Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-10.85	-11.47
Standard Deviation	6.38	6.17
Relative Return	0.69	
Tracking Error	2.41	
Information Ratio	0.25	
Beta	0.96	
Alpha	0.04	
R Squared	0.87	
Sharpe Ratio	-2.59	-2.78
Percentage of Total Fund	9.3	
Inception Date	Mar-2006	
Opening Market Value (£000)	40,513	
Net Investment £(000)	0	
Income Received £(000)	356	
Appreciation £(000)	-1,683	
Closing Market Value (£000)	39,186	

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



Tracking Error

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

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

Where

Equals

ER Excess return (Portfolio Return minus Benchmark Return)

\overline{ER} Return) Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)

T Number of observations

p Periodicity (number of observations per year)

Page 43

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} Return) 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

$$\alpha = \frac{\sum R_{yt}}{n} - \beta \frac{\sum R_{xt}}{n}$$

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free Return)

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market) 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

$$\beta = \frac{n \sum R_{xt} R_{yt} - \sum R_{xt} \sum R_{yt}}{n \sum (R_{xt})^2 - (\sum R_{xt})^2}$$

Where

Equals

R_{xt} Proxy return) Market / Benchmark excess return (Benchmark return minus Risk Free Return)

R_{yt} Portfolio excess return (Portfolio return minus Risk Free Proxy return)

β those of the market) 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

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

Where**Equals**

R_{xi}
Proxy return)

Market / Benchmark excess return (Benchmark return minus Risk Free

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.

Page 44

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 a growth 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 liabilities, 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 profitability to its 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 potential performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evaluates the bond issues and assigns a code with Aaa as the highest and C as the lowest.

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London Borough of Hillingdon

- 36.8 FTSE All Share
- 36.8 Overseas Equity benchmark
- 10.5 Fixed Income benchmark
- 5.3 FTSE Index Linked > 5 Years
- 10.5 UBS Property Index

Alliance Bernstein

- 50.0 FTSE All Share
- 15.0 FT AW Developed Europe ex UK
- 17.5 FT AWI North America
- 7.5 FT AW Japan
- 5.0 FT AW Developed Asia Pacific ex Japan
- 5.0 MSCI Emerging Markets

Capital International

- 30.0 FTSE AW Developed Europe ex UK
- 35.0 FTSE AW North America
- 12.0 FTSE AW Japan
- 8.0 FTSE AW Developed Asia Pacific ex Japan
- 15.0 MSCI Emerging Markets

Goldman Sachs

- 70.0 ML Sterling Broad Market
- 30.0 FTSE Index Linked 5+ yrs

SSGA

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

UBS

- 100.0 FTSE All Share

UBS Property

- 100.0 HSBC All Balanced Funds

WM LOCAL AUTHORITY

QUARTER 2 2009

The following summary is based on 62 funds with a total Market Value of £73,431m.

Update No. 1 - 06/08/2009

CATEGORY	ASSET MIX (%)			RETURNS (%)					
	Latest Quarter			Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)		Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	62.9	64.6		9.5	7.0	-0.7	-3.9	-17.3	-13.2
GLOBAL POOLED INC UK	1.8	1.8		7.5	7.0	-	-3.9	-	-13.2
UK EQUITIES	29.8	31.0		11.1	10.9	1.2	0.8	-19.9	-20.5
OVERSEAS EQUITIES	31.3	31.9		8.1	6.8	-2.4	-4.1	-14.8	-12.5
North America	9.7	9.3		1.8	1.8	-6.6	-8.2	-14.5	-11.0
Europe	8.9	9.0		8.6	9.9	-7.5	-7.8	-20.3	-20.1
Japan	3.8	3.8		7.0	7.0	-10.6	-10.2	-9.6	-6.5
Pacific (ex Japan)	3.5	3.7		15.0	13.6	12.8	13.5	-7.9	-10.1
Emerging Markets	4.6	5.3		16.3	18.5	16.1	20.4	-15.2	-11.8
Global ex UK	0.9	0.8		7.2	6.8	-3.7	-4.1	-12.3	-12.5
TOTAL BONDS	20.0	19.5		3.1	-	-0.2	-	4.1	-
U.K. BONDS	10.6	10.6		4.7	-1.3	0.5	-2.1	5.2	12.9
OVERSEAS BONDS	3.2	2.8		-3.8	-10.9	-7.4	-15.1	6.2	27.6
INDEX LINKED	5.8	5.6		3.5	2.9	1.7	1.6	1.0	0.5
POOLED BONDS	0.2	0.2		10.5	4.9	7.8	-	2.5	-
TOTAL CASH	4.5	4.4		1.1	0.1	0.6	0.3	2.6	2.4
ALTERNATIVES	6.0	5.5		-4.3	-	-9.3	-	-13.0	-
Total Private Equity	3.3	2.9		-11.6	-	-18.6	-	-9.5	-
Total Hedge Funds	1.8	1.8		3.2	5.9	2.8	7.0	-13.8	-13.9
Other Alternatives	0.9	0.9		6.0	-	2.1	-	-17.5	-
TOTAL EX-PROPERTY	93.5	94.2		7.1	7.1	-0.6	-0.5	-12.6	-7.6
TOTAL PROPERTY	6.5	5.8		-4.2	-2.7	-13.3	-9.6	-27.4	-25.6
TOTAL ASSETS	100.0	100.0		6.4	6.3	-1.5	-1.4	-13.6	-9.1

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 June 2009

LBH PRIVATE EQUITY FUNDS	COMMITMENTS		CALLED TO DATE		DISTRIBUTIONS		NET CURRENT	
	BASE CURRENCY	% of Fund	% of Fund	% of Fund	RECEIVED	% of Fund	INVESTMENT	% of Fund
LGT CAPITAL PARTNERS	£	%	£	%	£	%	000	%
	000		000		000			
Crown private Equity European Buyout Opport.	11,619	2.60	7,680	1.72	3,327	0.74	4,353	0.97
Crown Global Secondaries Plc (US\$)	1,816	0.41	1,409	0.32	648	0.14	761	0.17
Crown Private Equity European Fund	4,253	0.95	2,045	0.46	119	0.03	1,926	0.43
Crown Private Equity European Buyout Opport. II	8,506	1.90	1,871	0.42	0	0.00	1,871	0.42
Crown Asia-Pacific Private Equity Plc (US\$)	1,816	0.41	714	0.16	33	0.01	681	0.15
Crown European Middle Market II plc	3,402	0.76	476	1.22	0	0.00	0	0.00
TOTAL(S) LGT CAPITAL PARTNERS	31,412	7.03	14,195	3.18	4,127	0.92	10,068	2.25
ADAMS STREET PARTNERS	£		£					
Adam Street Partnership Fund - 2005 US Fund	8,476	1.90	5,527	1.24	590	0.1320	4,937	1.10
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,633	0.81	2,585	0.58	284	0.0635	2,301	0.51
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,725	0.61	1,451	0.32	96	0.0215	1,355	0.30
Adam Street Partnership 2006 Direct Fund	908	0.20	788	0.18	14	0.0031	774	0.17
Adam Street Partnership Fund - 2006 US Fund, L.P	5,449	1.22	2,817	0.63	143	0.0320	2,674	0.60
Adams Street Direct Co-Investment Fund, L.P.	1,816	0.41	1,580	0.35	0	0.0000	1,580	0.35
Adams Street Partnership 2007 Direct Fund LP	303	0.07	204	0.05	4	0.0009	200	0.04
Adams Street Partnership - 2007 Non -US Fund	1,060	0.24	283	0.06	0	0.0000	283	0.06

Adams Street Partnership - 2007 US Fund	1,665	0.37	584	0.13	0	0.0000	584	0.13
Adams Street Partnership - 2009 US Fund	908	0.20	19	0.00	0	0.0000	19	0.00
Adams Street Partnership - 2009 Direct Fund	182	0.04	21	0.00	0	0.0000	21	0.00
Adams Street Direct Co-Investment Fund II.	1,514	0.34	35	0.01	0	0.0000	35	0.01
Adams Street 2009 Non-US Emerging Mkt Fund	182	0.04	2	0.00	0	0.0000	2	0.00
TOTAL(S) ADAMS STREET PARTNERS FUNDS	28,821	6.45	15,896	3.56	1,131	0.25	14,765	3.30

FUND VALUE	447,000	
COMMITMENT STRATEGY TO ACHIVE INVESTMENT	39,113	8.75%
	22,350	5.00%
CURRENT INVESTMENT	24,833	5.56%

IRR

%

6.80

1.07

-15.06

-28.06

-4.6

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

Report on the Update to the STATEMENT OF INVESTMENT PRINCIPLES

Contact Officers

James Lake, 01895 277562

Papers with this report

Revised Statement of Investment Principles

SUMMARY

This report details the revisions made to the Statement of Investment Principles (SoIP) following the recommendation to amend the disclosure of fund manager and adviser fee structures. In addition the Alliance Bernstein emerging market benchmark has been amended.

RECOMMENDATIONS

That Committee approve the revised Statement of Investment Principles.

INFORMATION

Fee Structures

1. At the June 2009 Pension Committee it was noted that the Hillingdon Pension Fund was not compliant with an element of Principle 9 of the CIPFA Principles for Investment Decision Making. At the time of the June SoIP revision a decision was made to exclude information relating to fund manager and adviser fee structures as these details were deemed to be commercially sensitive and therefore inappropriate to disclose in a public document.
2. Following this observation a recommendation was made by John Hastings of Hymans Robertson which would allow the fund to become compliant. The recommendation was to provide details of basic fee arrangements but avoid remuneration or percentage values. This approach would satisfy the CIPFA requirement whilst circumventing any commercially sensitive issues.
3. The Fee Structures have been inserted in the Investment Section marked (*) and the Recommendation 10 now shows full compliance.

Alliance Bernstein Benchmark

4. Following the review of Alliance Bernstein's performance for Q2 it was discovered the benchmark being disclosed in terms of emerging market element of the portfolio was incorrect. The SoIP has been amended to show the correct benchmark.
5. Appendix E has been amended to show the correct benchmark of the FTSE All World Emerging index as a benchmark.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

LEGAL IMPLICATIONS

The SoIP report complies with regulations 9 A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852 which came into force on 9 August 2002.

Statement of Investment Principles

(Revised September 2009)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the national Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.
- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998 sets out the powers and duties of the administering authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 1998 was revised on 9 August 2002, to add a provision that requires Statement of Investment Principles to include the extent to which Local Authority Pension Schemes comply with the ten principles of investment practice contained in the document published in April 2002 by CIPFA. This Statement complies with the revised Regulation.
- The ten investment principles referred to above were issued by the Government in October 2001, in response to proposals in the Myners Review of Institutional Investment in the United Kingdom, issued in March 2001.
- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the ten principles of investment practice and the extent to which the London Borough of Hillingdon complies.
- However in 2007 the Treasury sponsored the National Association of Pension Funds (NAPF) to conduct a review of progress made throughout the pension industry following the introduction of the ten principles in 2001.
- The resultant report “Institutional Investment in the UK 6 years on” was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and Her Majesties Treasury and the Department for Work and Pensions jointly commissioned The Pensions Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

- There is an Investment Governance Sub-group specifically for the LGPS (including CLG and CIPFA) who are amending the principles to fit the LGPS. Until these amendments are agreed and there is an appropriate consultation period, followed by revision of the regulations, it is a statutory requirement to continue reporting against the original ten principles until instructed otherwise by CLG.
- Nevertheless regard to the new principles has been given and is shown in appendix B.
- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.
- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.
- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.
- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

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

The **Pensions Committee** has responsibility for:

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

The **Director of Finance and Resources** has responsibility for:

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

- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.

The **Investment Consultants** are responsible for:

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

The **Actuary** is responsible for:

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

The **Investment Managers** are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Director of Finance and Resources in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:

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

FUND LIABILITIES

Scheme Benefits

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

Financing benefits

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

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

Actuarial valuation

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

INVESTMENTS

Approach

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

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are UBS Global Asset Management (UK) Ltd, Alliance Bernstein, State Street Global Advisors and Goldman Sachs Asset Management. Each manager is responsible for the day-to-day management of a segregated portfolio of investments for the Fund. Additionally, two Fund of Fund Managers, manage a Private Equity brief, namely LGT Partners and Adam Street Partners.

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

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

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

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

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

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

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

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

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 1998 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix C.

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

The expected return on investments

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

UBS Asset Management	- 2.00% p.a. in excess of benchmark
Alliance Bernstein	- 2.00% p.a. in excess of benchmark
State Street Global Advisors	- Achieve Benchmark
Goldman Sachs	- 0.75% p.a. in excess of benchmark
UBS Property	- 1.00% p.a. in excess of benchmark

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

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

****new section**

Fee Structures

Alliance Bernstein	- Tiered fee based on portfolio value.
Goldman Sachs	- Tiered fee based on portfolio value.
State Street Global Advisors	- Fixed fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.

UBS Property	- Fixed fee based on portfolio value
Hymans Robertson	- Price per piece
Valentine Furniss	- Fixed fee

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

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments so as to reduce risk to an acceptable level.

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

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

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

The realisation of investments

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

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

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

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

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

The Council supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

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

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

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

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

COMPLIANCE

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

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Officers meet with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out.

This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

CIPFA Principles for Investment Decision Making

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA principles of investment practice.

Principle 1. Effective decision-making		
<p>Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.</p> <p>Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.</p> <p>It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.</p> <p>Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward- looking business plan.</p>		
Compliance		
Full	Part.	No
	✓	
✓		
✓		
	✓	
<p>All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required however there is no formal training programme in place.</p> <p>The officer support team has sufficient experience to support Committee in making decision making responsibilities.</p> <p>There is no need for an investment sub committee as investment issues form a major part of Pension Committee agendas.</p> <p>There is a forward looking plan in terms of monitoring of performance and management of the pension fund, however a three year plan is currently being formulated.</p>		

Principle 2. Clear objectives

Trustees should set out an overall investment objective for the fund that:

- represents their best judgement of what is necessary to meet the fund’s liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund’s liabilities, such as performance relative to other pension funds, or to a market index.

Compliance			How the principle is met
Full	Part.	No	
✓			The investment objectives and attitudes to risk are set out in the Statement of Investment Principles. Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.

Principle 3. Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund’s investment objective.

Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund’s own characteristics, not the average allocation of other funds.

Compliance			How the principle is met
Full	Part.	No	
✓			The strategic asset allocation is reviewed on a top down basis.
✓			All asset classes and opportunities are considered and no major asset classes are excluded. The fund has a commitment to private equity, dealt with by two private equity managers.
✓			Asset allocation reflects the funds own characteristics and a bespoke benchmark is set rather than comparisons to peer groups.

Principle 4 – Expert Advice

Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Compliance			How the principle is met
Full	Part.	No	
✓			A tendering exercise was completed in June 2006 and separate contracts are in place for actuarial services and investment advice.

Principle 5. Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;
- the manager's approach in attempting to achieve the objective; and
- clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

Compliance			How the principle is met
Full	Part.	No	
✓			Investment Management Agreements include guidelines covering investment objectives, restrictions and performance measurement criteria.
✓			Investment management agreements are consistent with the funds overall objectives and risk parameters.

✓			The fund manager approach and the timescales of measurement and evaluation in attempting to achieve the funds objectives are included within the Investment Management Agreement.
✓			There are no significant omissions of any asset type or exclusions of asset classes.
✓			There are no soft commission arrangements in place with fund managers and systems are in place for officers to monitor transaction costs.

Principle 6 – Activism

The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Compliance			How the principle is met
Full	Part.	No	
✓			The fund has issued broad voting guidelines which are identified in appendix D of the Statement of Investment Principles. Activity reports are provided by managers and the custodian.

Principle 7. Appropriate benchmarks

Trustees should:

- explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies

Compliance			How the principle is met
Full	Part.	No	
✓			Full consideration has been given to the appropriateness of index benchmarks and limits have been set on divergence from the index.
✓			Both passive and active management are in place to balance the overall risk and costs of the fund.
✓			Objectives and risk tolerances are compatible to allow genuine active strategies.

Principle 8. Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

Compliance			How the principle is met
Full	Part.	No	
✓			Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Trustee procedures, decision making and deferral of decisions are recorded in the committee papers.
	✓		A formal assessment of adviser performance is yet to be fully established.

Principle 9. Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

Compliance			How the principle is met
Full	Part.	No	
✓			The Statement of Investment Principles includes details of the structure of investment responsibilities and decision making parties.
✓			Included within the statement are the fund investment objectives, the overall investment approach, strategic benchmark, asset allocation and investment manager mandates.
✓			Details of the fee structures and the basis of their selection are included in the Statement of Investment Principles.

Compliance			How the principle is met
Full	Part.	No	
<p>Principle 10. Regular reporting</p> <p>Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers.</p> <p>They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.</p>			
✓			The Statement of Investment Principles is published on the website and is updated regularly.
✓			Systems are in place to report non compliance with the principles.
✓			The Pension Annual Report provides details of manager and fund monitoring and is available on the website. Members are directed to the website but hard copy reports are available on request.

Revised Myners Principles

Principle 1: Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible ownership

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Compliance

The London Borough of Hillingdon Pension Fund broadly complies with the revised Myners principles however a full review will be completed following the revision of the regulations.

APPENDIX C

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended, Schedule 1, set out the legal requirements which apply to the investments of the Fund.

The statutory regulations specify the following restrictions on investments:

- (a) no more than 10% of the fund shall be invested in any single holding;
- (b) no more than 10% of the fund shall be placed on deposit with any one bank or other deposit-taker, other than the National Savings Bank;
- (c) no more than 25% of the fund shall be invested in units of authorised unit trusts managed by any one body or in open ended investment companies managed by any one body or in insurance contracts in managed funds.
- (d) No more than 25% of the fund shall be transferred by the fund under stock lending arrangements
- (e) No more than 10% of the fund shall be invested in securities which are not listed on a recognised stock exchange.
- (f) No more than 2% of the fund may be invested in any one limited partnership and all such investments shall not exceed 5% of the fund;
- (g) No more than 1% of the fund shall be invested in any single sub-underwriting contract and no more than 15% of the fund shall be invested in all sub-underwriting contracts

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

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

Voting Guidelines

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

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25% of total fees. Appointment of auditors be for at least 5 years.

INVESTMENT STRUCTURE – PERFORMANCE BENCHMARK, PERMITTED RANGES AND COMPARATIVE INDICES

ALLIANCE BERNSTEIN			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	50	35 – 65	FTSE All Share
Overseas Equities:			
North America	17.5	2.5 – 32.5	FTSE: AWI North America
Europe (Ex UK)	15	0 – 30	FTSE: Developed Europe ex-UK
Japan	7.5	0 – 22.5	FTSE: AW Japan
Pacific (Ex Japan)	5	0 – 20	FTSE: Developed Asia Pacific ex-Japan
Emerging Markets	5	0 – 20	FTSE All World Emerging Markets
Cash	0	0 - 10	
Total	100		

GOLDMAN SACHS			
Asset Class	Benchmark %	Ranges %	Index
UK Fixed Interest	70	60-80	iBoxx Sterling Non Gilts
UK Index-Linked (over 5 years)	30	20-40	UK Index Linked Gilts over 5 year
Total	100		

STATE STREET GLOBAL ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	Rebalanced Quarterly +/- 10% of Benchmark	FTSE All Share
North America Equity Index sub-fund	11		FTSE World North America
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK
Asia Pacific Equity Index sub-fund	11		FTSE Developed Asia Pacific
Emerging Markets Equity Index fund	3		FTSE All-World All Emerging
UK Conventional Gilts All Stocks fund	1.5		FTA British Govt Conventional Gilts All Stocks
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks
Sterling Corporate Bond All Stocks fund	8.5		Merrill Lynch Sterling Non Gilt
Total	100		

STATE STREET GLOBAL ASSET MANAGEMENT Account 2			
Asset Class	Benchmark %	Ranges %	Index
North America Equity Index sub-Fund	36	Rebalanced Quarterly +/- 10% of Benchmark	FTSE North America
Europe ex UK Equity Index sub-Fund	26		FTSE Europe Developed ex UK
Japan Equity Index sub-Fund	10		FTSE Japan
Asia Pacific ex Japan Equity Index sub-Fund	14		FTSE Developed Asia Pac ex Japan
Emerging Markets Equity Index sub-Fund	14		FTSE All Emerging
Total	100		

STATE STREET GLOBAL ASSET MANAGEMENT Account 3			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index sub-Fund	50	+/- 10% of Benchmark	Merrill Lynch Sterling Non Gilt
Sterling Liquidity sub-Fund	50		
Total	100		

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

UBS PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD Qt Index
Cash	0	0 - 10	
Total	100		

EXTERNAL AUDITOR REPORT on the PENSION FUND ANNUAL REPORT and ACCOUNTS	ITEM 8
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<i>Contact Officers</i>	Nancy le Roux, 01895 250353
<i>Papers with this report</i>	None

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2008/09 Annual Report and Pension Fund Accounts. Regulations require that the auditor's report is communicated to Audit Committee as the body charged with governance of the council's accounts. The report is being brought to Pensions Committee for information.

The report is in draft pending the conclusion of the audit. It is expected the audit will be largely complete by the time the committee meets and a verbal update of the final outcome will be given at the meeting.

The auditor has indicated that it is expected that an unqualified opinion will be given on the Pension fund statements and will be issued by 30 September 2009.

RECOMMENDATIONS

To note the auditor's findings and the actions recommended to improve the quality and accuracy of the information contained within the report and accounts and to address the matters raised within the report.

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 2009.
4. Communities and Local Government (CLG) have introduced an additional requirement for Councils to publish before the 1st December 2009 an annual report which incorporates elements of the financial accounts. Hillingdon have produced an Annual report for several years, although this is the first year in which this document has also been audited. The report has been produced to the same timetable as the accounts to allow external audit to review the final document.

5. Whilst Audit Committee formally approve the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. Cllr Corthorne in his capacity as chairman of Pensions Committee, therefore signed the final version of the Annual Report in advance of the Audit Committee meeting on 22 September 2009.

International Standard on Auditing Report 260 (ISA 260)

6. The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:
 - Key audit risks
 - Accounting policies and financial reporting
 - Accounting and internal control systems
7. In addition, the Auditor requires a "Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 1. 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

Accounting policies and financial reporting

8. There were no financial reporting presentational or disclosure matters which were significant to the 2008/09 financial statements.

Accounting and internal control systems

9. Deloitte identified that investment values obtained from the Custodian were used for preparing the statements, but these values were not input into the Council's financial system to produce the trail balance. They recommend that the trail balance is updated at year end to include the full year change in investment valuation. We fully agree this recommendation and action is underway to revise our procedures for the production of the 2009/10 accounts.

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

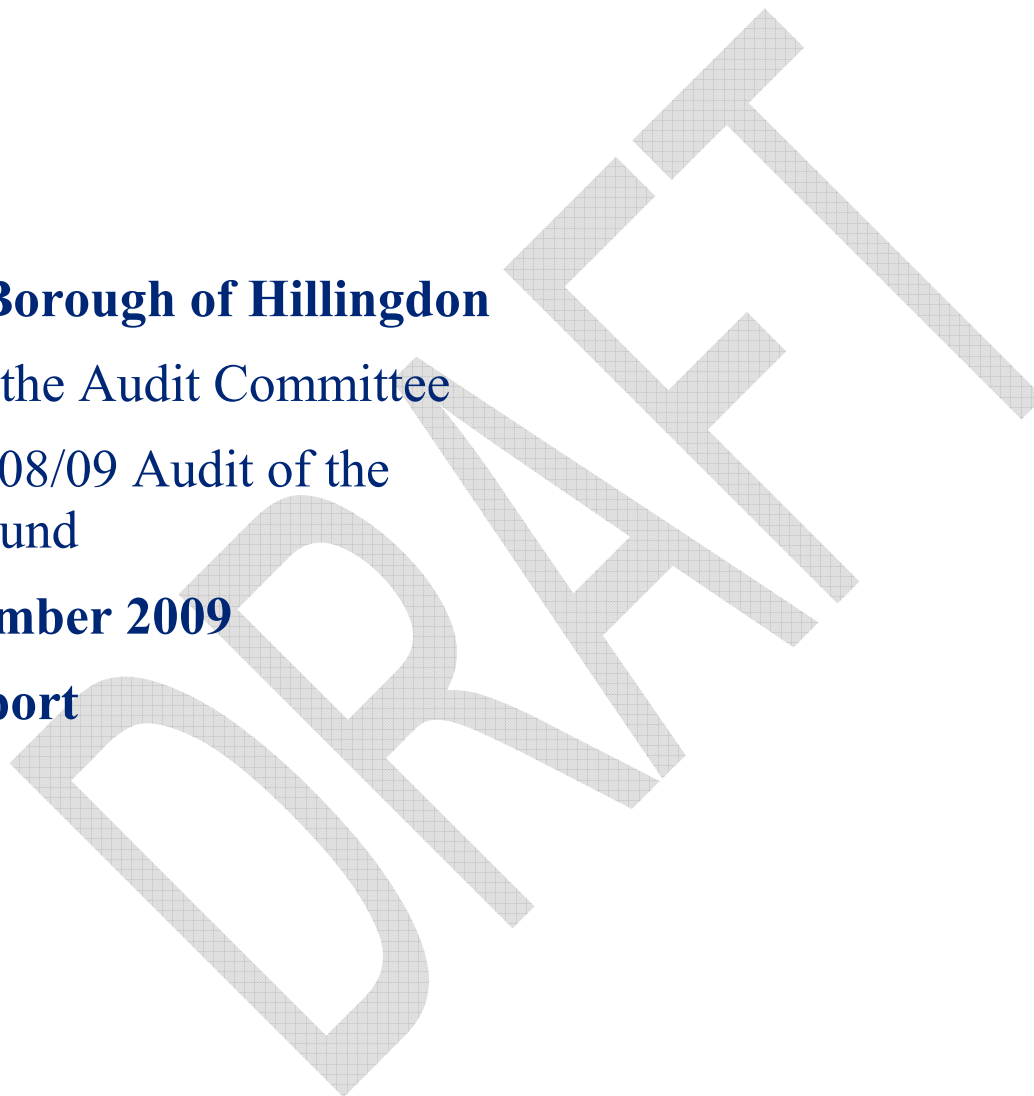
London Borough of Hillingdon

Report to the Audit Committee

On the 2008/09 Audit of the
Pension Fund

22 September 2009

Final Report



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Introduction

We have pleasure in setting out in this document our report to the Audit Committee of London Borough of Hillingdon Pension Fund for the year ended 31 March 2009 for discussion at the meeting scheduled for 22 September 2009. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2009.

Audit Scope

Based on guidance issued by the Audit Commission, auditors are asked from this year (i.e. 2008/09), for audit purposes, to treat the Local Government Pension Scheme (LGPS) as a stand-alone body, with a separate audit plan and reports to those charged with governance.

Our audit of the Pension Fund was planned and performed in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the financial statements and there is no requirement for a Value for Money conclusion on the Pension Fund financial statements specifically.

The Pension Fund financial statements remain part of the financial statements of the Council as a whole. However, as part of the same agenda to improve accountability and audit arrangements for the pension scheme, the LGPS Regulations have been amended to require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual financial statements from 2008/09 onwards.

Our audit report on the Council financial statements covers the Pension Fund section of that document but has been re-formatted to better reflect the separate nature of the Pension Fund audit. In addition, we have been asked by the Commission to issue a separate audit report for inclusion in the annual pension fund report which reports on whether the financial statements contained in the annual report are consistent with the Council's separate financial statements and that other information is not inconsistent with those financial statements.

Introduction (continued)

Key audit risks

We have identified the following key audit risk:

1. Employer and employee contributions:

Unlike the position in the private sector, we are not required to issue a separate statement on contributions. Nevertheless, in view of the complexity arising from the participation of different employers within the scheme, we identified the identification and payment of contributions as an area of specific risk.

As a result of the regulations introduced from 1 April 2008, whereby a new benefit regime was put in place, active members may now contribute to the Pension Fund based on a tiered contribution structure as opposed to a single contribution rate that applied previously. Therefore we have also considered this as a specific audit risk.

We have performed focused audit procedures to address these identified risks and conclude that no material misstatements arise from these areas.

Other matters

We have performed detailed testing around benefits paid during the year. For a sample of benefits payments we have agreed through to supporting documents including acknowledgements from the recipient.

Materiality

Materiality of £6,390,000 is consistent with our determination of planning materiality previously advised to the Audit Committee. As outlined in our audit plan to the Audit Committee, we report on all unadjusted misstatements greater than £128,000 unless they are qualitatively immaterial.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of the Pension Fund's accounting policies and financial reporting. Our findings are discussed in section 3.

Introduction (continued)

Identified misstatements and disclosure deficiencies

At the time of writing, we have not identified any unadjusted misstatements in excess of £128,000.

We have provided comments to management regarding the disclosures on the draft financial statements. We will update the Audit Committee as to whether there are any uncorrected disclosure deficiencies at the meeting on 22 September 2009.

Accounting and internal control systems

We did not identify any material weaknesses in the financial reporting systems.

Detailed control observations noted are explained in section 3.

Independence

Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity.

These were set out in the "Independence policies and procedures" section of our Briefing on audit matters document as provided.

We reconfirm our independence and objectivity to the Audit Committee for the year ended 31 March 2009.

Terms of audit appointment

Local LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements. We refer you to the Briefing on audit matters document attached as an appendix to our Audit Plan as delivered on 28 July 2009 as well as to the Statement of responsibilities of auditors and audited bodies published by the Audit Commission.

Introduction (continued)

Current market conditions

On 27 November 2008, the Financial Reporting Council published an analysis of some of the challenges for audit committees arising from current market conditions and some suggested questions that audit committees may need to address. In addition, the FRC published an Update for Directors of Listed Companies: Going Concern and Liquidity Risk. The update brings together the key accounting requirements and the disclosures relevant to going concern and liquidity risk and sets out the main points of interaction between the judgements made by directors and auditors. Subsequently, the Auditing Practices Board issued a bulletin setting out guidance to auditors on this subject. We confirm that to the extent considered necessary we have taken this into account in the planning and performance of our audit.

Introduction (continued)

Audit status

We have substantially completed our audit in accordance with our Audit Plan which was presented to you on 28 July 2009. However, at the time of writing, certain procedures are still outstanding and need to be finalised before we can finalise our audit opinion:

- Completion of audit of the valuation of investments;
- Agreement of investment values to investment manager reports and custodian reports and to the reconciliation between the two reports;
- Completion of audit of membership movements;
- Receipt of bank letter;
- Final review of draft financial statements;
- Sundry outstanding items; and
- Internal review process.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from the completion of these matters.

On completion of the above we anticipate issuing an unqualified Auditors' report on the financial statements.

1. Key audit risks (continued)

Key audit risk

Background

Contributions

The correct deduction of contributions depends on systems-based processing of membership data and salary details, together with a robust internal control framework. Errors in processing contributions can lead to non-compliance with the agreed rate of contributions schedule, and deducting incorrect amounts from active members' payroll.

Furthermore the Hillingdon Pension Fund has an additional complexity introduced by the participation of more than one employer in the scheme and the introduction of the new benefit structure with its tiered contribution rates.

Deloitte response

We have tested the design and implementation of controls present at the Council for ensuring contributions from all admitted bodies are identified and calculated correctly.

In addition the following procedures were performed:

- Analytical review of amounts received;
- Assessment of compliance with the Rate of Contributions schedule; and
- Recalculated a sample of member contributions in the period.

We have not yet completed the reconciliation of the membership numbers to the draft financial statements nor the detailed testing on contribution rates by other admitted bodies. We will update the Audit Committee of our findings at our meeting on 22 September.

1. Accounting policies and financial reporting

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the council's accounting policies and financial reporting are discussed below.

Accounting policies

There were no accounting policy matters which are significant to the 2008/09 financial statements, except in relation to investment valuation and the implementation of the new SORP which are discussed above.

Financial reporting

There were no financial reporting presentational or disclosure matters which are significant to the 2008/09 financial statements.

2. Accounting and internal control systems

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Control observations

Investment valuation processing - Observation

We note that the investment values obtained from the custodian were used for preparing the financial statements, but that the trial balance was not updated for these valuations. While there is no resulting misstatement in the financial statements, the internal figures held for the fund do not reflect the actual year end position.

Recommendation

We recommend that management update the trial balance at year end to include the full year change in investment valuation.

Management response

We agree with this recommendation. This issue has already been identified internally and developments in the better use of the financial system to produce the financial statements are already underway, and will be fully utilised in the production of the 2009/10 statements.

3. Matters for communication to those charged with governance

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 Ethical Standards and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised.

Non-audit services

We are not aware of any inconsistencies between APB Ethical Standards and the council's policy for the supply of non audit services or of any apparent breach of that policy.

In the period from 1 April 2008 to 31 March 2009, Deloitte has earned £40,000 in professional fees relating to the Pension Fund audit.

International Standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit and adjusted our audit approach as deemed appropriate. The results of this were that no specific reliance was placed in any areas relating to the Pension Fund.

Written representations

A copy of the representation letter to be signed on behalf of the board is included in Appendix 1. Non-standard representations have been highlighted where they are appropriate.

4. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you on 28 July 2009 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

We would be happy to consider a request to perform a more extensive study of these matters and, where compatible with our independence as auditors, assist you with implementing any improvements. As you will appreciate, such an exercise would be a separate engagement to our audit appointment, since the scope and context of our audit work in these areas is necessarily limited.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Deloitte LLP
Chartered Accountants

Birmingham
22 September 2009

Appendix 1: Representation Letter

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ3

Our Ref: GK/HP/GM

Date:

Dear Sirs

London Borough of Hillingdon Pension Fund (“The Scheme”)

This representation letter is provided in connection with your audit of the financial statements of the Scheme for the year ended 31 March 2009 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 Scheme in accordance with applicable law and United Kingdom Accounting Standards (UK GAAP).

We acknowledge as members of the Audit Committee our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of contributions received in respect of active members of the Scheme 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 Scheme have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and members’ meetings, have been made available to you.
2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you all significant facts relating to any frauds or suspected frauds affecting the Scheme 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.

Appendix 1: Representation Letter (continued)

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Scheme's financial statements communicated by members, former members, employers, regulators or others.
6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
7. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the appendix to this letter. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.
8. Where required, the value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the members of the Audit Committee, 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 Scheme. Any significant changes in those values since the year end 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 Scheme and confirm that we have disclosed in the financial statements all transactions relevant to the Scheme 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 Schemes 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 scheme. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Scheme'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. We confirm that the Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change
12. You have been informed of all changes to the Scheme rules.
13. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Scheme's financial statements.
14. No claims in connection with litigation have been or are expected to be received.

Appendix 1: Representation Letter (continued)

15. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
16. There have been no events subsequent to 31 March 2009 which require adjustment of or disclosure in the financial statements or notes thereto.
17. 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.

We confirm the above representations are made on the basis of adequate enquiries of other officials of the Scheme (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

Deloitte.

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Retirement Performance Statistics

Contact Officers

Ken Chisholm, 01895 250847

Papers with this report

nil

SUMMARY

This report summarises the number of early Retirements in the last quarter.

RECOMMENDATIONS

That the contents of the report be noted.

BACKGROUND

- 1) At Committee Meeting on 25 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.
- 2) New performance indicators relevant to the revised Performance Indicators will be reported in all future reports to the Committee.

Number of Cases in the first quarter of 2009/10

- 3) The table below shows the number of employees, by category, whose LGPS benefits have been put into payment

	Redundancy	Efficiency	Ill Health	Voluntary over 60
2006/2007	14	2	6	36
2007/2008	19	3	24	29
2008/2009	26	0	12	37
Current year				
Apr 09 to Jun 09	3	0	5	7

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

- There is no reasonable prospect of the employee obtaining gainful employment* before reaching normal retirement age (age 65). In these cases service is awarded up to age 65
- The employee cannot obtain gainful employment* within a reasonable period** of leaving local government employment***, it is likely that they will be able to

obtain gainful employment* before their normal retirement age (age 65). In these cases 25% of their potential service to age 65 is awarded.

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

Note: * gainful employment is defined as paid employment for not less than 30 hours in each week for a period of not less than 12 months.

** reasonable period is defined as 3 years.

*** the term local government employment is used to indicate that the employee a member of the Local Government Pension Scheme, not that they work for a local authority.

The Local Government Pension Scheme Regulations 2008 introduced a protection for employees aged 45 and over who were members of the LGPS as at 31 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.

FINANCIAL IMPLICATIONS

The cost to the pension fund of early retirements on the grounds of ill health, is recorded by the pensions section, 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.

Cost of Early Retirements monitor

Contact Officers

Nancy Leroux, 01895 250353

Papers with this report

nil

SUMMARY

This report 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.

BACKGROUND

1. 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.
2. 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.
3. 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 2008, to meet anticipated early retirement costs. This 1% employer's contribution is locked in to the rate until March 2011.
4. This report will be 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.

5. MONITORING

Detail for Valuation Period 01.04.2008 to 31.03.2011

	Capital Cost of early retirement to the fund	Payroll Total	Cost as a % of payroll
2008/09	879,902	111,300,000	0.80
2009/10 (Q1)	149,837	111,600,000	0.13
2010/11			

FINANCIAL IMPLICATIONS

These are detailed within the report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report.

ELECTION OF SCHEME MEMBERS TO PENSIONS COMMITTEE	
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<i>Contact Officers</i>	Nancy le Roux, 01895 250353
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<i>Papers with this report</i>	None
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FOR INFORMATION

1. A change to the Council Constitution in May 2006 increased the membership of Pensions Committee to include 2 Non-Trade Union Scheme Members (non voting - 1 non-active Member and 1 active Member)
2. An election was held in February 2006 for these 2 non-trade union scheme member positions and Mr John Holroyd and Mr Nick Manthorpe were elected to serve until March 2010.
3. It is therefore timely to arrange the next election for these 2 positions and the term of office will be 4 years.
4. All scheme members, active, deferred and pensioners, will be sent an invitation to stand for election. The deadline for receipt of applications will be 30 November 2009.
5. A further communication and ballot paper will then be sent to all members during December return in February. Lloyd White has offered us the support of his electoral services team to assist in this ballot.

BACKGROUND DOCUMENTS

Council Constitution – London Borough of Hillingdon

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