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HILLINGDON
LONDON

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Pensions Committee

Date: **WEDNESDAY, 23 JUNE 2010**

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

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Paul Harmsworth (Labour Lead)
George Cooper
Janet Duncan
Richard Lewis

Advisory Members

John Holroyd
Andrew Scott

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Published: Tuesday, 15 June 2010

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

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Agenda

PART II

PRESENTATION:
Transition Update from Nomura plc - Tariq Khalifa & Craig Blackbourn

PART I

PART II

Minutes

Pensions Committee
Tuesday, 30 March 2010
Meeting held at Committee Room 3 - Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

Published on: 6 April 2010
Come into effect on: Immediately

Members Present:
Councillor George Cooper
Councillor Philip Corthorne (Chairman)
Councillor Michael Cox
Councillor Paul Harmsworth
Councillor Michael Markham (Vice-Chairman)

Advisory Members / Co-optee Members present:
Nicholas Manthorpe
John Holroyd

Apologies:
John Thomas, UNISON
Scott Jamieson, Independent Advisor

Officers Present:
Nancy Leroux
Ken Chisholm
James Lake
Babatunde Adekoya
Nav Johal

Also Present
John Hastings
Valentine Furniss

13. APOLOGIES FOR ABSENCE

John Thomas, UNISON.
Scott Jamieson, Independent Advisor

14. DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING

Councillors' Corthorne, Cooper, Cox and Harmsworth, and Advisory Members Nicholas Manthorpe John Holroyd declared an interest, as they are members of the Local Government Pension Scheme.

15. **TO RECEIVE THE MINUTES OF THE MEETING HELD ON 15 DECEMBER 2009**

Agreed as an accurate record.

16. **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 items 8, 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.

PART 1

17. **REVIEW OF PERFORMANCE MEASUREMENT OF THE 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 December 2009. It was noted that the performance of the whole fund for the quarter to 31 December 2009 showed an underperformance of 8.81% with positive returns of 3.02%, compared to the benchmark of 3.83%.

Resolved

1. **That the contents of the report be noted.**
2. **That the performance of the Fund Managers was discussed.**

18. **RETIREMENT PERFORMANCE STATISTICS & COST OF EARLY RETIREMENTS**

The Chairman introduced the report. This report summarised the number of early Retirements in the last quarter and gave an update on the current situation on the cost to the fund of early retirements.

Resolved

1. **That the contents of the report be noted.**

19. **REPORT ON GOVERNANCE**

The Chairman introduced the report. The report provided an update on Pension Fund Governance issues, recommended an update to the Statement of Investment Principles and reported on the progress on the election of Member Representatives to Committee.

Members discussed the increase in focus on pension fund governance and the key governance issues that the Pensions Committee should be focussed.

The Chairman conveyed his thanks to councillors and officers involved in getting the investment sub-committee running and to where it was.

Resolved

1. **That the Committee approved the revised Statement of Investment Principles.**
2. **That the contents of the report be noted.**

PART 2

20. REVIEW OF INVESTMENT STRATEGY & INVESTMENT SUB COMMITTEE

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).

21. BUDGET REPORT

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).

22. RISK MANAGEMENT REPORT

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).

23. 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).

Minutes

Pensions Committee
Wednesday, 14 April 2010
Meeting held at Committee Room 5 - Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

Members Present:
Councillor Philip Corthorne (Chairman)
Paul Harmsworth
Michael Markham (Vice-Chairman)

Apologies:
Councillor George Cooper, Michael Cox and Thomas Manthorpe
John Holroyd
John Thomas

Officers Present:
Nancy Leroux
Ken Chisholm
Nav Johal
Babatunde Adekoya

Also Present
John Hastings

13. DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING

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

14. 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 meeting would be considered in private for the reason stated in the agenda. Members of the press and public were therefore excluded from the meeting.

15. PART 2 - REVIEW OF INVESTMENT STRATEGY

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).

This is a summary of the Pensions Committee proceedings. If you want more detailed information on any of the resolutions, please contact Nav Johal on 01895 550692.

Circulation of this decisions sheet is to Members of the Pensions Committee and appropriate officers.

Minutes

Pensions Committee
Thursday, 13 May 2010
Meeting held at Council Chamber - Civic Centre, High Street, Uxbridge UB8 1UW

HILLINGDON
LONDON

Published on:
Come into effect on: Immediately (or call-in date)

Members Present:
All Councillors

16. ELECTION OF CHAIRMAN

RESOLVED: That Councillor Philip Corthorne be elected Chairman of the Committee for the ensuing municipal year.

17. ELECTION OF VICE CHAIRMAN

RESOLVED: That Councillor Michael Markham be elected Vice-Chairman of the Committee for the ensuing municipal year.

The meeting commenced at 20.53 and closed at 20.54.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nav Johal on 01895 250 692. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	James Lake, 01895 277562

Papers with this report	Northern Trust Executive Report WM Local Authority Quarter Reports Private Equity Listing Private Equity report from Adams Street Private Equity report from LGT Valentine Furniss - Q1 Investment Report Scott Jamieson – Q1 Investment Report

SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the quarter to 31 March 2010. The value of the fund as at the 31 March, including Private equity investments, was £563.8m. This reporting period ended prior to the transition of assets commenced.

This report also provides the annual update of the London Borough of Hillingdon Pension Fund's custodian and fund manager control reviews which are recommended under the Statement on Accounting Standards (SAS) 70 and gives an overview of the third party audit opinion of those controls.

RECOMMENDATIONS

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

INFORMATION

1. The performance of the whole fund for the quarter to 31 March 2009 showed an underperformance figure of 0.62% with positive returns of 6.35%, compared to the benchmark 6.97%. The one year, three years, five years and since inception figures showed a decline of 0.99%, 0.05%,0.21% and 0.05% respectively.

Performance Attribution

	Q1 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	0.48	5.86	(0.88)	(0.55)	(0.63)
UBS	(0.51)	1.59	(2.11)	(2.16)	1.16
Alliance Bernstein	(1.30)	(5.37)	(4.80)	-	(3.75)
UBS Property	0.24	(4.25)	(0.19)	-	(0.67)
SSgA	(0.03)	0.13	-	-	0.06
SSgA Temporary	0.10	-	-	-	0.28
SSgA Drawdown	(0.02)	-	-	-	0.17
Total Fund	**(0.62)**	**(1.76)**	**(2.78)**	**(2.16)**	**(0.36)**

2. The underperformance for the quarter was mainly due to asset allocation and the passive currency effect. These factors detracted from performance by 0.28% and 0.65% respectively. In contrast stock selection had a positive impact adding 0.45%. This theme continues in the one year figures with asset allocation and currency detracting and stock selection contributing to performance.

3. Alliance Bernstein returned 6.77% against a benchmark of 8.07% underperforming by 1.30%. Negative impacts on performance came from stock selection, asset allocation and the currency impact. Over the one year time frame, returns from UK equities were the largest driver towards underperformance.

4. GSAM outperformed their benchmark for the fourth consecutive quarter returning 3.84% against their benchmark of 3.36%. Corporate and government selection strategies were the primary drivers for excess returns.

5. UBS delivered a positive performance of 5.91% but underperformed by 0.51% against their benchmark of 6.42%. Stock selection, primarily in industrials had a positive impact whilst the main negative driver came from asset allocation.

6. The property mandate managed by UBS had positive returns of 5.03% compared to their benchmark of 4.80%. The best performance within the portfolio came from two specialist funds; UBS South East Recovery Fund and the Henderson UK Retail Warehouse Fund. Four other funds also outperformed, but in general the outperformance was a reflection of the stock selection undertaken in Q4 2009.

7. The requirement for SSgA as a passive manager is to replicate their performance benchmark. Over the three funds there was underperformance of 0.03% and 0.02% on the main fund and the drawdown fund and outperformance of 0.10% on the temporary fund.

Absolute Returns

	Alliance Bernstein £000	GSAM £000	SSgA (3 funds) £000	UBS £000	UBS Property £000
Opening Balance	106,992	60,803	196,091	100,251	41,256
Appreciation	6,564	2,253	14,487	5,192	1,488
Income Received	643	76	-	701	589
Investment Withdrawal	(468)	(261)	(837)	(434)	(2)
Closing Balance	113,731	62,871	209,741	105,710	43,331
Active Management Contribution	(1,169)	289	(24)	(453)	109

8. The above table provides details on the impact of manager performance on absolute asset values. The outperformance of GSAM and UBS Property had a positive impact on the appreciation of holdings contributing £289k and £109k respectively. In contrast the underperformance of Alliance Bernstein, SSgA and UBS reduced asset appreciation by £1,169k, £24k and £453k.

9. At the end of March 2010, £29.47m (book cost) had been invested in private equity, which equates to 5.23% of the fund against the target investment of 5%. However this level still remains within the limits of the over-commitment strategy of 8%. In terms of cash movements over the quarter, £1,556k was called and £65k distributed by Adams Street whilst LGT called £192k and distributed £253k.

10. The securities lending activity for the quarter resulted in income of £23.2k. Offset against this was £8.1k of expenses leaving a net figure earned of £15.1k. The total net figure earned for 2009/10 totalled £105.9k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 March 2010 the assets on loan totalled £26m representing approximately 12% of this total.

11. For the quarter ending 31 March 2010, Hillingdon returned 6.35%, outperforming against the WM average by 0.05%. In addition the one year performance figure of 37.90% outperformed average by 2.70%.

M&G UK Companies Financing Fund - update

12. M&G have issued their first draw down notice with funds due from the London Borough of Hillingdon of £922k being settled on the 28 May 2010. M&G believe this first deal offers excellent security together with an attractive price.

13. Since the initial set up of the Fund, due diligence has been carried out on a large number of companies. M&G have met close to fifty companies and are in active dialogue with ten of these at the moment. There has been sufficient progress with five companies as to have termsheets and any of these could result in further lending. Most companies where M&G are no longer in discussion have used banking finance, or occasionally the public bond market, to meet their funding needs. The surprise for M&G has been the willingness of banks to lend in the last twelve months and also their desire to compete with M&G during a difficult period for banking finance. They believe this is solely down to the lending targets imposed on certain banks by the government.

14. M&G also believe it has become more widely understood that the pressure of lending targets for the UK banks has set up a false market. Furthermore, there is a great deal of discussion about the potential problems when the banks are able to act more rationally. This discussion, together with the continued support being receiving from various trade and industry bodies, reassures M&G that the fund remains relevant and will be able to lend further over the next year.

Market Commentary

15. Equity markets started the year well, with the MSCI World posting its strongest first quarter return since 2006. In a reverse of trend developed markets outperformed emerging markets, led by Japan and North America. The robust return for the quarter disguised what was a bumpy ride. The improvement in manufacturing surveys during January helped drive markets forward. This was followed by a period of weakening as concerns regarding Greece's fiscal position mounted. Equity markets then began to recover as members of the European Union indicated their willingness to support Greece and other members should they be unable to re-finance their debts. The equity market rally was furthered by the continuing firming

of economic data throughout March with improvements in both manufacturing and non manufacturing sectors.

16. During late January and early February credit and emerging market spreads widened when the Greek-induced risk aversion swept the markets. They narrowed towards the end of the quarter as support was announced, finishing at a slightly tighter level than at the start of the year. UK gilt returns were subdued as uncertainties surrounding Greece kept sovereign debt firmly in focus.

17. UK commercial property market continued to gain in the first quarter of 2010 with the UK IPD index up 17% from its low in Q2 2009. Forward looking real estate derivatives continue to point towards further gains in 2010.

18. Detailed investment reports have been written by our two Investment Advisors, Valentine Furniss and Scott Hastings, and these are being circulated with this report.

Statement on Accounting Standards - SAS 70 Review

19. The Statement on Accounting Standards (SAS) No. 70 is the authoritative guidance that allows service organisations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. The issuance of a service auditor's report prepared in accordance with SAS 70 signifies that a service organisation has had its control objectives and control activities examined by an independent accounting and auditing firm. The service auditor's report, which includes the service auditor's opinion, is issued to the service organisation at the conclusion of a SAS 70 examination.

20. The latest versions of the custodian and fund manager Statements of Internal Control were obtained and the audit opinions reviewed. Whilst there is no strict requirement to produce these reports and as such not all managers undertake the SAS 70 review, it is recommended under best practice. The custodian and fund managers based in the UK, namely, Northern Trust, Alliance Bernstein, Goldman Sachs, State Street Global Advisors and UBS all undertook reviews and were able to provide a report and audit opinion.

21. It should be noted that the tests covered a specific period and any conclusions, based on findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions.

22. The private equity managers Adams Street Partners and LGT Capital Partners have considered and reviewed the SAS 70 requirement but to date have not implemented any action.

23. Details of the SAS 70 independent auditor and the period of review for each of the UK based fund managers and custodian are detailed below:

- Alliance Bernstein - PricewaterhouseCoopers 01/10/08 to 30/09/09
- Goldman Sachs **-** PricewaterhouseCoopers 01/07/08 to 30/09/09
- State Street Global Advisors **-** PricewaterhouseCoopers 01/07/08 to 30/06/09

- UBS Global Asset Management - Ernst and Young 01/01/09 to 31/12/09
- Northern Trust **-** KPMG 01/10/08 to 30/09/09

24. In each of the above cases the audit opinion showed the described controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved.

25. Private Equity - Adams Street Partners and LGT Capital Partners have been contracted on a fund of funds basis. As such they are consolidating the accounting of managers to which funds are committed. Both managers have considered the implementation of a SAS 70 review but to date have deemed it unviable. However, all the funds held by the private equity managers have undergone an audit of their financial statements. Although not expressly checking internal controls, an audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. The 2009 accounts are yet to be audited however the audit reports prior to this have provided an unqualified opinion.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

Custodian and Fund Manager SAS 70 reports

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London Borough of Hillingdon

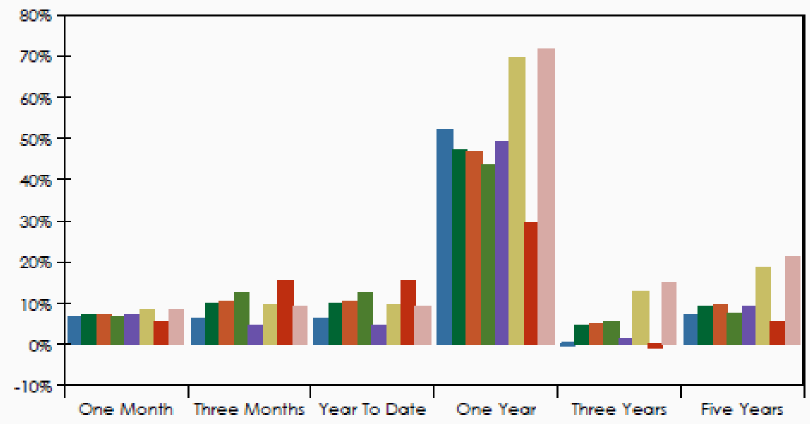
1st Quarter, 2010

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	One Month	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	6.8	6.4	6.4	52.3	-0.2	7.2
FT: World	6.9	9.9	9.9	47.1	4.8	9.2
FT: World ex UK	6.9	10.3	10.3	46.8	5.2	9.4
FT: World North America	6.6	12.5	12.5	43.2	5.4	7.6
FT: World Europe	7.1	4.6	4.6	49.5	1.4	9.1
FT: Developed Asia Pac x Jp	8.1	9.8	9.8	69.7	12.9	18.4
FT AW: Japan	5.5	15.4	15.4	29.6	-0.7	5.5
MSCI Emerging Markets GD	8.5	9.1	9.1	71.6	14.9	21.2

All index returns are in GBP terms unless stated otherwise.

Northern Trust

The first quarter of 2010 has seen the global economic recovery continue along two lines, the distinction being between the developed and emerging markets. Governments and central banks in the developed world continue with supporting measures amid lingering fears of a double dip recession, sovereign debt crises and currency depreciation. The emerging markets and particularly Latin America, China and India have enjoyed strong recoveries and are now removing fiscal easing policy in order to avoid currency appreciation and consumer price inflation. Strength of balance sheets is the key differentiator; there is less debt in the emerging economies, the memory of the financial crises of the 90s deterred those nations from participating in the credit bubble that engulfed the west in the last decade. One year regional index returns are hovering around the 50% mark with Japan at the low end of the range and Emerging Markets still outperforming all other regions. The OECD has predicted a slowing in the rate of US GDP growth in the first 2 quarters of this year to 2.4% and 2.3% from the 5.6% witnessed in Q4 2009. It expects a continuation of growth in the UK and a slowing in Japan. Gold prices ended March up marginally from December at $1,124 per ounce. The price of crude oil finished Q1 up again at $86 per barrel, an 18 month high. Commodities related shares with links to the emerging markets remain attractive to most strategists as growth exerts upward pressure on prices. The FTSE World was up 9.9% (GBP) in quarter 1 2010.

The FTSE 100 returned 6% over Q1 mirroring the last 3 months of 2009. March showed solid performance from the All Share index, raw materials were among the best sectors while telecoms lagged and large cap outperformed their mid and small cap counterparts. RPI for March was up to 3.4% following a February rise after the January VAT increase and higher petrol costs. The Nationwide house price index saw its first fall in 10 months. Total unemployment levels continue to fall although the official measure remained the same as December at 7.8%. Retail sales figures continued to drop from Q4 and industrial production remains low when compared with 2008. The latest revision of Q4 GDP has taken the number back up from 0.1% to 0.4%, the original estimate heralded as a moderate sign of exit from recession. The BoE persevered with the all time low base rate of 0.5% and it looks very likely that the bond buy back programme will be put on hold while the fragile recovery is nurtured. The FTSE All Share was up 6.4% (GBP) over the first quarter.

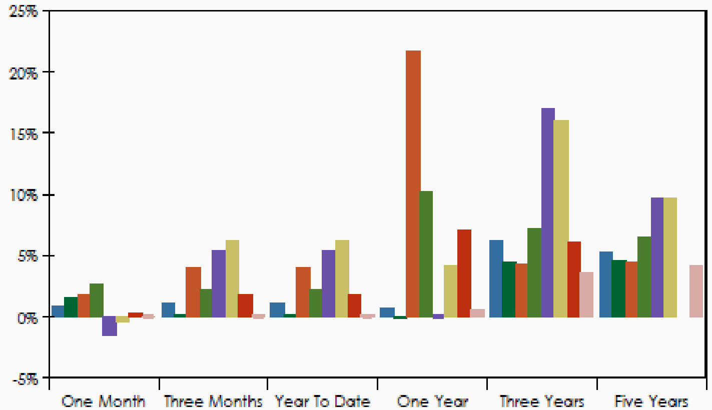
The FTSE Europe ex UK index returned 4% (GBP) over Q1. Spain, Greece, Portugal and Ireland remain in crisis, their economies heavily dependant on government stimulus. Germany, France and the IMF have come together to support Greece despite some national dissent. Overall Eurozone recovery is now threatened by the ties that bind despite France and Germany leading the way with growth in 2009. However the IFO business sentiment index moved up again and remains confident about the next 6 months. Exports continue to benefit from the weak Euro. The Healthcare sector performed well as appetite for risk dropped off. Unemployment increased across the Eurozone and has now reached 10%. Eurozone CPI inflation ended March up from 2009 at 1.4%, remaining below the ECB's 2% ceiling. The ECB left its main rate unchanged at 1%.

The US surged ahead of most regional counterparts over the first 3 months of 2010. Manufacturing is on the rise and vehicle sales are expected to exceed 11 million units, up from a year ago but 5 million short of 2008 levels. Most sectors gained led by the defensive industrials and consumer discretionary. The passing of healthcare legislation and the pact signed with Russia to cut the nuclear arsenals of both nations marked a historic quarter for President Obama. Given that healthcare for 40 million uninsured Americans will cost significant money, the trillion dollars spent on 2 wars since 2000 will not be able to be maintained. US unemployment has declined to 9.7% from 10% at the end of 2009. Stronger consumer spending and the beginnings of private sector job creation infer that the recovery is moving in line with hopes and predictions. During the quarter sales of new houses fell by 11% to the lowest level recorded in the measure's 50 year history. US 4th quarter GDP was 5.6% at the most recent estimate although final sales came in at a more reasonable 1.4%. The federal funds target rate was maintained at its all time low of 0-0.25% in the hopes of sustaining recovery.

The FT: World North America index was up 12.5% (GBP) over the first quarter of 2010 beaten only by Japan over the same 3 months. Japanese equities outstripped all contemporaries over the first 3 months of 2010 despite a fall in GDP of -0.1%. Exports have bounced back strongly from their low a year ago but are still 20% below 2008 levels. Deflation persists, the CPI was down 1.1% on the year to February and full time jobs continue to decline as part time employment increases. The government is pressuring the central bank to counter falling prices. Most of the big names forecast profits but the main story continues to be Toyota's alleged negligence regarding the safety of its vehicles. The FTSE Japan returned 15.4% (GBP) for Q1; the FTSE Asia Pacific ex Japan returned 9.8% (GBP). Trade within the Asia region, driven in the main by China's stimulus policy has boosted the ongoing recovery. In contrast to Japan, inflation is positive and currency appreciation is being forecast by many commentators. Latin America has never suffered with deflation but encouragingly here inflation has been kept within manageable levels, Brazil being the key success story. Ongoing growth in the region is tied to successful exports of commodities which in turn relies upon continuing appetite coming from Western Markets and Asia. The target 8-10% growth in the region in 2010 still seems reasonable. MSCI Emerging Markets index returned 9.1% (GBP) for the first quarter.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns%

	One Month	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	0.8	1.1	1.1	0.8	6.1	5.2
FTSE All Stock > 15 Yr. Gilts	1.5	0.2	0.2	-0.2	4.4	4.5
ML STG Non-Gilts	1.8	4.0	4.0	21.7	4.3	4.4
FTSE Index Linked	2.6	2.2	2.2	10.3	7.2	6.6
JPM GBI Global	-1.5	5.3	5.3	0.0	16.9	9.6
BC Global Aggregate	-0.4	6.2	6.2	4.2	16.0	9.6
BC Global Aggregate Hedged (	0.2	1.8	1.8	7.0	6.1	--
1 Month Sterling LIBOR	0.0	0.1	0.1	0.6	3.5	4.1

All index returns are in GBP terms unless stated otherwise.

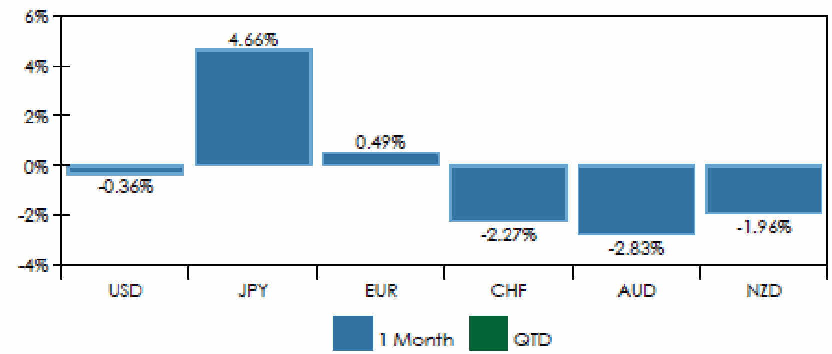
Northern Trust

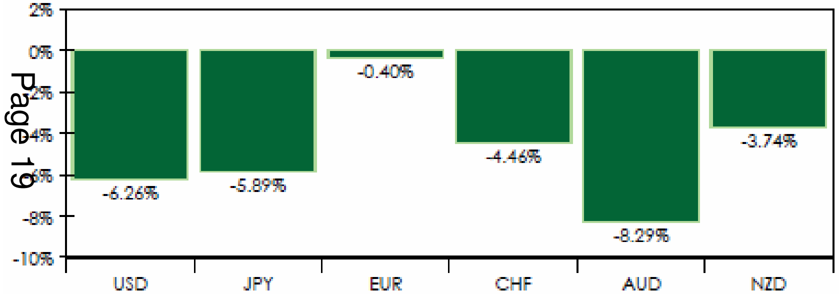
In spite of concerns over sustainability, the global economic recovery gathered pace over Q1 with emerging Asia leading the way. China continues to expand strongly – by 10.7% in the year to Q4 2009, while India's economic prospects look healthy with real (inflation adjusted) GDP projected to have grown by 6.5% in 2009. Both countries are beginning to tighten monetary policy in response to building inflationary pressures. China has raised bank reserve requirements twice in recent months, by 50bps each tim to 16.5% for larger banks and 14.5% for smaller. India raised official interest rates in March by 25bps taking the reverse repo to 3.5% and the repo rate to 5%. Among and unlike the other developed economies Australia has not experienced the same severity of deterioration in credit conditions and it continues to benefit from the resource hungry expansion in the Asia Pacific region, especially China. One of the first developed economies to raise its policy rate following the global recession, the Reserve Bank of Australia (RBA) increased the cash rate from 3.75% to 4% in March. The main financial market themes over the quarter have been monetary policy exit strategies in terms of timing and sovereign credit risk, in particular that of Greece and its impact on the euro zone stability. The Bank of England (BoE) left the base rate unchanged at 0.5% and suspended its Asset Purchase Facility (APF) at £200bn in February partly due to concerns over the inflation outlook as the CPI peaked at 3.5% in January, although Governor King stressed that it is "far too soon to conclude" that no further asset purchases will be required. Government bond yields rose again through February as worries over rising public debt intensified on the news that the UK government ran a budget deficit of £4.3bn in January, a month where inflows of tax receipts are at their peak. It is the first time January has posted a deficit since figures started compiling on a monthly basis in 1993. The magnitude of the deficit led to calls for the Chancellor to go much further in tightening fiscal policy in the 2010 Budget. However the Budget was notably lacking in detail on how half the planned £78bn reduction in government borrowing, from £167bn in the current financial year to a deficit of £89bn in 2013/14 would be achieved. UK GDP growth in Q4 2009 was revised upwards from 0.3% to 0.4% quarter on quarter. Business confidence appears to have improved with the manufacturing and service sector PMIs now both well above the 50 level consistent with economic expansion; however with corporate debt levels at a historically high level, many companies are continuing to de-leverage rather than take on new investment. The upcoming UK general election in May and the prospect of a "hung" Parliament where no party has an outright majority, appears to be causing further uncertainty in the government bond market. UK Gilt 10 year yields ended the quarter at 3.95% down from 4% at the end of December. The FTSE All Stock Gilts closed up at 1.1% (GBP) for the quarter, while the ML All Non-Gilts index returned 4.0% (GBP).

The European Central Bank (ECB) maintained its main refinancing rate at 1.0% with the economic outlook for growth uncertain, but continues to unwind "unconventional" policy stimulus measures with the March 6-month tender, the last. In Europe the euro-zone fixed income markets have been dominated by worries over the weak public sector finances particularly that of Greece but also for other peripheral euro zone countries as fears of contagion spread. Greece's fiscal consolidation plan announced in March and successful bond issues initially saw the spread of 10 year Greek government bond yields narrow over comparable German bunds to about 290bps from over 350bps at the end of February. However the markets remain nervous, as Greece saw continued pressure from the ratings agencies. Additionally the emergency financial support facility struck between euro-zone members and the IMF is believed to be less a back-stop and more likely a reality with the cost of refinancing some €55bn of debt perhaps proving too much. The Greek 10 year government bond yields closed the quarter at 6.53%, 333 bps higher than the benchmark German bund yield of 3.09%. The unemployment rate across the 16-nation euro zone hit 10% in February, the first time it has reached double figures since the euro was introduced. The iTraxx Europe 5yr index, representative of 125 investment grade entities across 6 sectors saw spreads widen from 75.86 at the end of last year to a high of 93.79 at the beginning of February before Greece announced further fiscal consolidation measures, to narrow back down to 75.19 at quarter end. The JPM European Govt Bond index returned 2.33% (EUR) and the Barclay Capital Euro Aggregate Corporate bond index returned 3.27% (EUR) for Q1 2010.

The Federal Reserve open committee (FOMC) continues to hold the target rate at 0-0.25%, reiterating their view that the current uncertain US economic climate continues to warrant "exceptionally low levels of the federal funds rate for an extended period". However as global financial conditions have improved, central banks including the Federal Reserve are starting to unwind their special liquidity measures to avoid potential price pressures build-up. The Fed raised its discount rate – at which it lends directly to commercial banks – by 0.25% to 0.75% in February. The Fed has also ended a number of special liquidity facilities including the Term Securities Lending Facility. January's FOMC minutes indicated that asset sales, notably agency mortgage backed securities (MBS) and debt would take place at the appropriate time, although with the fragility of the housing market this formal reversal of the Fed's quantitative easing strategy is some way off. Concerns about Greece's debt situation initially saw a flight to quality however stronger economic indicators over the quarter including the March increase by 164,000 in non-farm employment pushed yields back up. The 10 year Treasury yield closed the quarter at 3.84% unchanged from the end of Q4. For the quarter, the JPM US Govt Bond index returned 1.15% (USD) and the Barclay Capital Global Aggregate Corporate Bond index returned 0.44% (USD).

Currency Performance (in GBP)





Currency Returns%

	One Month	Quarter To Date	Year To Date	One Year	Three Years	Five Years
United States dollar	-0.36	-6.26	-6.26	5.67	-8.56	-4.39
Japanese yen	4.66	-5.89	-5.89	0.12	-16.35	-7.09
European Union euro	0.49	-0.40	-0.40	3.77	-9.10	-5.20
Swiss franc	-2.27	-4.46	-4.46	-2.06	-13.50	-6.88
Australian dollar	-2.83	-8.29	-8.29	-22.18	-12.81	-7.81
New Zealand dollar	-1.96	-3.74	-3.74	-16.10	-8.30	-4.30

Northern Trust

The first quarter of 2010 saw extended downward pressure on the Euro on several fronts. The Greek public finance crisis continued to plague the currency with similar sovereign debt concerns spreading across the Eurozone's weaker economies, namely Portugal, Ireland, and Spain and to some extent Italy. In the UK, the prospect of a hung parliament in the upcoming 6th of May general election injected further uncertainty as the markets reacted unfavourably to the lack of direction in addressing the country's budget deficit. The US Dollar appreciated against both the Euro and Pound with investors seeking a 'safer-bet'.

The Chinese Yuan came into heightened focus over the quarter as US officials rallied for a revaluation of the currency. China had overtaken Germany as the world's biggest exporter and a certainty to surpass Japan as second biggest global economy in 2010. Over in the Middle East, markets responded positively to Dubai's restructuring plan for Dubai World to recapitalise its USD 23.5 billion of debt whilst Moody downgraded a string of government related entities in Abu Dhabi.

Over Q1, the US Dollar appreciated against most major developed currencies, gaining 6.3%, 5.9% and 0.4% in USD terms vs. the Pound, Euro and Yen respectively. The exception was the Australian Dollar against which it lost -2.0% as the Reserve Bank of Australia lifted interest rate to 4.0%. Strength in the US dollar stemmed from positive data on manufacturing PMI hitting its highest level of 55.9 since April 2006, an increase in industrial production and strong unexpected sales. The negative sentiments on the Eurozone and UK also contributed to the dollar's support. Risk aversion caused investors to take flight to safety from risky investments with US Treasury assets receiving demand despite the US government's forecast of a USD 1,566 billion budget deficit for 2010. The Fed Funds rate was unchanged and remained between 0%-0.25%.

The European Central Bank commenced withdrawal of its stimulus package for the financial markets and left interest rates unchanged at 1% as at end of March 2010. Recovery in the Eurozone stumbled as doubts surfaced on sustainability of the economic activity into 2010 with broad PMI data suffering a first overall drop since February 2009. In addition, Greek sovereign debt continued to decimate confidence in the Eurozone as investors were sceptical on the country emerging unscathed through the crisis. The single zone currency fluctuated as events on Greece's bailout unfolded over the three month period. The Euro was put under further duress as Portugal's sovereign bond auction had to be scaled back, casting further doubts on other Eurozone high-borrowing member states needing bailouts to prevent default. Fitch also downgraded Portugal from AA to AA- sending European markets into decline. With flat growth from H2 2009 GDP and unemployment reaching double digits for the very first time since introduction of the single currency, the Euro depreciated by -5.9% in EUR terms against the US Dollar over Q1 and -5.5% vs. the Japanese Yen, but enjoyed a marginal +0.4% gain vs. the Pound.

After pumping GBP 200 billion into the UK economy, the Bank of England temporarily halted its quantitative easing programme in Q1 with possibility of a reintroduction pending on health of the economy. The interest rate was left at the historical low of 0.5%. Favourable news of a stronger than initially estimated final Q4 09 GDP figure of +0.4% proved a welcome relief. However, the spectre of "double-dipped" recession remained a real concern with persistent weakness in housing market, poor winter sales, increased unemployment and the release of disappointing data showing business sentiments suffering the biggest fall in over 40 years down 24% for 2009; manufacturing investments down by 36% for the year and service sector down by 30% over 12 months to Dec 09. Amidst a backdrop of political worries, Sterling closed the quarter down against the US Dollar by -6.3%, Euro by -0.4% and Yen by -5.9% in GBP terms.

On the back of consumer price inflation reaching its highest level in 17 months and strong industrial production figures, the Chinese central bank raised the deposits reserve threshold for banks twice over the first quarter. The surprise tightening hit high yielding and commodity based currencies such as the AUD, CAD and NZD. Bank of Japan kept rates at the ultra low level of 0.1% and increased financial aid to local banks to support its economic recovery. Oil prices surged to an 18 month high as a result of strong global manufacturing growth and China's insatiable appetite.

Scheme Performance

During the first quarter of 2010 London Borough of Hillingdon underperformed the Total Plan Benchmark by -0.58% (relative), returning 6.35% vs. 6.97%. Asset allocation (-0.28%) and the passive currency effect (-0.65%) were the primary sources of this underperformance. Japanese Equities and Cash were the main asset detractors from the Fund, while Asia Pacific ex Japan, Governments Bonds and Real Estate all contributed a positive effect.
Over the longer period of 1 year the underperformance of -1.26% is driven by a currency effect of -0.86% and asset allocation of -0.53%. Stock selection redeemed a positive 0.26% basis points over this period. Cash (-1.49%) and Europe ex UK Equities (-0.54%) were the main negative contributors. Real Estates (0.57%), Fixed Income (0.38%) and Japanese Equity (0.32%) being the main positive contributors.

Of the seven current managers, three managers, 23.82% of the portfolio, have marginally outperformed during the quarter. Their relative outperformance ranged from 0.09% to 0.46%.
Relative performance for the remaining managers ranged from -0.01% to -1.20%. Unfortunately, these negative returns accounted for the remaining 76.18% of the portfolio, with 2 of the 3 largest weightings returning the largest negative returns (UBS 19.73% -0.48%) and (Alliance 21.23% -1.20%).
Historically, the Fund shows a pattern of underperformance with ten of the last twelve quarters having negative relative returns. Consequently, the Fund underperforms over all short and long term periods.

Manager Performance

Alliance Bernstein

Alliance Bernstein continued to underperform returning 6.77% compared to the benchmarks 8.07%. Asset Allocation (-0.40%), Stock selection (-0.36%) and currency impact (-0.39%) all combined to make a relative underperformance of -1.20%. Only UK Equities returned a positive contribution over the period.
Over the longer time period of 1 year, UK Equities (-2.60%) is by far the biggest driver of the relative underperformance of -3.57%. This was the eleventh consecutive quarter of below benchmark returns. The manager continues to underperform over all time periods. Since Inception Alliance now underperform their benchmark by -3.61% on a relative annualized basis.

Goldman Sachs

Goldman Sachs outperformed their benchmark for the fourth consecutive quarter 3.84% vs.3.36%. This continued outperformance extends the managers one year performance to 20.04% vs. 14.18%. However, the run of underperformance between q1 08 and q1 09 continues to drag the longer time periods of 3yrs, 5yrs and since inception into underperformance.

UBS

During the first quarter of 2010, UBS underperformed the FTSE All Share 5.91% vs. 6.42%. In Stock selection (+0.31%), Industrials (+0.88%) added the main positive contribution with Consumer Goods (-0.47%) being the main detractor. Asset Allocation of -0.79% was in the main driven by Common Stock Funds (-0.19% UBS Smaller Companies), Basic Materials (-0.26%) and Health Care (-0.20%).
Over the last year, the manager now shows two quarters of underperformance q110 and q4 09 preceded by two quarters of outperformance q1 09 and q2 09, this enables UBS to be ahead of the benchmark over this period. However, over the longer time periods 3yrs and 5yrs, the manager underperforms by -2.05% and -2.00% respectively on a relative basis. Since inception in December 1988, UBS returns 10.30% vs. 9.14% on an annualised basis.

UBS Property

UBS Property outperformed their benchmark (5.03% vs.4.80%). This reverses the trend of two previous quarters of underperformance. The Fund remains underperforming over all the longer time periods, with the since inception return now standing at -4.88% vs. -4.21% an underperformance of -0.70 basis points on a relative basis.

Manager Performance

SSGA

As one would expect, all asset classes returned performance in line with their benchmark. Asset allocation is back in line to within 10 basis points.

SSGA Drawdown

The fund slightly out performed its benchmark by 10 basis points. Over the inception to date period the fund is now 26 basis points ahead of its benchmark on a relative basis.

SSGA Temporary

The fund returned performance in line with its benchmark.

Active Contribution

By Manager

	Active Contribution Q1 10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 3/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 2/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 1/10
Goldman Sachs	289,340.05	2.23	2.23	-0.00	-0.00	-52.78	-0.38	-0.43	0.05	0.05	33,610.35	1.97	1.55	0.42	0.41	255,782.49
UBS	-452,532.30	7.03	6.76	0.27	0.25	282,482.46	2.73	3.37	-0.64	-0.62	-639,402.48	-3.67	-3.57	-0.10	-0.10	-95,612.28
Alliance Bernstein	-1,169,450.13	7.46	6.87	0.59	0.55	664,956.90	3.93	4.77	-0.84	-0.80	-895,298.44	-4.40	-3.48	-0.91	-0.95	-939,108.60
UBS Property	109,190.60	2.36	1.26	1.11	1.09	474,836.38	1.91	1.87	0.04	0.03	14,920.73	0.68	1.59	-0.91	-0.89	-380,566.51
SSGA	-35,306.80	5.92	5.93	-0.01	-0.01	-8,970.18	3.56	3.60	-0.03	-0.03	-34,297.52	-2.59	-2.60	0.01	0.01	7,960.90
SSGA Drawdown	20,321.20	1.01	0.94	0.07	0.07	14,136.69	-0.14	-0.11	-0.03	-0.03	-6,732.83	1.24	1.18	0.06	0.06	12,917.34
SSGA Temporary	-9,319.05	7.14	7.14	-0.00	-0.00	-2,624.76	6.36	6.35	0.01	0.01	8,632.84	-3.76	-3.74	-0.02	-0.02	-15,327.13

Total Fund Market Value at Qtr End: £535.7 M

Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	535.7	100.00	6.35	6.97	-0.62	-0.58	6.35	6.97	-0.62	-0.58	37.90	39.66	-1.76	-1.26

By Manager

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
Goldman Sachs	62.9	11.74	3.84	3.36	0.48	0.46	3.84	3.36	0.48	0.46	20.04	14.18	5.86	5.13
UBS	105.7	19.73	5.91	6.42	-0.51	-0.48	5.91	6.42	-0.51	-0.48	53.89	52.30	1.59	1.04
Alliance Bernstein	113.7	21.23	6.77	8.07	-1.30	-1.20	6.77	8.07	-1.30	-1.20	44.99	50.36	-5.37	-3.57
UBS Property	43.3	8.09	5.03	4.80	0.24	0.23	5.03	4.80	0.24	0.23	7.39	11.64	-4.25	-3.81
SSGA	106.4	19.87	6.85	6.89	-0.03	-0.03	6.85	6.89	-0.03	-0.03	42.80	42.68	0.13	0.09
SSGA Drawdown	21.4	3.99	2.12	2.02	0.10	0.09	2.12	2.02	0.10	0.09	-	-	-	-
SSGA Temporary	81.9	15.30	9.67	9.68	-0.02	-0.01	9.67	9.68	-0.02	-0.01	-	-	-	-

Total Fund Market Value at Qtr End: £535.7 M

Scheme Performance

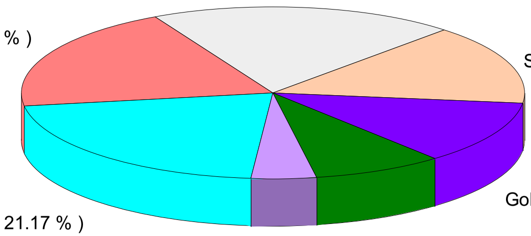
	Three Years				Five Years				Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	-0.64	2.14	-2.78	-2.72	5.61	7.77	-2.16	-2.01	6.57	6.93	-0.36	-0.34

By Manager

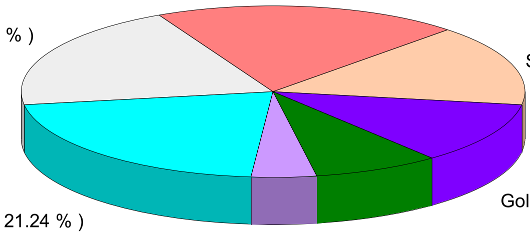
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Goldman Sachs	6.06	6.94	-0.88	-0.82	8.41	8.97	-0.55	-0.51	31/12/01	5.79	6.42	-0.63	-0.59
UBS	1.01	3.12	-2.11	-2.05	5.90	8.05	-2.16	-2.00	31/12/88	10.30	9.14	1.16	1.06
Alliance Bernstein	-2.12	2.68	-4.80	-4.68	-	-	-	-	31/03/06	0.18	3.93	-3.75	-3.61
UBS Property	-10.46	-10.26	-0.19	-0.22	-	-	-	-	31/03/06	-4.88	-4.21	-0.67	-0.70
SSGA	-	-	-	-	-	-	-	-	30/11/08	29.03	28.97	0.06	0.04
SSGA Drawdown	-	-	-	-	-	-	-	-	30/06/09	7.24	6.96	0.28	0.26
SSGA Temporary	-	-	-	-	-	-	-	-	30/06/09	39.15	38.99	0.17	0.12

Total Fund Market Value at Qtr End: £535.7 M

Weighting at Beginning of Period



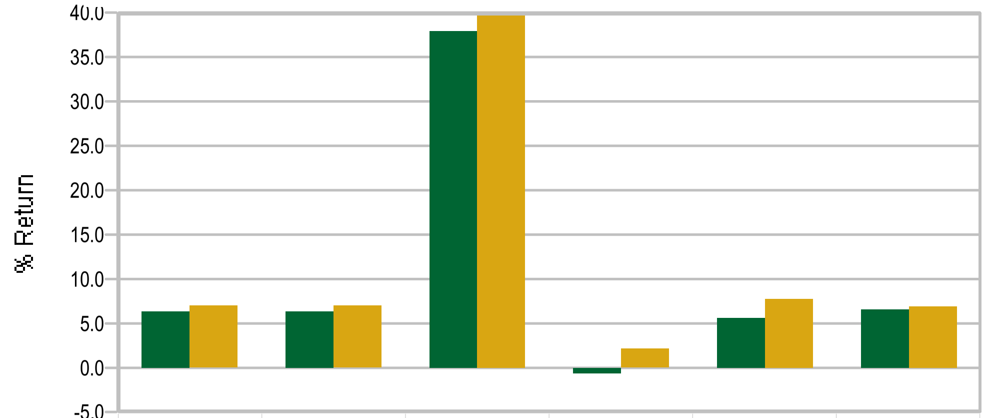
Weighting at End of Period



	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	505,693	100.00	-2,004	29,958	2,018	535,665	100.00
Capital International	30	0.01	-1	-27	-2		0.00
Goldman Sachs	60,803	12.02	-261	2,253	76	62,871	11.74
UBS	100,251	19.82	-435	5,192	701	105,710	19.73
Alliance Bernstein	106,992	21.16	-469	6,564	643	113,731	21.23
UBS Property	41,256	8.16	-2	1,488	589	43,331	8.09
SSGA	100,021	19.78	-430	6,824	0	106,415	19.87
SSGA Drawdown	21,041	4.16	-92	444		21,393	3.99
SSGA Temporary	75,029	14.84	-315	7,219		81,933	15.30
Nomura	270	0.05	1	1	10	282	0.05

London Borough of Hillingdon

Historical Plan Performance

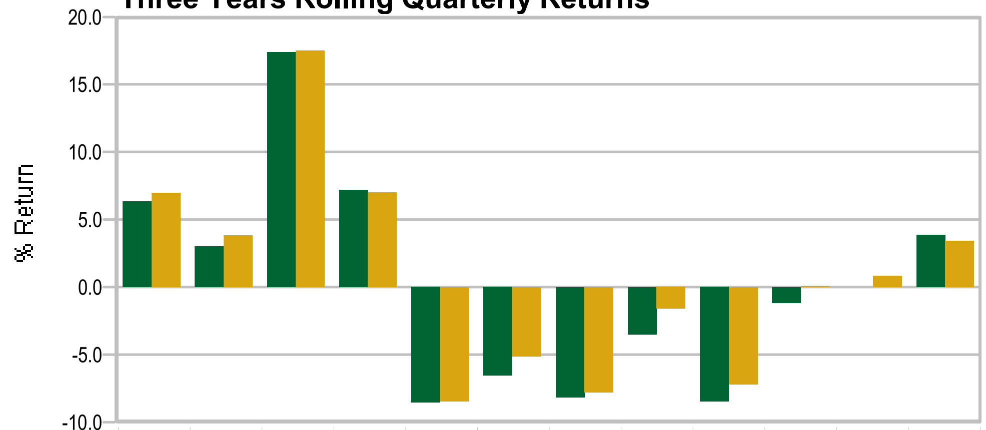


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.35	6.35	37.90	-0.64	5.61	6.57
Benchmark	6.97	6.97	39.66	2.14	7.77	6.93

Risk Statistics - 3 years

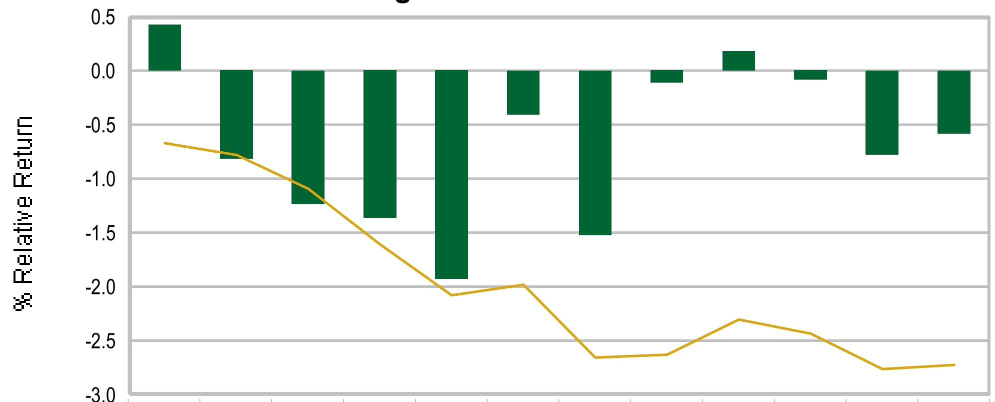
	Fund	B'mark
Performance Return	-0.64	2.14
Standard Deviation	15.74	15.27
Relative Return	-2.72	
Tracking Error	1.30	
Information Ratio	-2.14	
Beta	1.03	
Alpha	-2.62	
R Squared	0.99	
Sharpe Ratio	-0.34	-0.16
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	505,693	
Net Investment £(000)	-2,004	
Income Received £(000)	2,018	
Appreciation £(000)	29,958	
Closing Market Value (£000)	535,665	

Three Years Rolling Quarterly Returns



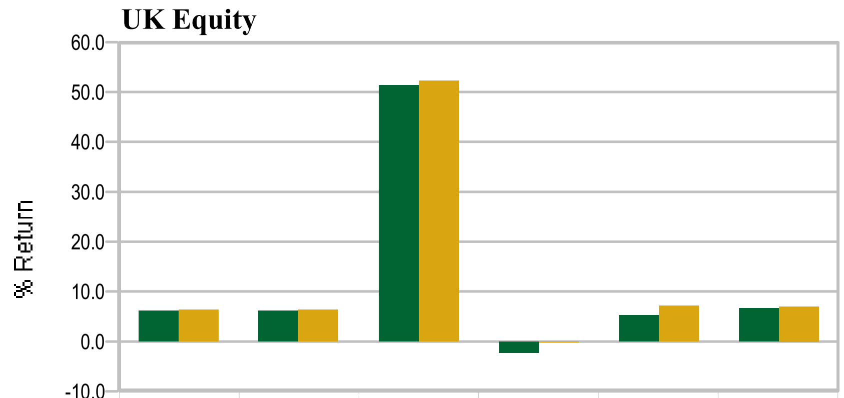
	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	6.35	3.02	17.40	7.21	-8.55	-6.57	-8.18	-3.51	-8.47	-1.17	0.00	3.87
Benchmark	6.97	3.83	17.50	7.02	-8.44	-5.12	-7.80	-1.61	-7.20	0.06	0.83	3.43

Three Years Rolling Relative Returns

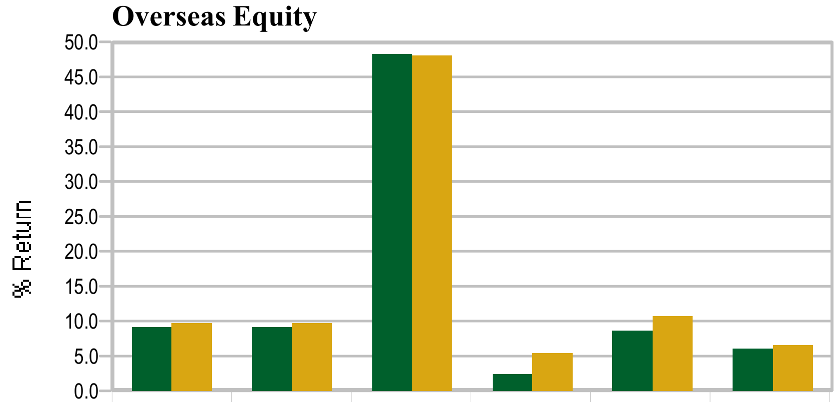


	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	0.43	-0.82	-1.24	-1.37	-1.93	-0.41	-1.52	-0.12	0.18	-0.09	-0.78	-0.58
3Y Relative	-0.67	-0.78	-1.10	-1.61	-2.08	-1.98	-2.65	-2.63	-2.30	-2.44	-2.76	-2.72

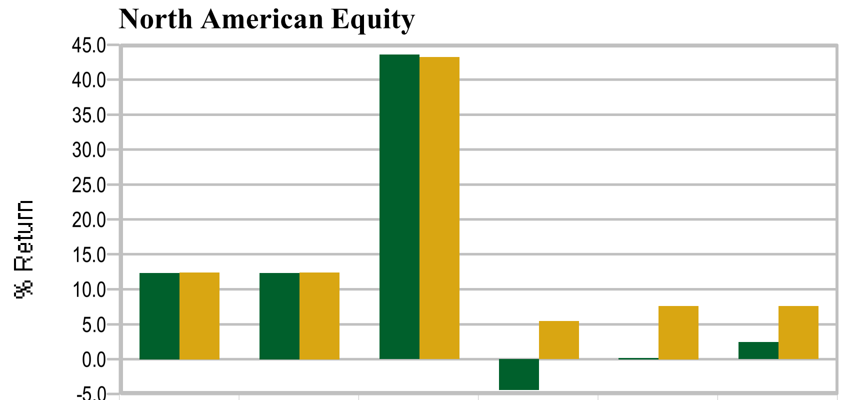
London Borough of Hillingdon



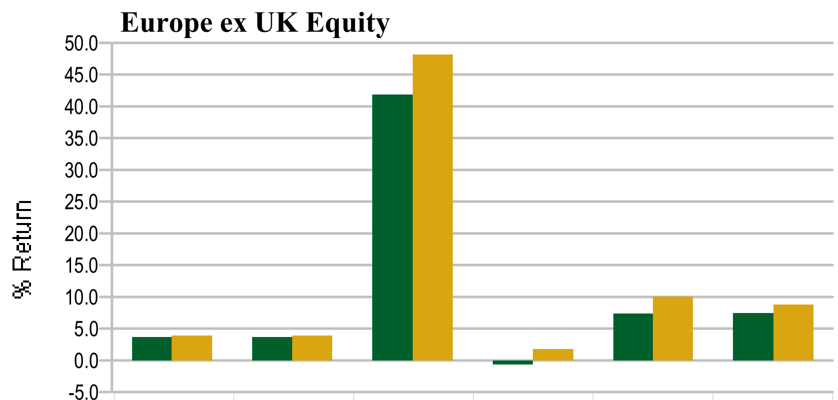
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.25	6.25	51.38	-2.28	5.31	6.64
B'Mark	6.42	6.42	52.30	-0.23	7.16	7.03



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.13	9.13	48.29	2.45	8.63	6.04
B'Mark	9.73	9.73	48.08	5.43	10.72	6.62



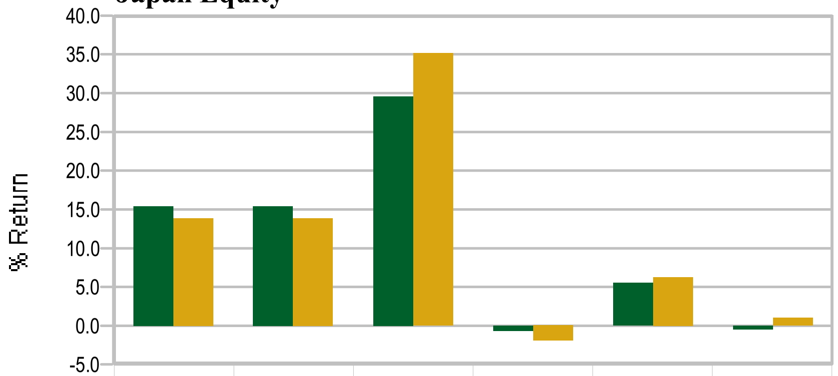
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.34	12.34	43.57	-4.45	0.17	2.42
B'Mark	12.46	12.46	43.23	5.45	7.64	7.59



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.70	3.70	41.82	-0.64	7.34	7.47
B'Mark	3.88	3.88	48.17	1.81	10.04	8.82

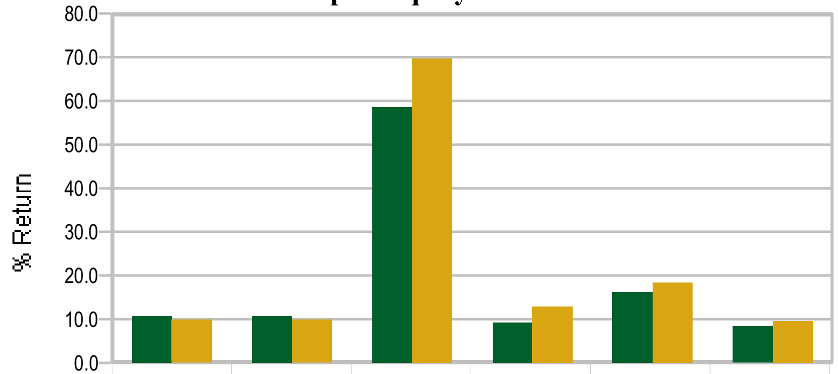
London Borough of Hillingdon

Japan Equity



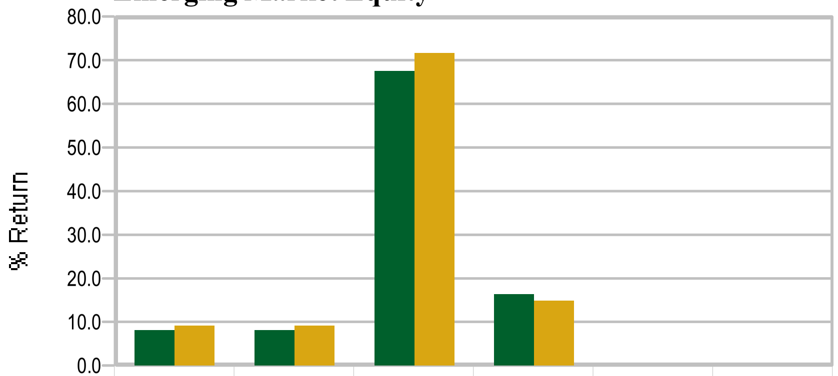
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	13.86	13.86	35.11	-1.92	6.24	0.98
B'Mark	15.43	15.43	29.60	-0.68	5.52	-0.47

Asia Pacific ex Japan Equity



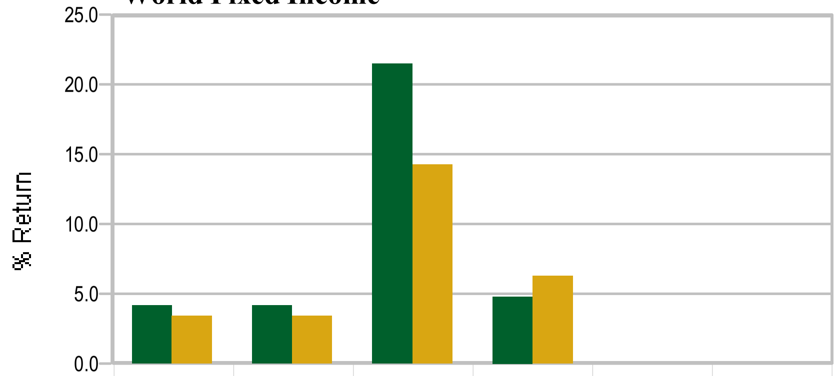
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	10.78	10.78	58.66	9.27	16.24	8.37
B'Mark	9.83	9.83	69.69	12.94	18.40	9.62

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.16	8.16	67.46	16.35	-	-
B'Mark	9.10	9.10	71.60	14.90	-	-

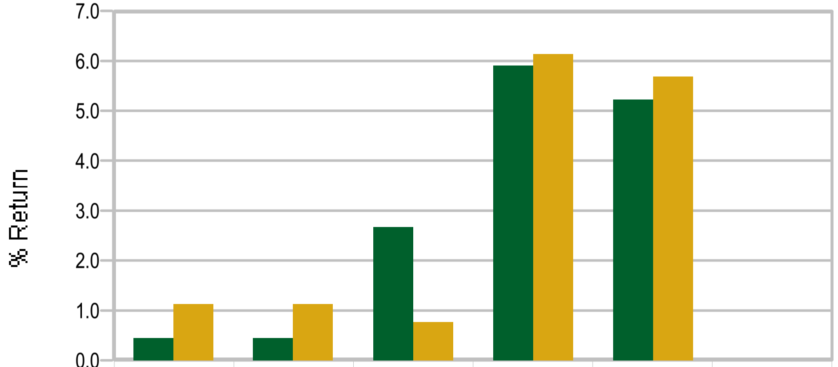
World Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.18	4.18	21.49	4.81		
B'Mark	3.44	3.44	14.26	6.28		

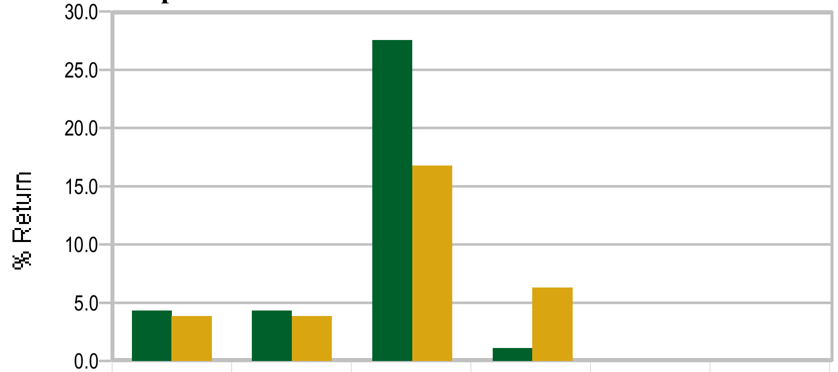
London Borough of Hillingdon

Government Bonds



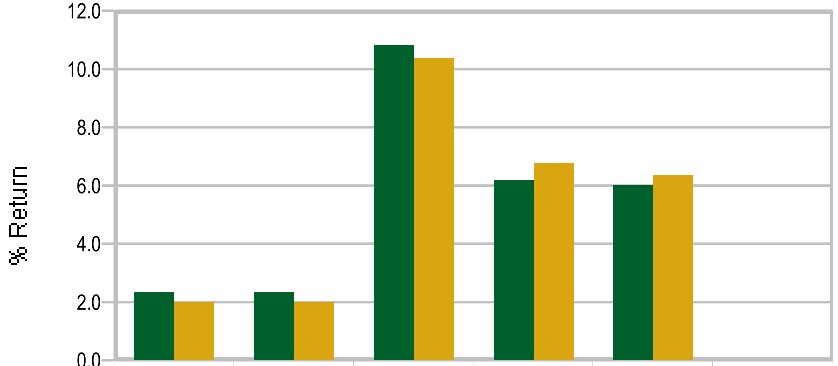
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.44	0.44	2.68	5.92	5.23	-
B'Mark	1.14	1.14	0.77	6.15	5.69	-

Corporate Bonds



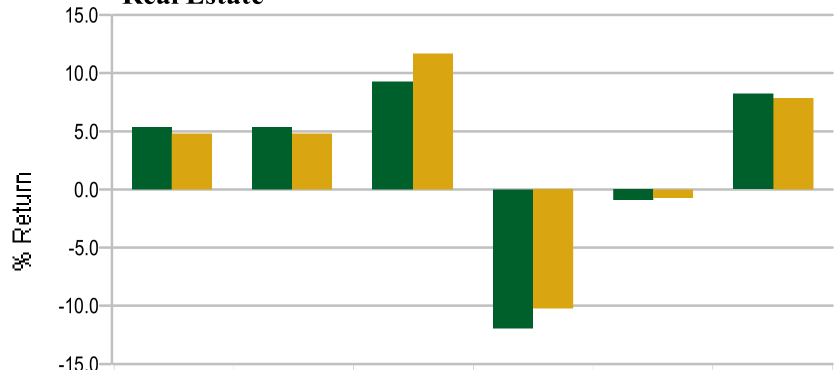
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.34	4.34	27.56	1.11	-	-
B'Mark	3.85	3.85	16.79	6.29	-	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.32	2.32	10.81	6.19	6.00	-
B'Mark	1.99	1.99	10.36	6.78	6.37	-

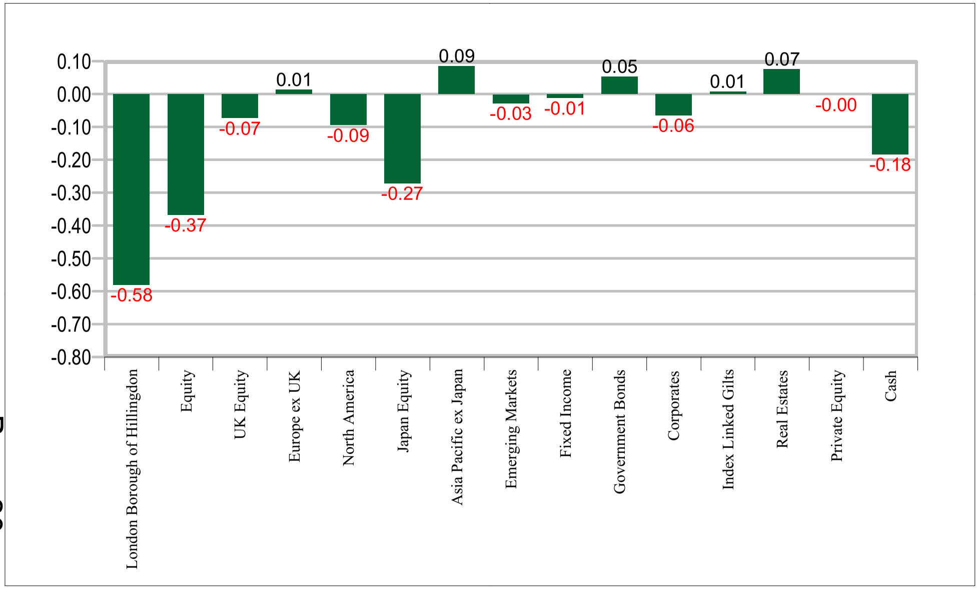
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.35	5.35	9.24	-11.95	-0.91	8.20
B'Mark	4.80	4.80	11.64	-10.26	-0.73	7.85

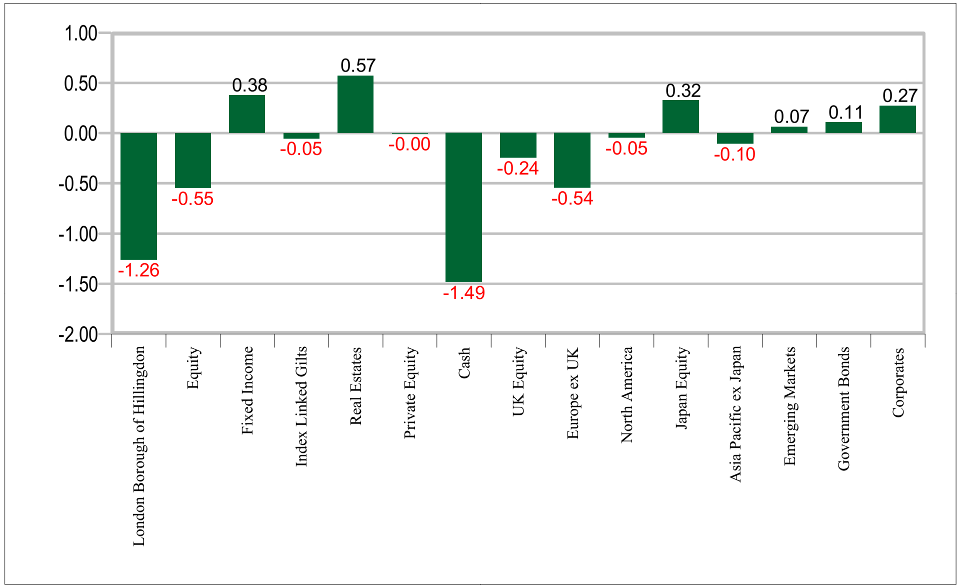
London Borough of Hillingdon

Relative Contribution - Three Months



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	6.35	6.97	-0.58	-0.08	-0.65	-0.28	0.45	-0.58
Equity	7.58	-	7.58	0.00	-0.61	-0.12	0.37	-0.37
UK Equity	6.25	6.42	-0.15	0.00	-0.02	0.00	-0.06	-0.07
Europe ex UK	3.70	3.88	-0.18	0.00	-0.07	0.03	0.05	0.01
North America	12.34	12.46	-0.10	0.00	-0.24	-0.01	0.15	-0.09
Japan Equity	13.86	15.43	-1.36	0.00	-0.12	-0.11	-0.04	-0.27
Asia Pacific ex Japan	10.78	9.83	0.87	0.00	-0.25	-0.05	0.38	0.09
Emerging Markets	8.16	9.10	-0.86	0.00	0.09	0.01	-0.13	-0.03

Relative Contribution - One Year



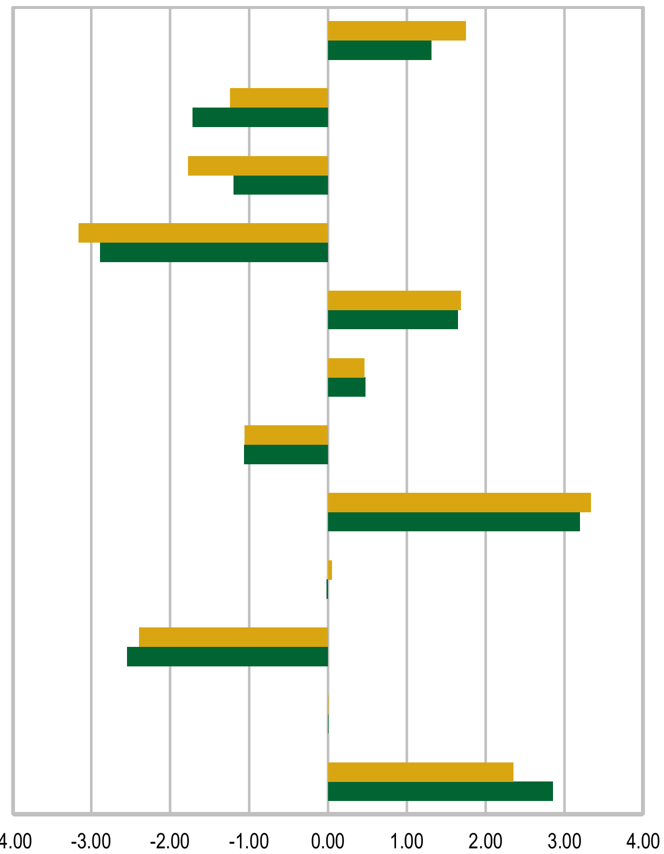
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	37.90	39.66	-1.26	0.06	-0.86	-0.53	0.26	-1.26
Equity	49.75	-	49.75	0.00	-0.83	0.29	-0.00	-0.55
UK Equity	51.38	52.30	-0.61	0.00	-0.02	0.02	-0.25	-0.24
Europe ex UK	41.82	48.17	-4.28	0.00	-0.13	-0.02	-0.39	-0.54
North America	43.57	43.23	0.24	0.00	0.02	-0.16	0.09	-0.05
Japan Equity	35.11	29.60	4.25	0.00	-0.03	0.25	0.11	0.32
Asia Pacific ex Japan	58.66	69.69	-6.50	0.00	-0.33	0.06	0.17	-0.10
Emerging Markets	67.46	71.60	-2.41	0.00	-0.35	0.15	0.27	0.07

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	4.18	3.44	0.72	0.00	-0.03	-0.01	0.03	-0.01
Government Bonds	0.44	1.14	-0.69	0.00	0.02	0.04	-0.00	0.05
Corporates	4.34	3.85	0.47	0.00	-0.05	-0.05	0.04	-0.06
Index Linked Gilts	2.32	1.99	0.32	0.00	-0.00	-0.01	0.02	0.01
Real Estates	5.35	4.80	0.52	0.00	0.04	-0.01	0.04	0.07
Private Equity	0.00	-	0.00	0.00	-0.00	-0.00	0.00	-0.00
Cash	0.26	-	0.26	0.00	-0.05	-0.13	0.00	-0.18

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	21.49	14.26	6.33	0.00	0.13	-0.16	0.41	0.38
Government Bonds	2.68	0.77	1.89	0.00	0.11	-0.02	0.02	0.11
Corporates	27.56	16.79	9.22	0.00	0.02	-0.14	0.39	0.27
Index Linked Gilts	10.81	10.36	0.41	0.00	-0.01	-0.07	0.02	-0.05
Real Estates	9.24	11.64	-2.15	0.00	0.02	0.73	-0.18	0.57
Private Equity	0.00	-	0.00	0.00	0.00	-0.00	0.00	-0.00
Cash	-2.18	-	-2.18	0.00	-0.17	-1.31	0.00	-1.49

London Borough of Hillingdon

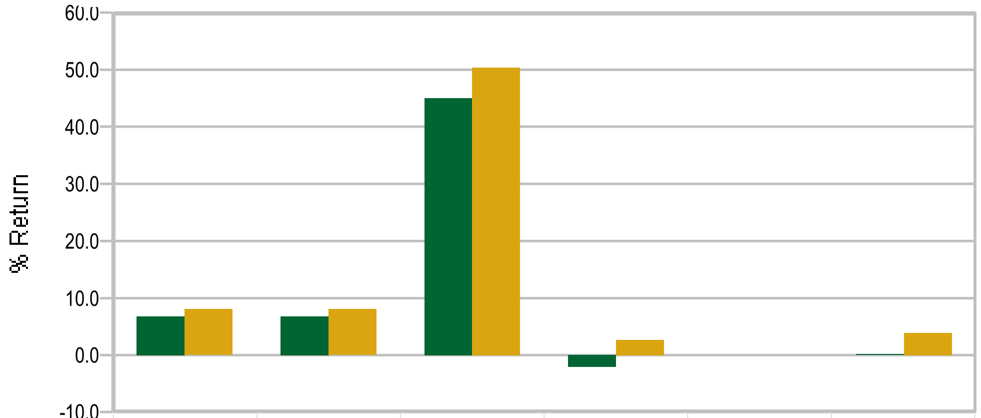
By Asset Category



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	38.15	38.58	36.84	1.31	36.84	1.74
Europe ex UK	9.35	9.82	11.06	-1.71	11.06	-1.24
North America	11.71	11.13	12.90	-1.19	12.90	-1.77
Japan Equity	2.64	2.37	5.53	-2.89	5.53	-3.16
Asia Pacific ex Japan	5.32	5.37	3.68	1.64	3.68	1.69
Emerging Markets	4.15	4.14	3.68	0.47	3.68	0.46
Government Bonds	0.52	0.52	1.58	-1.06	1.58	-1.06
Corporates	12.13	12.27	8.94	3.19	8.94	3.33
Index Linked Gilts	5.24	5.31	5.26	-0.02	5.26	0.05
Real Estates	7.99	8.14	10.53	-2.54	10.53	-2.39
Private Equity	0.01	0.01		0.01		0.01
Cash	2.85	2.35		2.85		2.35

Alliance Bernstein

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.77	6.77	44.99	-2.12	-	0.18
Benchmark	8.07	8.07	50.36	2.68	-	3.93

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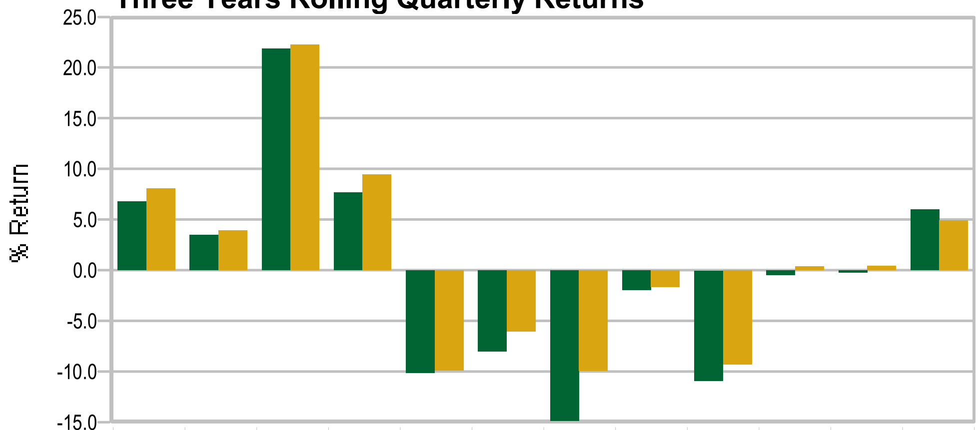
Risk Statistics - 3 years

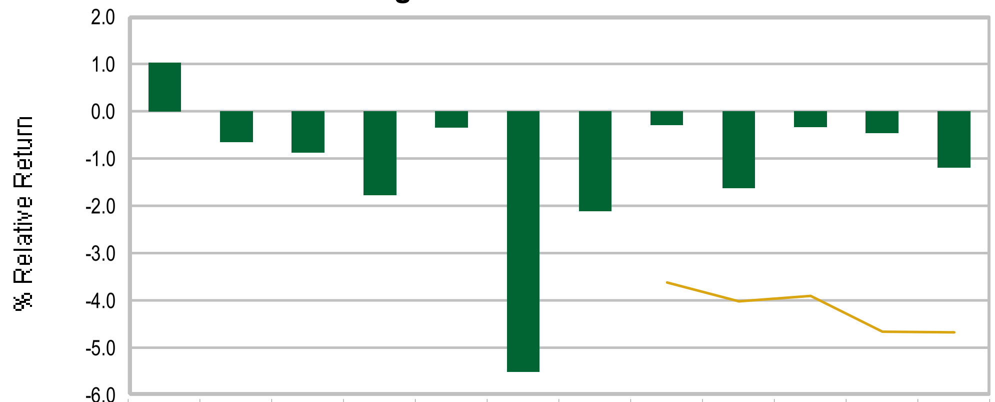
	Fund	B'mark
Performance Return	-2.12	2.68
Standard Deviation	20.60	19.66
Relative Return	-4.68	
Tracking Error	2.21	
Information Ratio	-2.18	
Beta	1.04	
Alpha	-4.49	
R Squared	0.99	
Sharpe Ratio	-0.33	-0.10
Percentage of Total Fund	21.2	
Inception Date	Mar-2006	
Opening Market Value (£000)	106,992	
Net Investment £(000)	-469	
Income Received £(000)	643	
Appreciation £(000)	6,564	
Closing Market Value (£000)	113,731	

Three Years Rolling Quarterly Returns



	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	6.77	3.47	21.87	7.69	-10.14	-8.01	-14.89	-1.97	-10.90	-0.49	-0.22	6.01
Benchmark	8.07	3.94	22.29	9.46	-9.87	-6.03	-9.92	-1.63	-9.30	0.38	0.43	4.93

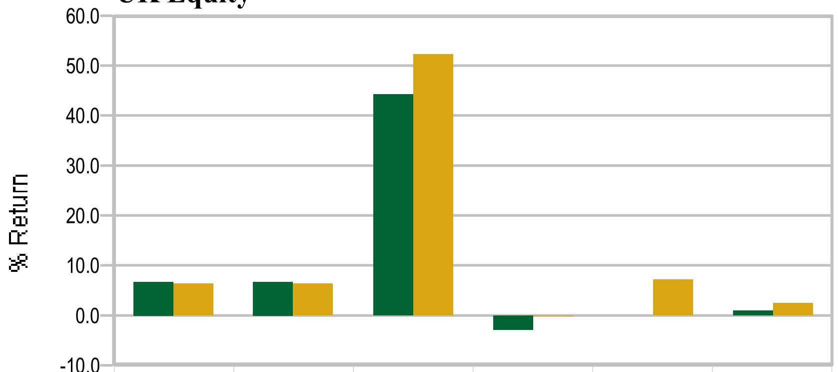
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	1.03	-0.65	-0.87	-1.77	-0.35	-5.51	-2.11	-0.29	-1.62	-0.34	-0.46	-1.20
3Y Relative	-	-	-	-	-	-	-	-3.62	-4.02	-3.91	-4.66	-4.68

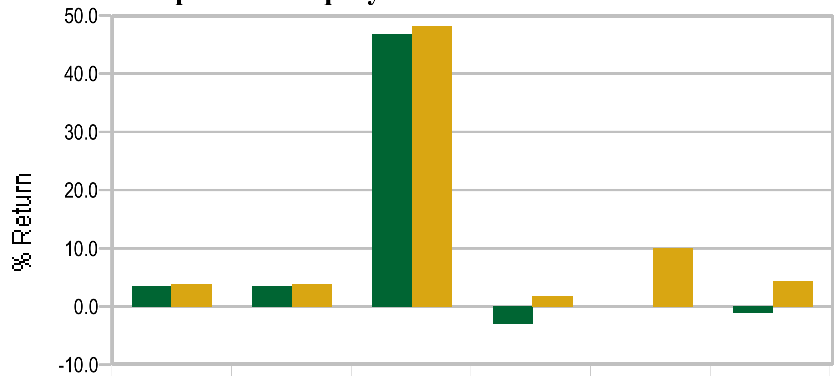
Alliance Bernstein

UK Equity



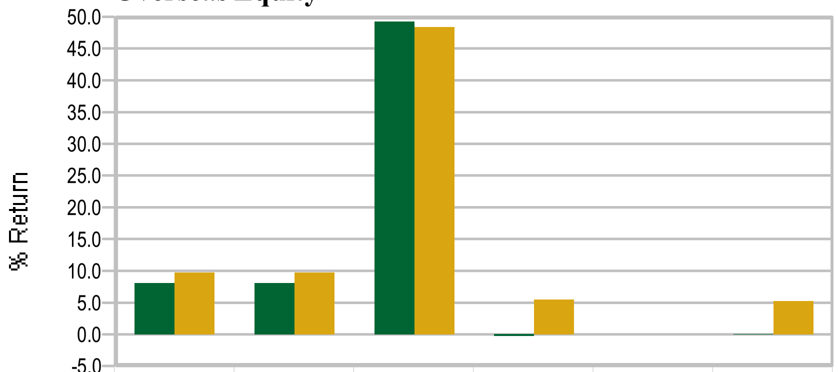
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.71	6.71	44.29	-2.92	-	0.94
B'Mark	6.42	6.42	52.30	-0.23	7.15	2.49

Europe ex UK Equity



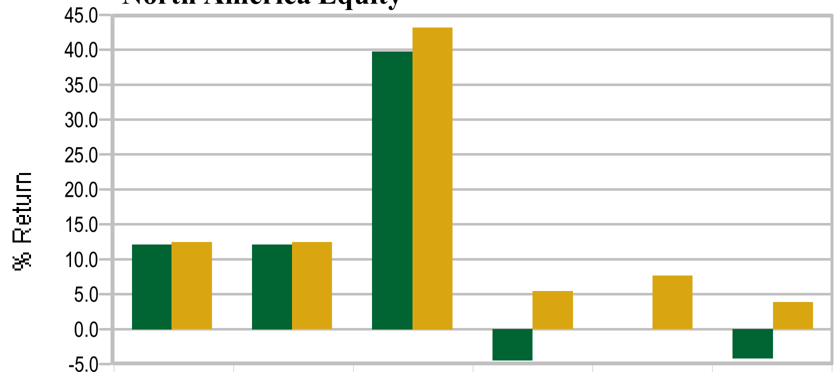
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.59	3.59	46.78	-2.99	-	-1.08
B'Mark	3.88	3.88	48.17	1.80	10.04	4.36

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.12	8.12	49.23	-0.24	-	0.05
B'Mark	9.73	9.73	48.33	5.51	-	5.23

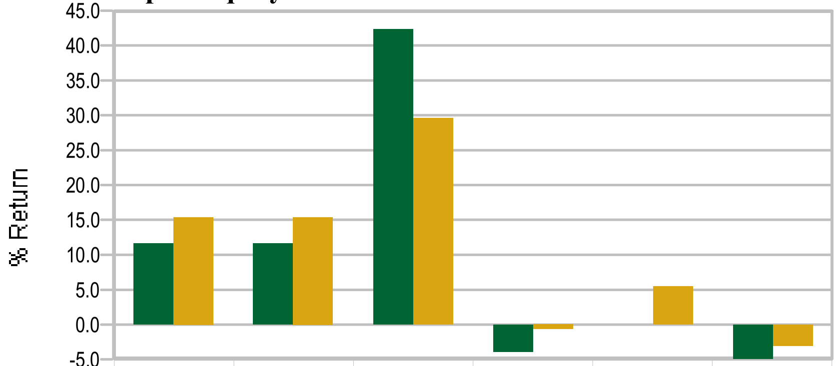
North America Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.11	12.11	39.74	-4.51		-4.20
B'Mark	12.46	12.46	43.23	5.44	7.64	3.83

Alliance Bernstein

Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.64	11.64	42.36	-3.93	-	-4.89
B'Mark	15.43	15.43	29.60	-0.68	5.52	-3.08

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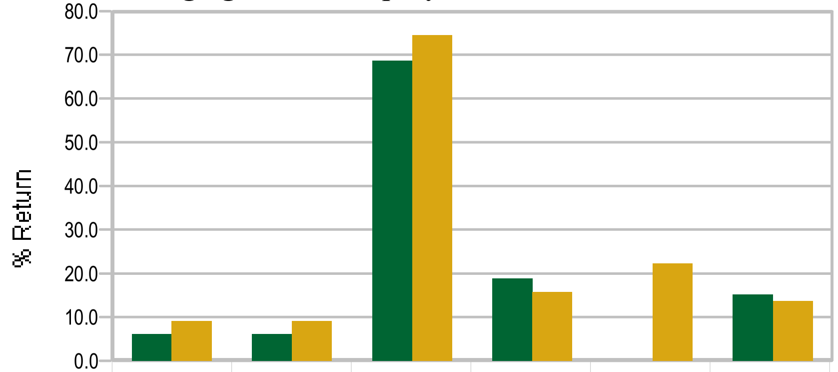
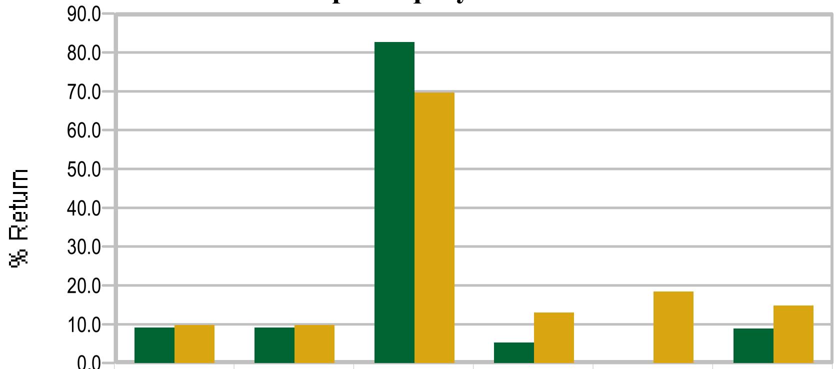
Emerging Markets Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.18	6.18	68.66	18.81	-	15.25
B'Mark	9.10	9.10	74.52	15.75	22.20	13.66

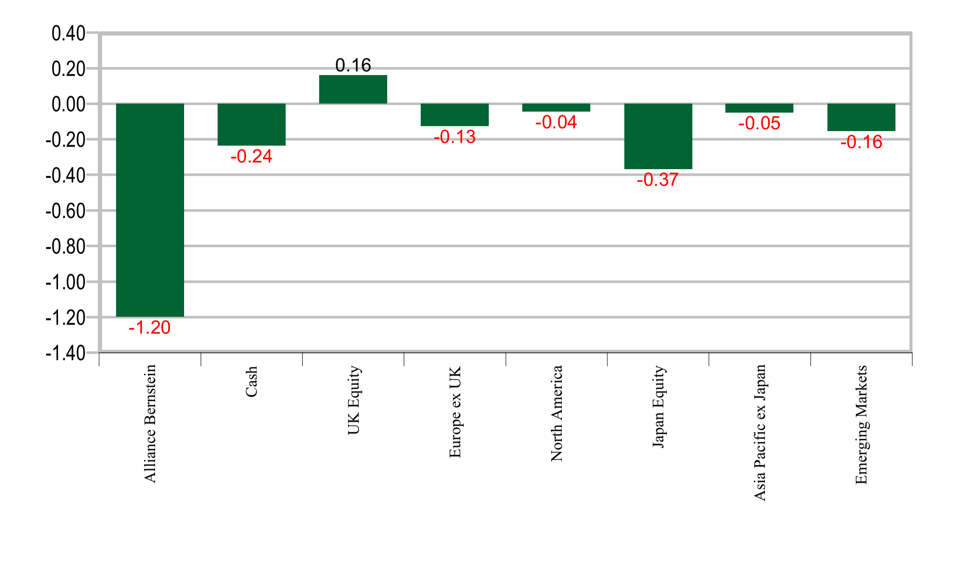
Asia Pacific ex Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.08	9.08	82.61	5.20	-	8.92
B'Mark	9.83	9.83	69.69	12.93	18.39	14.72

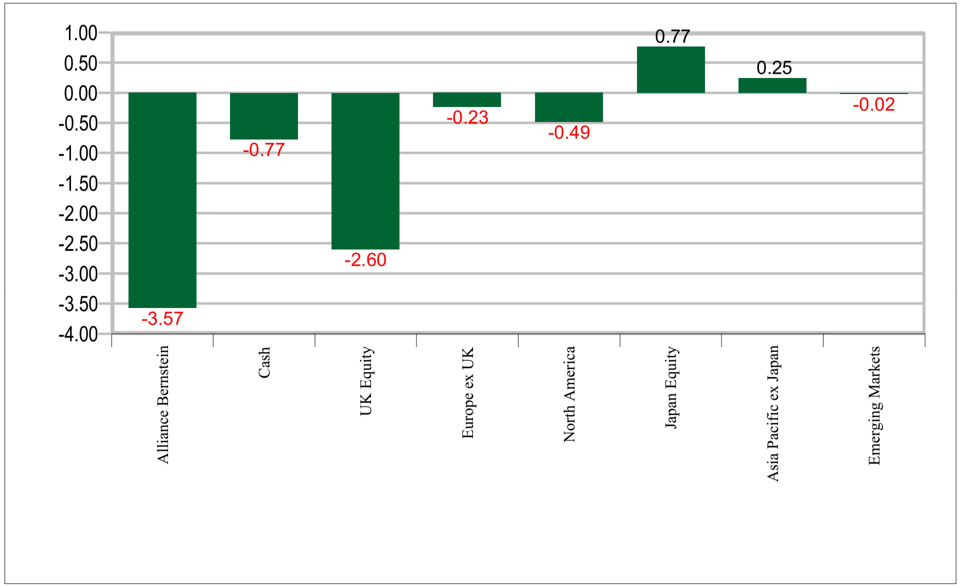
Alliance Bernstein

Relative Contribution - Three Months



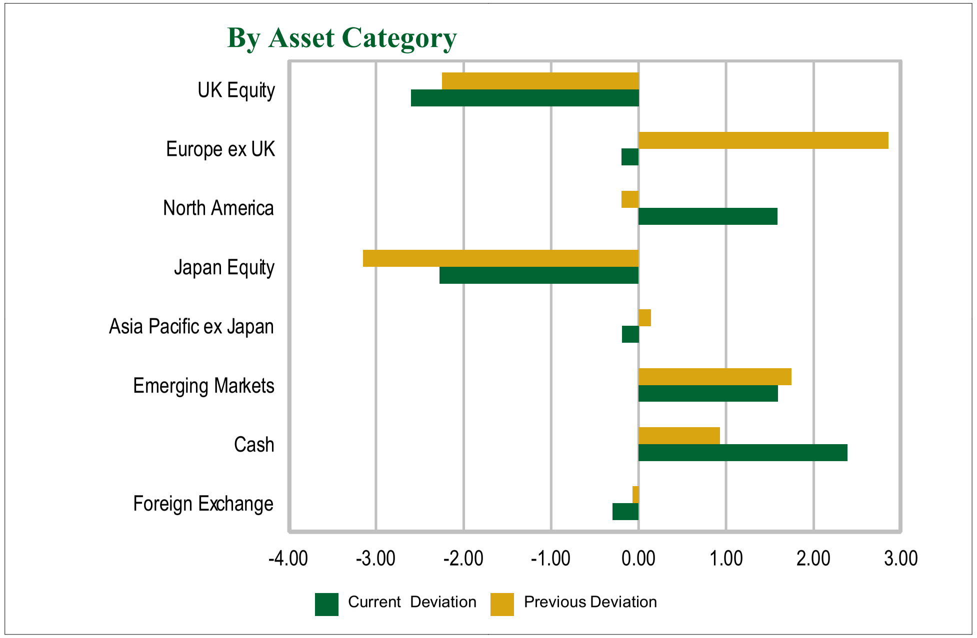
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	6.77	8.07	-1.20	-0.39	-0.06	-0.40	-0.36	-1.20
UK Equity	6.71	6.42	0.28	0.00	0.07	-0.03	0.12	0.16
Europe ex UK	3.59	3.88	-0.28	0.00	-0.07	-0.02	-0.03	-0.13
North America	12.11	12.46	-0.31	0.00	0.02	-0.01	-0.05	-0.04
Japan Equity	11.64	15.43	-3.28	0.00	-0.10	-0.09	-0.17	-0.37
Asia Pacific ex Japan	9.08	9.83	-0.68	0.00	0.00	-0.00	-0.05	-0.05
Emerging Markets	6.18	9.10	-2.67	0.00	0.07	-0.05	-0.17	-0.16
Cash	0.47	-	0.47	0.00	-0.04	-0.19	0.00	-0.24

Relative Contribution - One Year



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	44.99	50.36	-3.57	-0.54	0.41	-0.44	-3.05	-3.57
UK Equity	44.29	52.30	-5.26	0.00	-0.01	-0.01	-2.58	-2.60
Europe ex UK	46.78	48.17	-0.94	0.00	-0.00	-0.05	-0.18	-0.23
North America	39.74	43.23	-2.44	0.00	-0.02	-0.04	-0.43	-0.49
Japan Equity	42.36	29.60	9.84	0.00	0.01	0.36	0.40	0.77
Asia Pacific ex Japan	82.61	69.69	7.62	0.00	0.37	-0.05	-0.08	0.25
Emerging Markets	68.66	74.52	-3.36	0.00	0.06	0.12	-0.20	-0.02
Cash	1.63	-	1.63	0.00	0.01	-0.78	0.00	-0.77

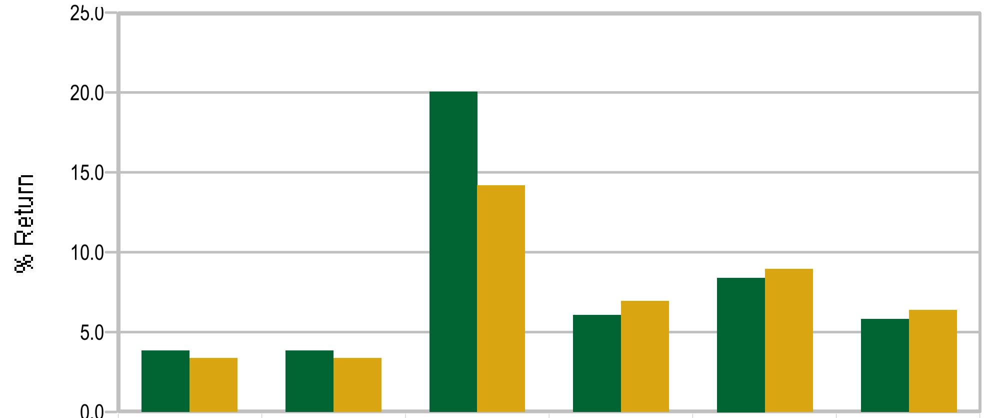
Alliance Bernstein



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	47.40	47.75	50.00	-2.60	50.00	-2.25
Europe ex UK	14.81	17.85	15.00	-0.19	15.00	2.85
North America	19.09	17.30	17.50	1.59	17.50	-0.20
Japan Equity	5.23	4.35	7.50	-2.27	7.50	-3.15
Asia Pacific ex Japan	4.81	5.14	5.00	-0.19	5.00	0.14
Emerging Markets	6.59	6.74	5.00	1.59	5.00	1.74
Cash	2.38	0.92		2.38		0.92
Foreign Exchange	-0.30	-0.07		-0.30		-0.07

Goldman Sachs

Historical Plan Performance

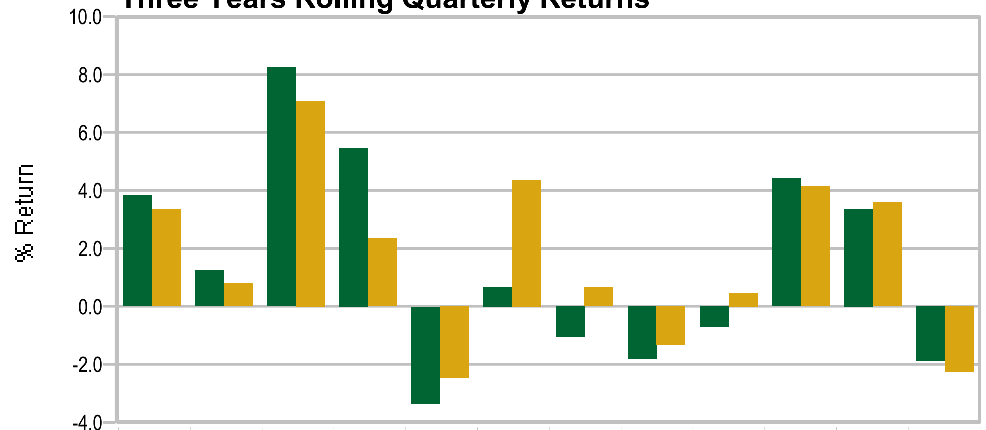


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.84	3.84	20.04	6.06	8.41	5.79
Benchmark	3.36	3.36	14.18	6.94	8.97	6.42

Risk Statistics - 3 years

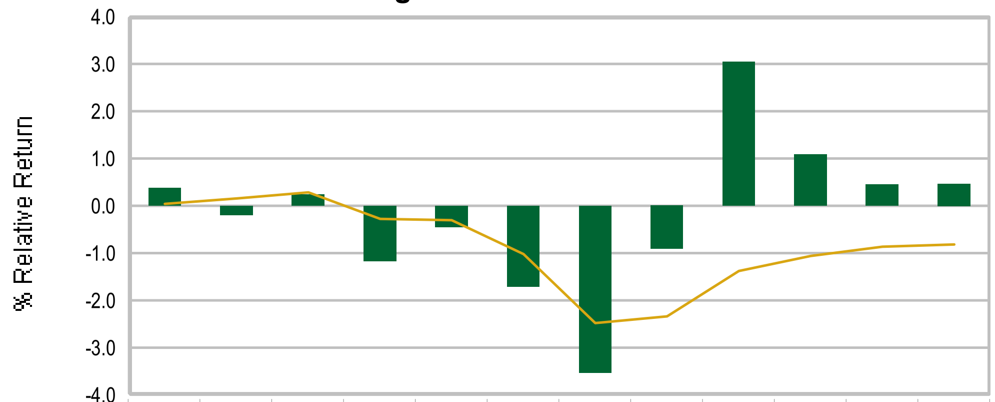
	Fund	B'mark
Performance Return	6.06	6.94
Standard Deviation	7.22	6.66
Relative Return	-0.82	
Tracking Error	2.14	
Information Ratio	-0.41	
Beta	1.05	
Alpha	-0.91	
R Squared	0.92	
Sharpe Ratio	0.19	0.34
Percentage of Total Fund	11.7	
Inception Date	Dec-2001	
Opening Market Value (£000)	60,803	
Net Investment £(000)	-261	
Income Received £(000)	76	
Appreciation £(000)	2,253	
Closing Market Value (£000)	62,871	

Three Years Rolling Quarterly Returns



	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	3.84	1.25	8.26	5.46	-3.37	0.67	-1.06	-1.80	-0.70	4.40	3.38	-1.88
Benchmark	3.36	0.79	7.09	2.34	-2.48	4.36	0.67	-1.35	0.48	4.15	3.58	-2.25

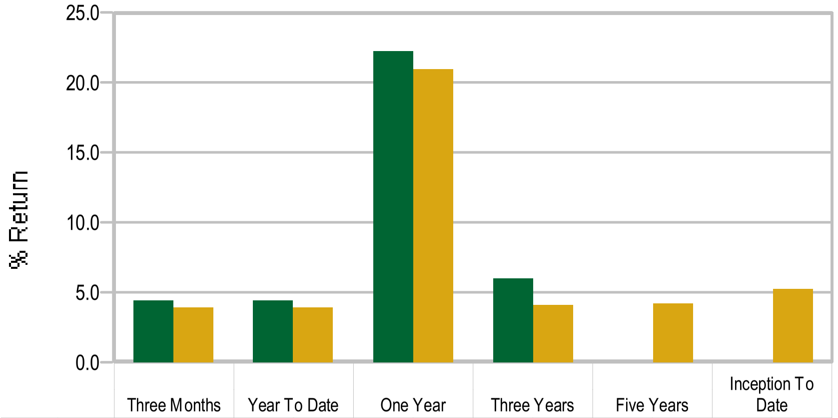
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	0.38	-0.20	0.24	-1.17	-0.46	-1.71	-3.54	-0.91	3.05	1.09	0.46	0.46
3Y Relative	0.04	0.16	0.29	-0.28	-0.31	-1.03	-2.48	-2.34	-1.38	-1.06	-0.87	-0.82

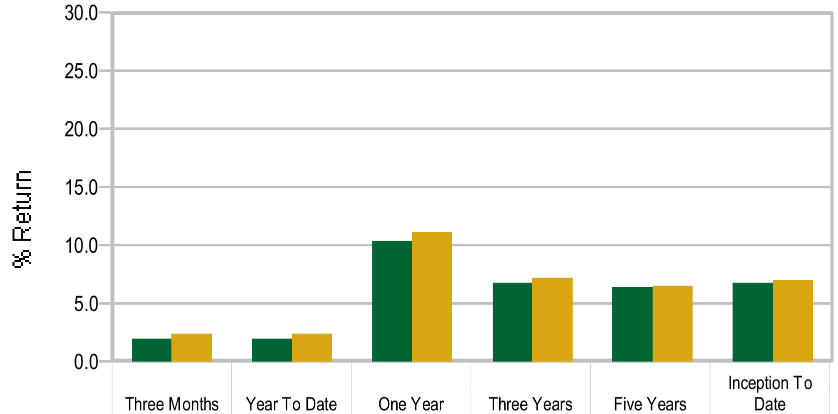
Goldman Sachs

World Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.41	4.41	22.23	6.01	-	-
B'Mark	3.94	3.94	20.95	4.10	4.20	5.24

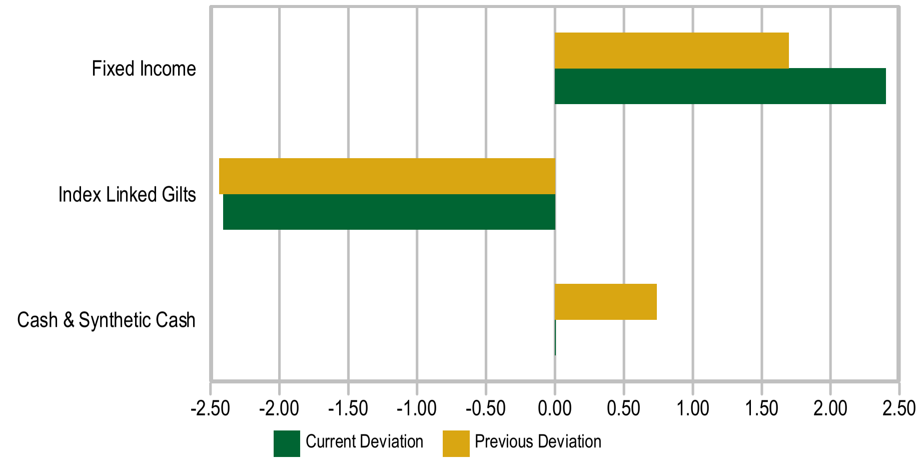
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.38	2.38	11.09	7.19	6.53	6.98
B'Mark	1.99	1.99	10.36	6.77	6.37	6.78

Goldman Sachs

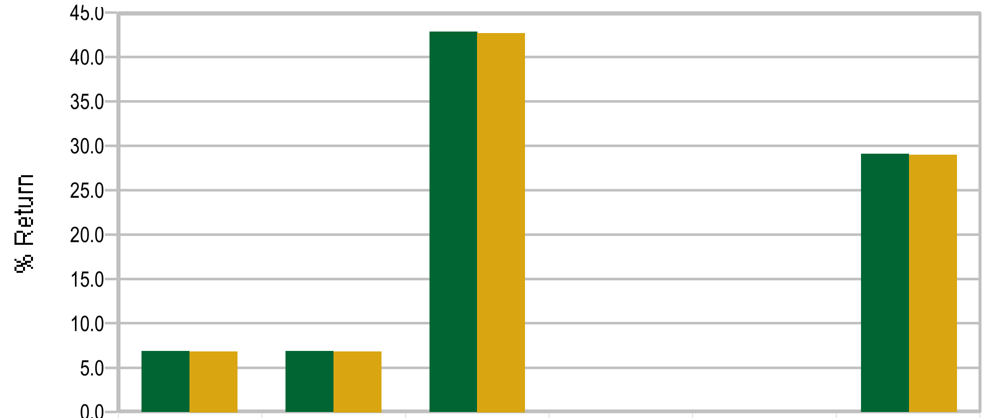
By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	72.40	71.70	70.00	2.40	70.00	1.70
Index Linked Gilts	27.59	27.56	30.00	-2.41	30.00	-2.44
Cash & Synthetic Cash	0.01	0.74		0.01		0.74

SSGA

Historical Plan Performance

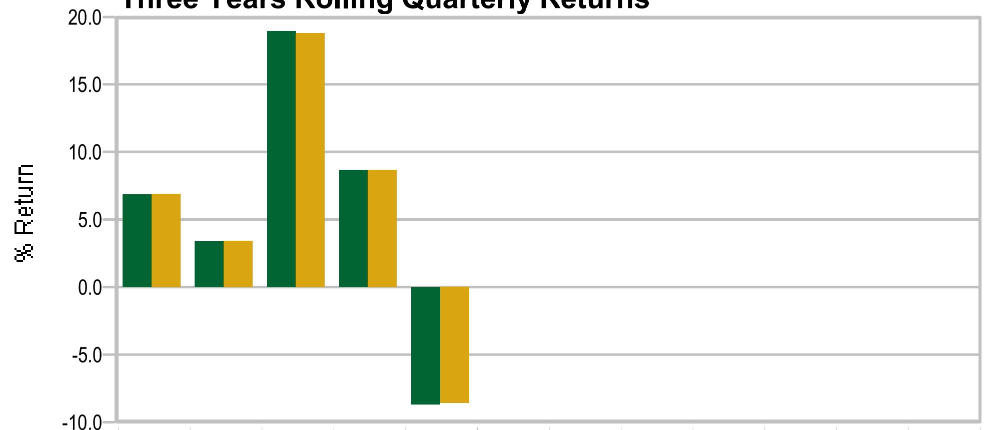


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.85	6.85	42.80	-	-	29.03
Benchmark	6.89	6.89	42.68	-	-	28.97

Risk Statistics - 3 years

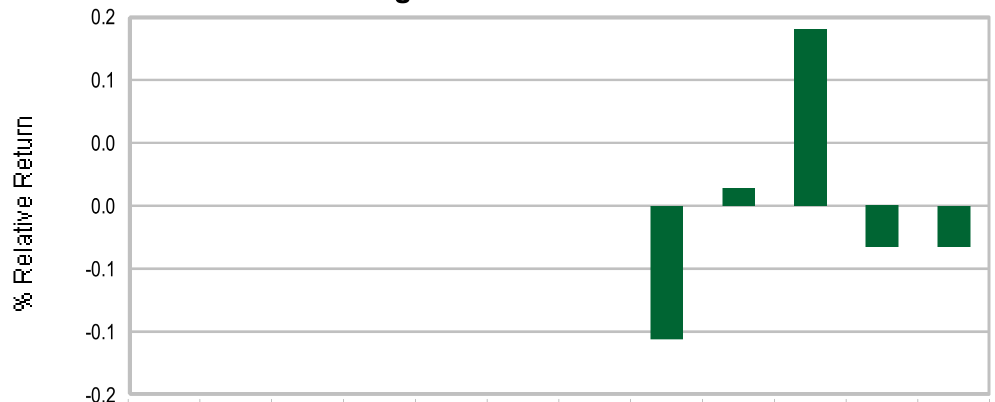
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.9	
Inception Date	Nov-2008	
Opening Market Value (£000)	100,021	
Net Investment £(000)	-430	
Income Received £(000)	0	
Appreciation £(000)	6,824	
Closing Market Value (£000)	106,415	

Three Years Rolling Quarterly Returns



	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	6.85	3.38	18.95	8.68	-8.68	-	-	-	-	-	-	-
Benchmark	6.89	3.41	18.78	8.66	-8.59	-	-	-	-	-	-	-

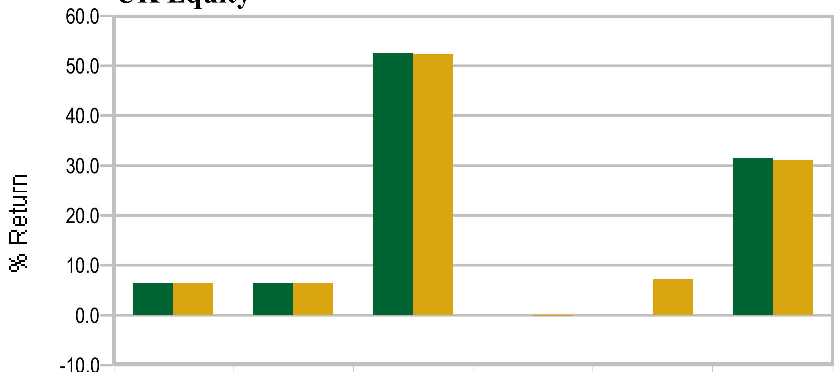
Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	-	-	-	-	-	-	-	-0.11	0.01	0.14	-0.03	-0.03
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

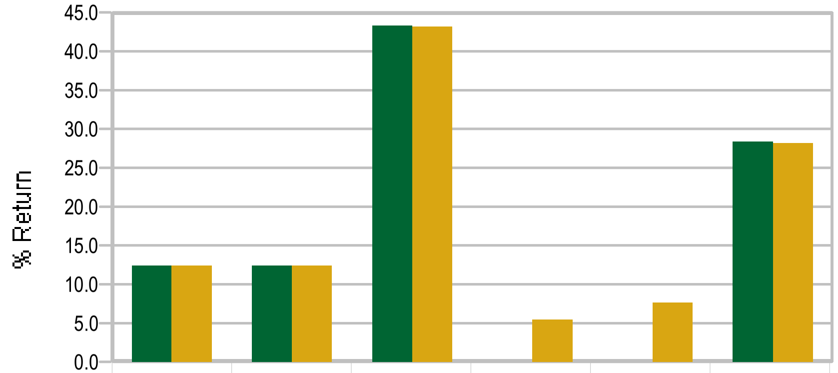
SSGA

UK Equity



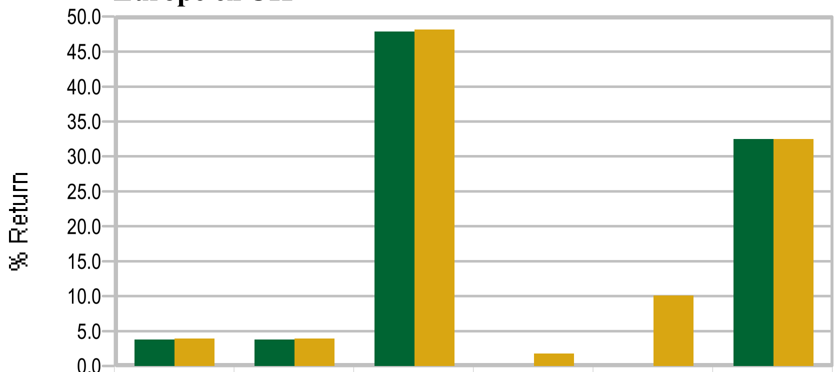
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.46	6.46	52.61	-	-	31.43
B'Mark	6.42	6.42	52.30	-0.23	7.15	31.20

North America



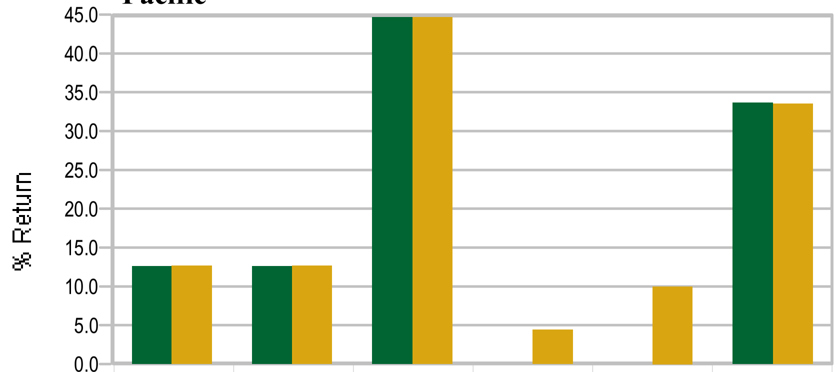
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.45	12.45	43.30	-	-	28.37
B'Mark	12.45	12.45	43.23	5.44	7.64	28.20

Europe ex UK



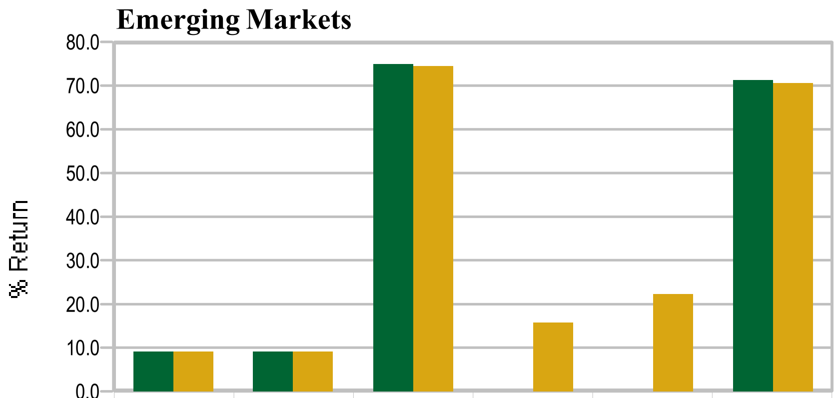
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	3.77	47.84	-	-	32.45
B'Mark	3.88	3.88	48.17	1.80	10.04	32.45

Pacific



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.63	12.63	44.68			33.67
B'Mark	12.66	12.66	44.72	4.40	10.01	33.56

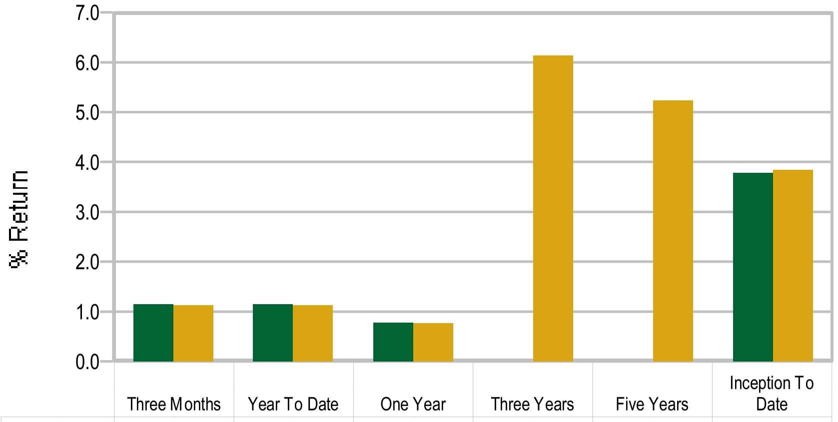
SSGA



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.12	9.12	75.03	-	-	71.25
B'Mark	9.10	9.10	74.52	15.75	22.20	70.63

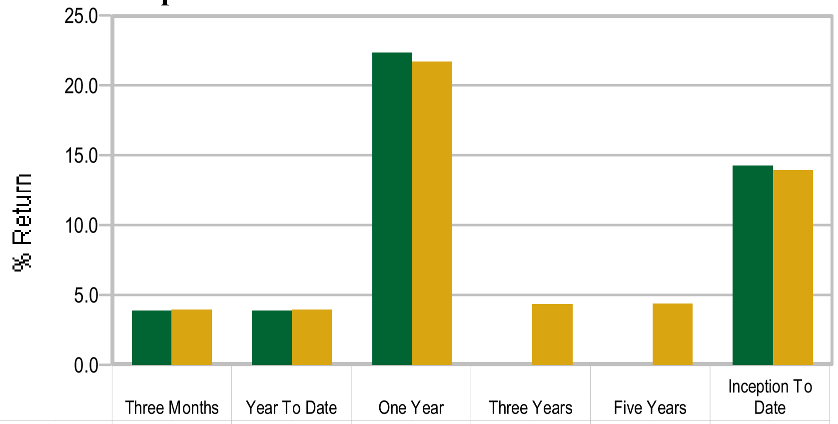
SSGA

Government Bonds



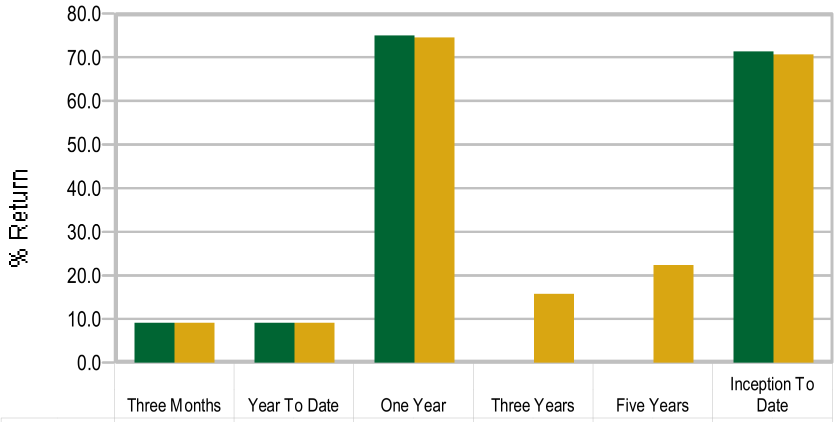
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.14	1.14	0.79	-	-	3.79
B'Mark	1.14	1.14	0.77	6.14	5.24	3.84

Corporates



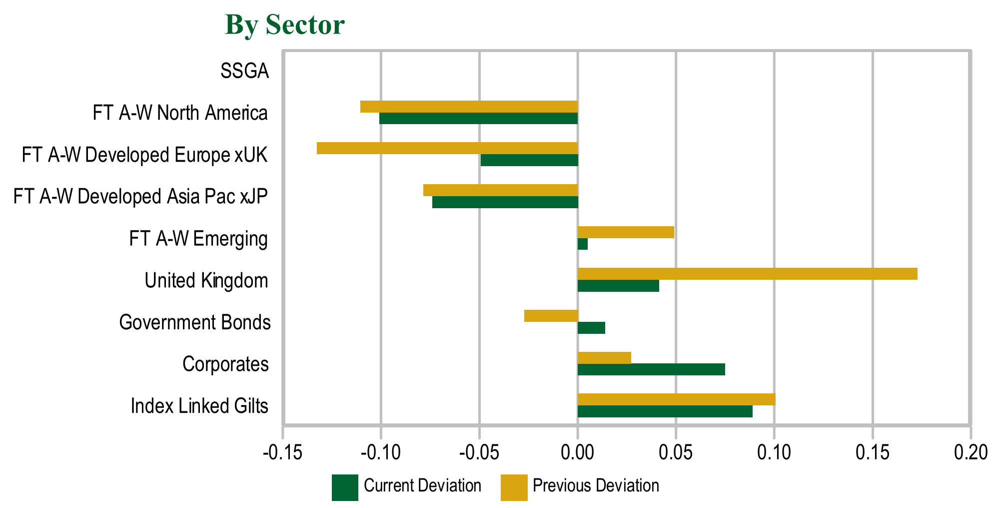
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.88	3.88	22.36	-	-	14.27
B'Mark	3.96	3.96	21.69	4.33	4.39	13.96

Index Linked Gits



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.23	2.23	10.28	-	-	13.80
B'Mark	2.21	2.21	10.27	7.15	6.56	13.77

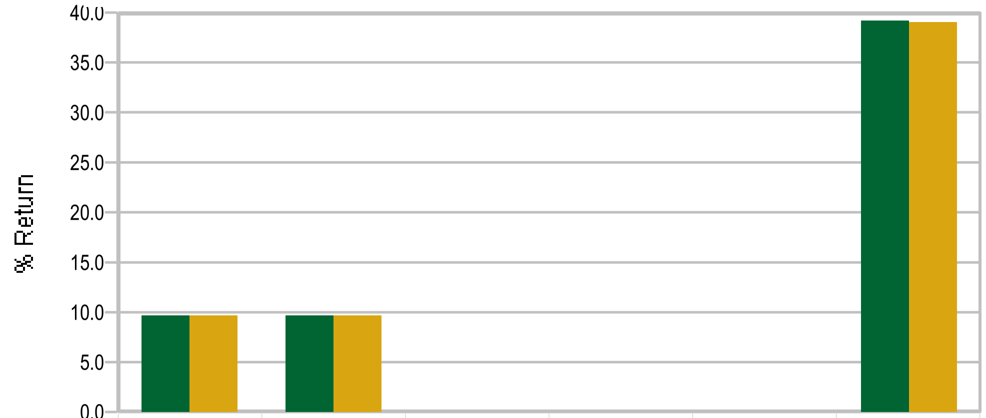
SSGA



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
SSGA	100.00	100.00	100.00		100.00	
Equity	79.82	79.90		79.82		79.90
FT A-W North America	10.90	10.89	11.00	-0.10	11.00	-0.11
FT A-W Developed Europe xUK	10.95	10.87	11.00	-0.05	11.00	-0.13
FT A-W Developed Asia Pac xJP	10.93	10.92	11.00	-0.07	11.00	-0.08
FT A-W Emerging	3.01	3.05	3.00	0.01	3.00	0.05
United Kingdom	44.04	44.17	44.00	0.04	44.00	0.17
Fixed Income	10.09	10.00		10.09		10.00
Government Bonds	1.51	1.47	1.50	0.01	1.50	-0.03
Corporates	8.57	8.53	8.50	0.07	8.50	0.03
Index Linked Gilts	10.09	10.10	10.00	0.09	10.00	0.10

SSGA Temporary

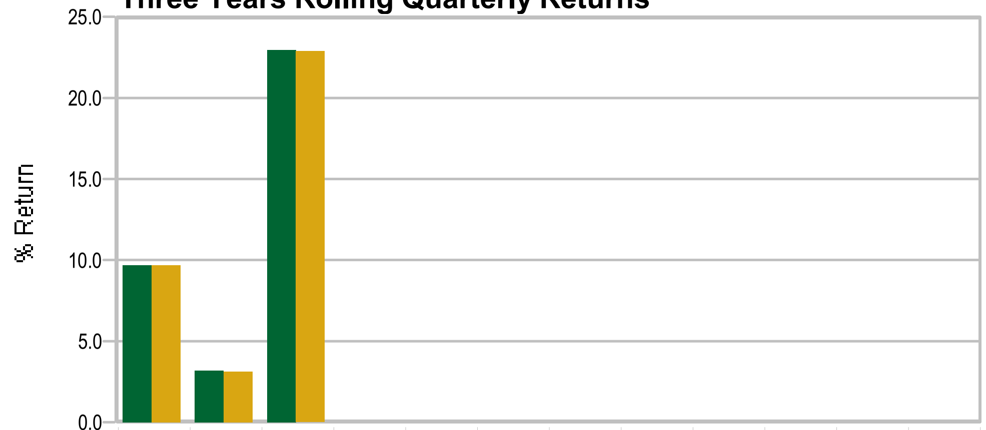
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.67	9.67	-	-	-	39.15
Benchmark	9.68	9.68	-	-	-	38.99

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	15.3	
Inception Date	Jun-2009	
Opening Market Value (£000)	75,029	
Net Investment £(000)	-315	
Income Received £(000)	0	
Appreciation £(000)	7,219	
Closing Market Value (£000)	81,933	

Three Years Rolling Quarterly Returns



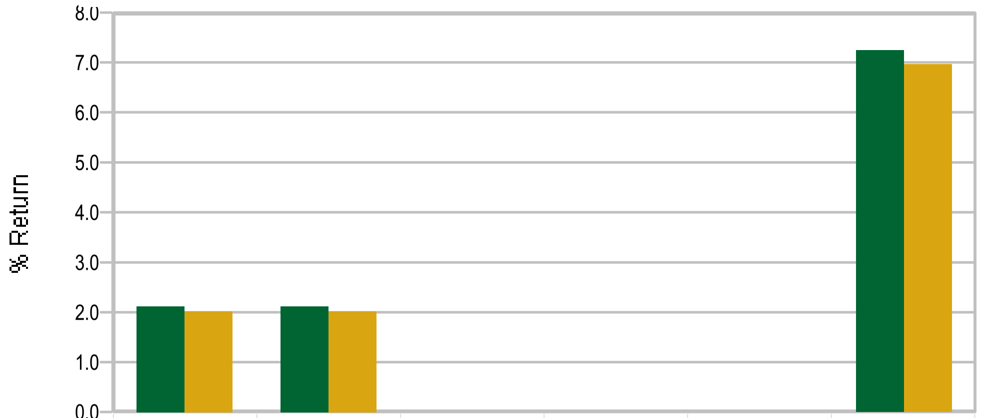
	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	9.67	3.19	22.97	-	-	-	-	-	-	-	-	-
Benchmark	9.68	3.12	22.88	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	-	-	-	-	-	-	-	-	-	0.07	0.06	-0.01
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

SSGA Drawdown

Historical Plan Performance

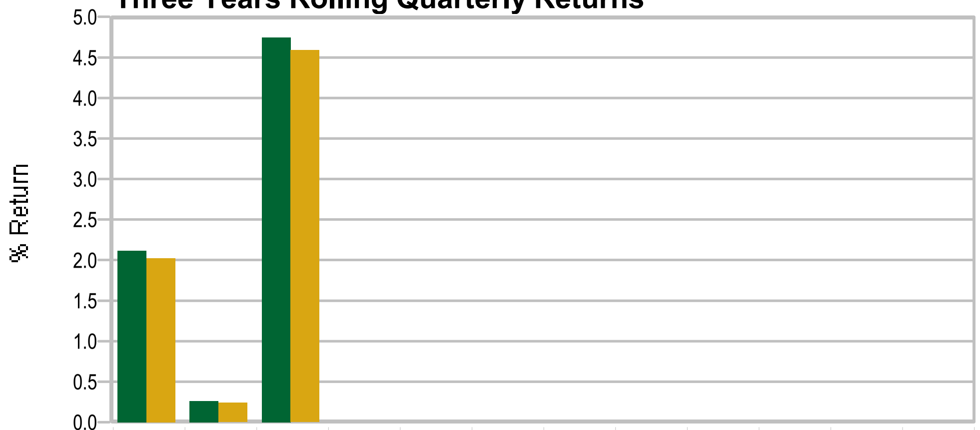


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.12	2.12	-	-	-	7.24
Benchmark	2.02	2.02	-	-	-	6.96

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	4.0	
Inception Date	Jun-2009	
Opening Market Value (£000)	21,041	
Net Investment £(000)	-92	
Income Received £(000)	0	
Appreciation £(000)	444	
Closing Market Value (£000)	21,393	

Three Years Rolling Quarterly Returns



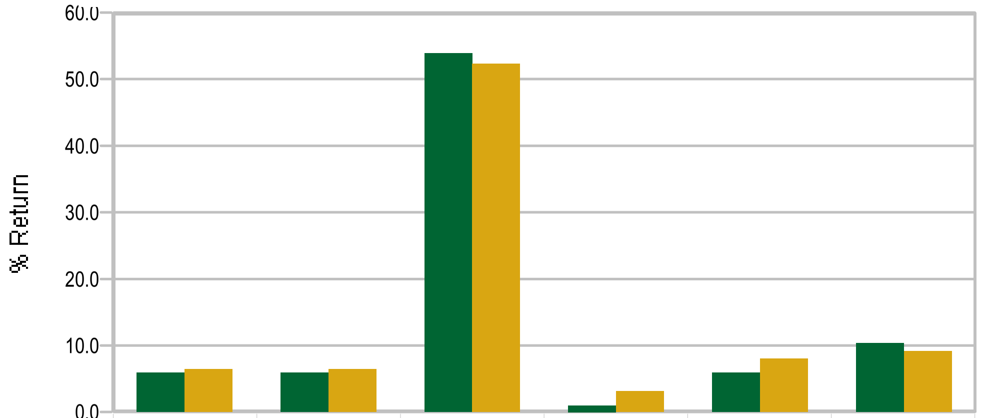
	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	2.12	0.26	4.75	-	-	-	-	-	-	-	-	-
Benchmark	2.02	0.24	4.59	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	-	-	-	-	-	-	-	-	-	0.15	0.02	0.09
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

UBS

Historical Plan Performance

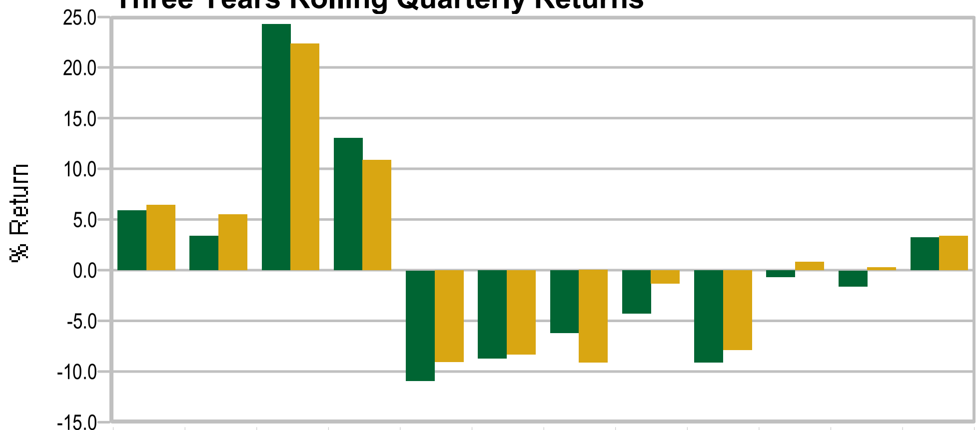


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.91	5.91	53.89	1.01	5.90	10.30
Benchmark	6.42	6.42	52.30	3.12	8.05	9.14

Risk Statistics - 3 years

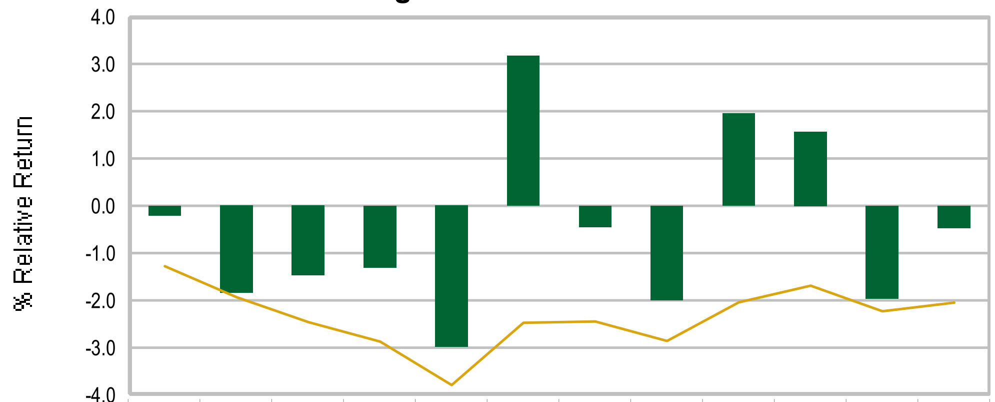
	Fund	B'mark
Performance Return	1.01	3.12
Standard Deviation	19.10	17.35
Relative Return	-2.05	
Tracking Error	4.18	
Information Ratio	-0.51	
Beta	1.08	
Alpha	-1.76	
R Squared	0.96	
Sharpe Ratio	-0.19	-0.09
Percentage of Total Fund	19.7	
Inception Date	Dec-1988	
Opening Market Value (£000)	100,251	
Net Investment £(000)	-435	
Income Received £(000)	701	
Appreciation £(000)	5,192	
Closing Market Value (£000)	105,710	

Three Years Rolling Quarterly Returns



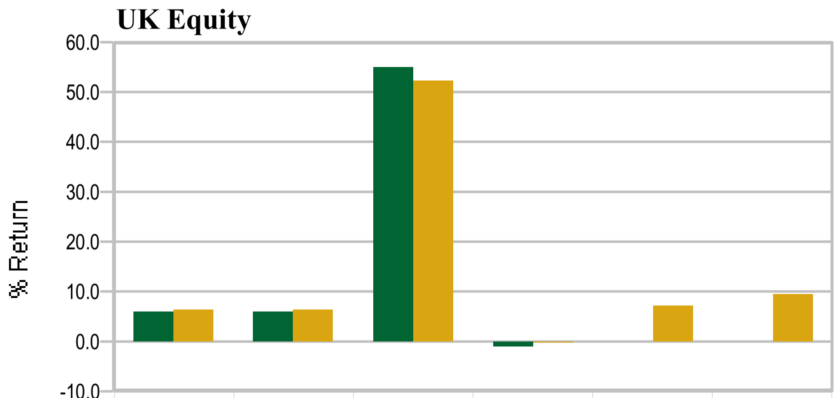
	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	5.91	3.41	24.30	13.04	-10.90	-8.71	-6.22	-4.28	-9.08	-0.66	-1.59	3.20
Benchmark	6.42	5.47	22.38	10.88	-9.08	-8.30	-9.11	-1.33	-7.88	0.83	0.26	3.41

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	-0.20	-1.85	-1.48	-1.31	-2.99	3.18	-0.45	-1.99	1.95	1.57	-1.96	-0.48
3Y Relative	-1.28	-1.94	-2.46	-2.88	-3.79	-2.48	-2.45	-2.86	-2.04	-1.69	-2.24	-2.05

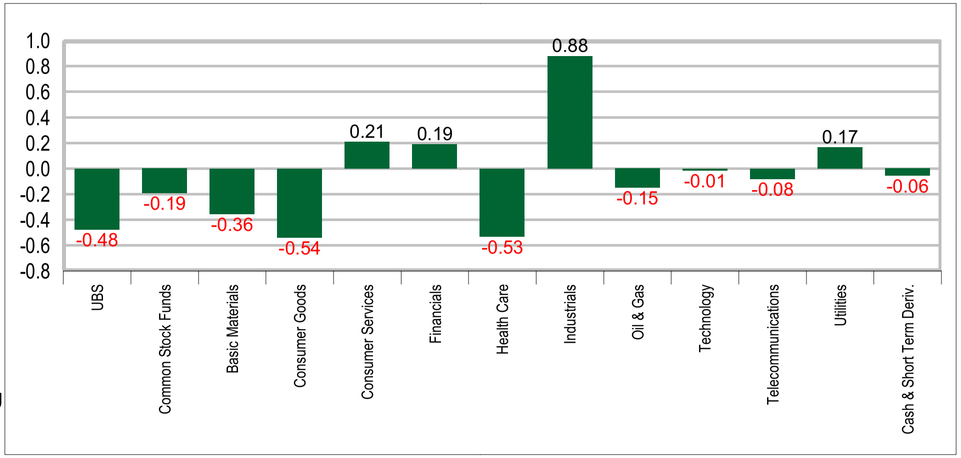
UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.97	5.97	55.02	-0.98	-	-
B'Mark	6.42	6.42	52.30	-0.23	7.15	9.46

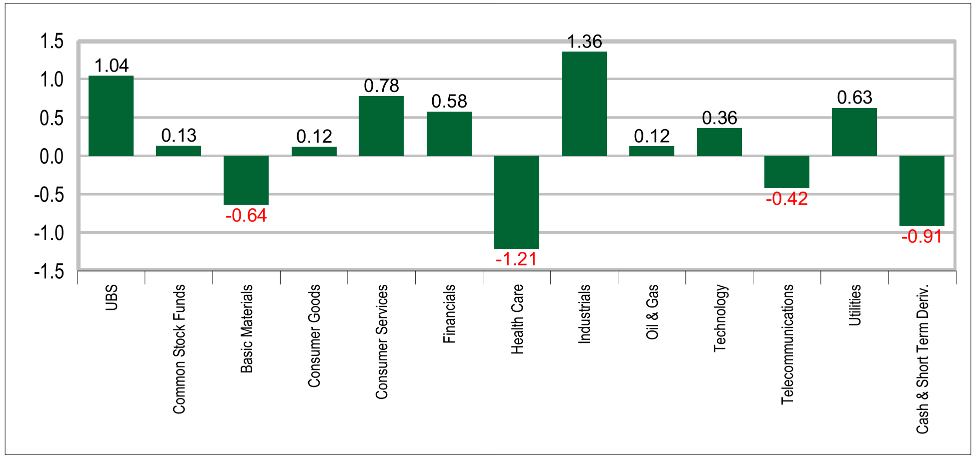
UBS

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
UBS	5.91	6.42	-0.48	0.00	0.00	-0.79	0.31	-0.48
Common Stock Funds	0.16	-	0.16	0.00	0.00	-0.19	0.00	-0.19
Basic Materials	10.92	12.48	-1.39	0.00	0.00	-0.26	-0.09	-0.36
Consumer Goods	0.87	7.84	-6.46	0.00	0.00	-0.07	-0.47	-0.54
Consumer Services	9.73	7.96	1.64	0.00	0.00	0.01	0.20	0.21
Financials	5.90	5.24	0.62	0.00	0.00	0.08	0.11	0.19
Health Care	-1.47	1.22	-2.66	0.00	0.00	-0.20	-0.33	-0.53
Industrials	25.02	10.62	13.02	0.00	0.00	-0.00	0.88	0.88
Oil & Gas	3.41	3.99	-0.56	0.00	0.00	-0.04	-0.11	-0.15
Technology	15.98	15.21	0.67	0.00	0.00	-0.02	0.01	-0.01
Telecommunications	4.41	4.30	0.10	0.00	0.00	-0.09	0.01	-0.08
Utilities	4.55	0.14	4.40	0.00	0.00	0.06	0.10	0.17
Cash & Short Term Deriv.	0.10	-	0.10	0.00	0.00	-0.06	0.00	-0.06

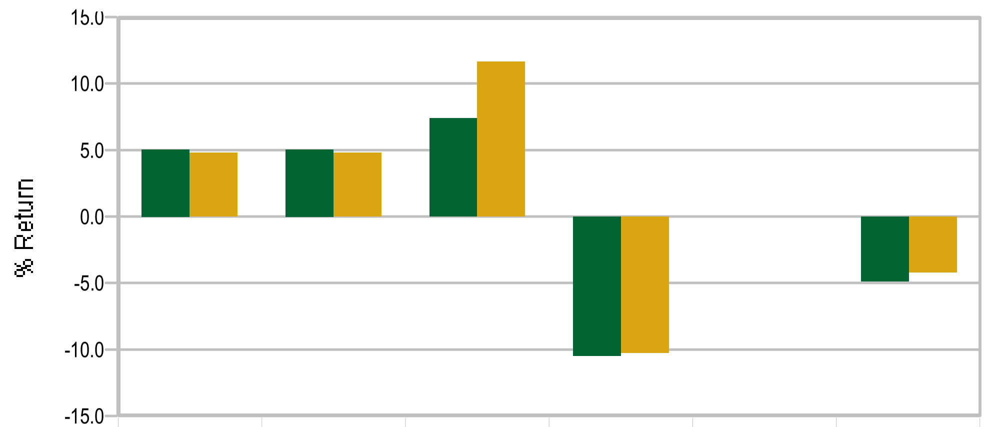
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
UBS	53.89	52.30	1.04	-0.00	-0.00	-3.34	4.23	1.04
Common Stock Funds	57.30	-	57.30	0.00	0.00	0.13	0.00	0.13
Basic Materials	134.74	107.14	13.33	0.00	0.00	-1.29	0.67	-0.64
Consumer Goods	56.45	52.70	2.46	0.00	0.00	0.03	0.09	0.12
Consumer Services	54.53	45.61	6.13	0.00	0.00	-0.08	0.86	0.78
Financials	81.70	71.92	5.69	0.00	0.00	-0.46	1.04	0.58
Health Care	22.79	27.56	-3.74	0.00	0.00	-0.75	-0.46	-1.21
Industrials	88.85	58.95	18.82	0.00	0.00	-0.03	1.39	1.36
Oil & Gas	33.13	32.76	0.27	0.00	0.00	0.08	0.05	0.12
Technology	116.68	80.97	19.74	0.00	0.00	-0.01	0.37	0.36
Telecommunications	35.43	34.58	0.63	0.00	0.00	-0.48	0.06	-0.42
Utilities	36.85	25.29	9.23	0.00	0.00	0.43	0.20	0.63
Cash & Short Term Deriv.	3.56	-	3.56	0.00	-0.00	-0.91	0.00	-0.91

UBS Property

Historical Plan Performance

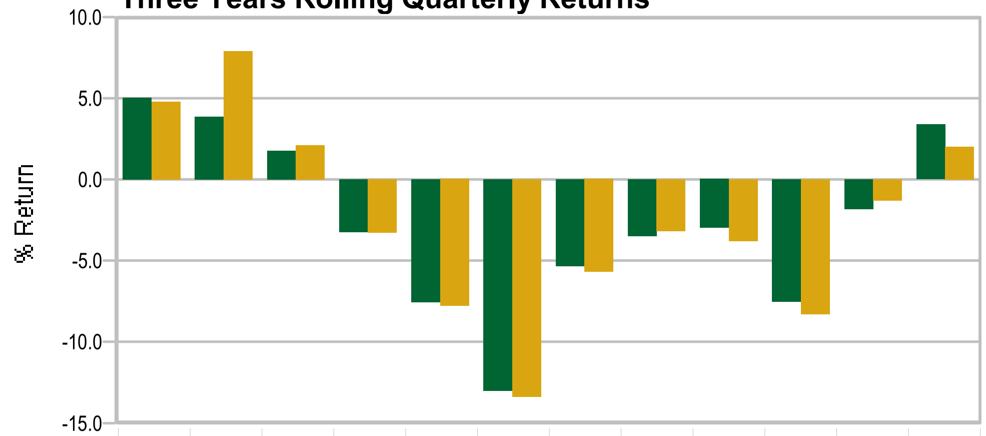


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.03	5.03	7.39	-10.46	-	-4.88
Benchmark	4.80	4.80	11.64	-10.26	-	-4.21

Risk Statistics - 3 years

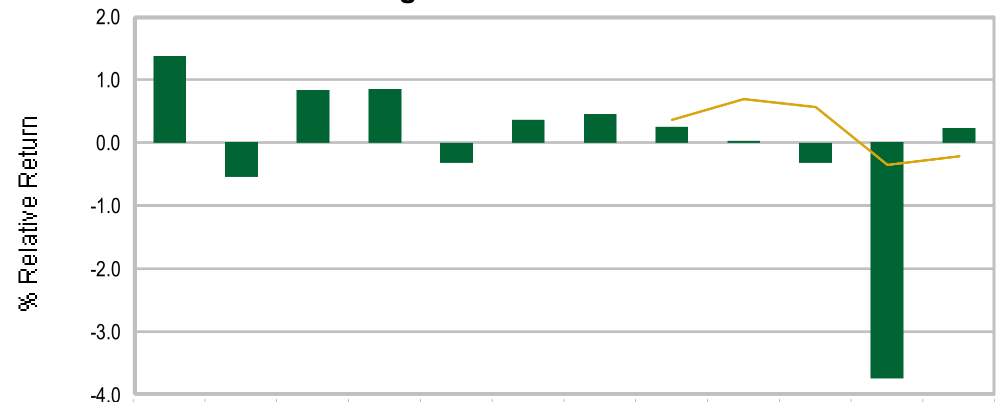
	Fund	B'mark
Performance Return	-10.46	-10.26
Standard Deviation	6.61	6.80
Relative Return	-0.22	
Tracking Error	2.88	
Information Ratio	-0.07	
Beta	0.89	
Alpha	-1.82	
R Squared	0.85	
Sharpe Ratio	-2.29	-2.20
Percentage of Total Fund	8.1	
Inception Date	Mar-2006	
Opening Market Value (£000)	41,256	
Net Investment £(000)	-2	
Income Received £(000)	589	
Appreciation £(000)	1,488	
Closing Market Value (£000)	43,331	

Three Years Rolling Quarterly Returns



	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07	Q2 07
Fund	5.03	3.86	1.77	-3.28	-7.57	-13.01	-5.36	-3.50	-2.99	-7.54	-1.83	3.40
Benchmark	4.80	7.90	2.10	-3.30	-7.80	-13.40	-5.70	-3.20	-3.80	-8.30	-1.30	2.00

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Relative	1.37	-0.54	0.83	0.85	-0.31	0.36	0.45	0.25	0.03	-0.32	-3.74	0.23
3Y Relative	-	-	-	-	-	-	-	0.36	0.69	0.56	-0.35	-0.22

Total Plan Benchmark

36.8 FTSE All Share
12.9 FTSE AW North America
11.1 FTSE AW Developed Europe ex UK
5.5 FTSE AW Japan
3.7 FTSE AW Developed Asia Pacific ex Japan
3.7 AWI Emerging Markets
1.6 FTSE All Stock
8.9 iBox £ Non-Gilts (82.35%) / iBox £ Non-Gilt 15+ (17.65%)
5.3 FTSE Index Linked 5+yrs
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

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

SSGA Drawdown

50.0 ML STG Non-Gilts
50.0 FT 7 Day LIBID

SSGA Temporary

26.0 FT AW Developed Europe ex UK
36.0 FT AW North America
10.0 FT AW Japan
14.0 FT Developed Asia Pacific ex Japan
14.0 FT AWI Emerging

UBS

100.0 FTSE All Share

UBS Property

100.0 HSBC All Balanced Funds

Tracking Error

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

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

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

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

Information Ratio

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

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

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

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

Alpha

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

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

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

Beta

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

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

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

R-Squared

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

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

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

Sharpe Ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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WM LOCAL AUTHORITY

QUARTER 1 2010

The following summary is based on 88 funds with a total Market Value of £133,065m.

Final Results

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	66.0	65.9	8.1	9.9	8.1	9.9	50.7	48.4
GLOBAL POOLED INC UK	2.4	2.6	9.1	9.9	-	9.9	-	48.4
UK EQUITIES	29.9	28.7	6.6	6.4	6.6	6.4	51.9	52.3
OVERSEAS EQUITIES	33.7	34.6	9.3	10.3	9.3	10.3	49.4	48.1
North America	10.1	10.8	11.9	12.5	11.9	12.5	42.9	43.2
Europe	9.5	9.3	4.5	4.0	4.5	4.0	47.4	48.8
Japan	3.4	3.8	16.0	15.4	16.0	15.4	32.6	29.6
Pacific (ex Japan)	3.8	3.8	8.8	8.7	8.8	8.7	64.8	67.2
Emerging Markets	6.0	6.1	8.5	9.1	8.5	9.1	68.1	74.5
Global ex UK	0.8	0.9	10.3	10.3	10.3	10.3	49.5	48.1
TOTAL BONDS	17.6	17.3	3.5	-	3.5	-	15.2	-
U.K. BONDS	10.5	10.1	3.4	1.1	3.4	1.1	16.9	0.8
OVERSEAS BONDS	2.1	2.0	5.6	5.6	5.6	5.6	13.6	0.0
INDEX LINKED	4.5	4.4	2.5	2.2	2.5	2.2	11.6	10.3
POOLED BONDS	0.3	0.4	5.8	0.4	5.8	-	28.3	-
TOTAL CASH	3.8	4.0	-0.1	0.1	-0.1	0.1	2.0	0.4
ALTERNATIVES	6.6	6.6	4.4	-	4.4	-	4.3	-
Total Private Equity	2.9	3.1	6.9	-	6.9	-	-2.4	-
Total Hedge Funds	2.3	2.3	3.2	-	3.2	-	12.1	-
Other Alternatives	1.3	1.2	1.1	-	1.1	-	11.4	-
TOTAL EX-PROPERTY	94.0	93.9	6.4	6.2	6.4	6.2	37.0	37.7
TOTAL PROPERTY	6.0	6.1	4.5	5.7	4.5	5.7	9.9	16.3
TOTAL ASSETS	100.0	100.0	6.3	6.3	6.3	6.3	35.2	35.9

WM PERFORMANCE SERVICES
A State Street Business

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 MARCH 2010

LBH PRIVATE EQUITY FUNDS LGT CAPITAL PARTNERS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
	£ 000	%	£ 000	%	£ 000	%	000	%	%
Crown private Equity European Buyout Opport.	12,192	2.16	8,510	1.51	4,186	0.74	4,324	0.77	6.57
Crown Global Secondaries Plc (US$)	1,990	0.35	1,613	0.29	729	0.13	884	0.16	0.49
Crown Private Equity European Fund	4,463	0.79	2,557	0.45	125	0.02	2,432	0.43	-7.72
Crown Private Equity European Buyout Opport. II	8,925	1.58	2,276	0.40	0	0.00	2,276	0.40	-13.03
Crown Asia-Pacific Private Equity Plc (US$)	1,990	0.35	912	0.16	66	0.01	846	0.15	8.49
Crown European Middle Market II plc	3,570	0.63	678	0.12	0	0.00	678	0.12	13.75
Crown Global Secondaries II Plc (US$)	1,460	0.26	182	0.03	0	0.00	182	0.03	N/A
TOTAL(S) LGT CAPITAL PARTNERS	**34,590**	**6.13**	**16,728**	**2.97**	**5,106**	**0.91**	**11,622**	**2.06**	
ADAMS STREET PARTNERS	**£**		**£**						**Dec-09**
Adam Street Partnership Fund - 2005 US Fund	9,289	1.65	6,311	1.12	467	0.08	5,844	1.04	-3.14
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,981	0.71	3,171	0.56	389	0.07	2,782	0.49	0.47
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,985	0.53	1,861	0.33	156	0.03	1,705	0.30	-3.67
Adam Street Partnership 2006 Direct Fund	995	0.18	863	0.15	15	0.00	848	0.15	-11.10
Adam Street Partnership Fund - 2006 US Fund, L.P	5,971	1.06	3,325	0.59	156	0.03	3,169	0.56	-6.29
Adams Street Direct Co-Investment Fund, L.P.	1,990	0.35	1,772	0.31	0	0.00	1,772	0.31	-15.13
Adams Street Partnership 2007 Direct Fund LP	332	0.06	256	0.05	5	0.00	251	0.04	-4.67
Adams Street Partnership - 2007 Non -US Fund	1,161	0.21	400	0.07	0	0.00	400	0.07	-6.79
Adams Street Partnership - 2007 US Fund	1,825	0.32	773	0.14	32	0.01	741	0.13	-0.38
Adams Street Partnership - 2009 US Fund	995	0.18	97	0.02	0	0.00	97	0.02	13.28
Adams Street Partnership - 2009 Direct Fund	199	0.04	44	0.01	0	0.00	44	0.01	-5.43
Adams Street Direct Co-Investment Fund II.	1,659	0.29	175	0.03	0	0.00	175	0.03	-4.33
Adams Street 2009 Non-US Emerging Mkt Fund	199	0.04	8	0.00	0	0.00	8	0.00	-22.04
Adams Street Partnership 2009 Non-US Developed Market	597	0.11	12	0.00	0	0.00	12	0.00	-21.26
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**32,178**	**5.71**	**19,068**	**3.38**	**1,220**	**0.22**	**17,848**	**3.17**	

FUND VALUE	**563,820**	
COMMITMENT STRATEGY	49,334	8.75%
TO ACHIVE INVESTMENT	28,191	5.00%
CURRENT INVESTMENT BOOK COST	29,470	5.23%
CURRENT INVESTMENT MARKET VALUE	27,975	4.96%

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End Q1 2010 portfolio overview

- The portfolio has performed well in the quarter having a TV/PI of 1.06x compared with 1.04x last quarter and 1.0x the quarter before
- The distribution level has increased slightly to 31% against 29% previously
- Since the last report, net invested capital has remained stable as distributed capital almost kept pace with called capital
- NAV has risen by Euro 0.6 million, the Euro 0.5 million net increase in performance reflecting a general rise in equity valuations across the board
- The USD strengthened by 5.8% against the Euro in the period and this had a small positive impact on performance
- Managers are generally optimistic about the environment but are concerned about current pricing levels; this however encourages them to sell rather than buy companies
- LGT Capital Partners continues to focus its investment activity on new secondary opportunities and this has proven to be beneficial for both the dedicated secondaries fund and the primary funds that have secondaries capacity

Q1 2010		Net Performance (in millions of Euros)						Cash Multiple		Drawn	
		LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure		32.7	15.7	-4.8	10.9	11.7	0.9	0.31	1.05	48%	33%
Euro equivalent Dollar Exposure @	1.3509 USD / Euro	6.1	3.0	-0.9	2.1	2.4	0.3	0.29	1.10	50%	35%
Total Exposure (in Euro millions)		38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q1 figures as of 31st March 2010
D/PI - distriutions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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Investment Report for the Quarter ended 31st March 2010

Market Commentary

The index returns and currency movements for the quarter ended 31st March 2010 are shown in the tables below.

Index returns expressed in sterling

		Quarter ended 31st March 2010
		%
Equities		
Japan	FTSE Developed Japan	15.4
North America	FTSE North America	12.5
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	9.8
Emerging Markets	MSCI Emerging Markets Free	9.1
UK	FTSE All Share	6.4
Europe	FTSE Developed Europe (ex UK)	3.9
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	4.0
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	2.0
UK Gilts	FTSE British Government All Stocks	1.1
Property	IPD	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency Movements for quarter ended 31st March 2010

Currency	31st December 2009	31st March 2010	Change %
USD/GBP	1.615	1.517	-6.1
EUR/GBP	1.126	1.121	-0.4
USD/EUR	1.435	1.353	-5.7
Yen/USD	93.095	93.440	+0.4

Head of the leader board was Japan (+15.4%). Whilst this performance reflected an improvement in the country's economy it was to an extent a catch up move from the very poor relative return experienced in 2009 when fears over deflationary conditions were paramount. Next came the USA (+12.5%) reflecting a more encouraging economic outlook, especially with regard to the recovery in productivity. The 9.8% rise for Asia Pacific reflected the continuance of strong growth and export prospects across the region, particularly in China, as is so often the case. Emerging markets again put up a robust performance in returning 9.1%, thus building on the excellent returns from this area for last year. The FTSE all share index returned 6.4%, a very creditable achievement against a background of a high fiscal deficit together with political uncertainty ahead of a General Election. The laggard on the leader board was Europe returning 3.9% despite the financial problems of Greece which in turn fuelled concerns over other weak Eurozone countries namely Portugal, Ireland and Spain.

Within Fixed Interest, the clear first runner was corporate bonds which returned 4.0% due to the fact that it was one of the highest yielding sub sectors and not prone to sovereign debt problems. Investors also became less worried about the default risk in corporate bonds. Index linked gilts returned 2.0% due to greater fears that inflation was likely to re-emerge. UK gilts returned a subdued 1.1%, largely due to their relatively lower yields within the Fixed Interest sector and also worries over the sovereign debt problems referred to above. Another market apprehension within the gilt market was the likelihood that sterling would continue to be a weak currency. LIBOR 3 month cash returned a minuscule 0.1%. Small wonder that investors were switching out of very low yield deposits into other higher yielding asset classes, particularly equities.

The currency exchange rate table highlights the weakness of sterling over the quarter, down 6.1% against the US dollar. This weakness reflects investor nervousness in holding a currency with one of the largest global fiscal deficits expressed as a percentage of GDP

As can be clearly seen from the returns table, the resilience of equity markets experienced in 2009 has continued into the first quarter of 2010 although all markets suffered a dose of realism in January with negative returns for that month. Such resilience for the quarter has stemmed from the fact that, in most equity markets, the underlying positive influences have far outweighed the negative influences. The principal positive influences which have driven markets are as follows:-

- The still substantial levels of liquidity held in historically very low yielding deposits which have driven investors both institutional and private to switch into safe haven high quality equities on more attractive yields with strongly financed balance sheets.
- Corporate earnings and dividends have been appreciably better than expected, often accompanied by relatively optimistic trading statements.
- Inflation rates have generally been contained.
- Central banks have continued to hold interest rates at extremely low historic levels to the obvious advantage of highly leveraged companies and consumers.
- The continuing radical measures and stimuli by governments and central banks to provide essential life blood liquidity to their respective financial systems.
- The rebuilding of corporate inventories at a greater pace than expected.
- An export boost, particularly to those countries with weak currencies.
- The expectation by the IMF that world trade will make a meaningful recovery in 2010.

The principal negative and corrosive influences have been the obvious ones. That is to say, very anaemic increases in economic growth, particularly in the case of the UK and Europe. And the dramatic ballooning of fiscal deficits which is also especially marked in the UK and currently stands at a massive £178B.

Global politics have also played a part in the direction of respective equity markets and indeed other asset classes. These are highlighted below:-

In the UK

Such is the preoccupation of the three main political parties ahead of the General Election on 6th May, that any major legislation will necessarily be postponed. It goes without saying that, whichever party is elected, it will face the mammoth task of reducing the gargantuan fiscal deficit. Then expect acute cutting of public costs and severe taxation increases. In reality this process could grind on for at least 3 to 4 years. Of great concern to stock markets is the possibility of a hung parliament which could result in a weak political mandate with which to address all the country's current problems. In the meantime the Government and the Bank of England are grappling with a programme to dismantle the emergency measures created during the financial crisis not the least of which is the exit from quantitative easing (printing money) which runs the risk of re-igniting inflation.

In the USA

President Obama, after a rocky start, struggled to enact the promises for change he so eloquently extolled at the hustings. However, he has since done well, under stiff opposition from the Republican Party, to wrestle through Congress the very emotive Health Reform Bill. This is indeed a feather in his cap and has considerably enhanced his presidential status both within the USA and also on the world stage.

In Europe

The acute indebtedness of Greece has posed a problem. Angela Merkel of Germany and Nicolas Sarkozy of France would have liked to effect a totally Eurozone rescue plan to the apprehension of Trichet, head of the European Central Bank. In the event, the solution has been a joint support programme by the International Monetary Fund and the Eurozone. This should serve to protect the current Eurozone structure with its single currency.

In Japan

The newly elected Democratic Party have made a slow and disappointing start to extracting the economy from the mire of 10 years of deflation. A much more powerful economic policy needs to be urgently enacted.

In Asia

Many countries have produced worthwhile rates of GDP growth together with increasing levels of exports in strict contrast to most of the economies of their Western Hemisphere counterparts. In particular, the Politburo of China together with the Peoples Bank of China have combined to flex their mighty international muscle in many ways:- effecting deals with some of the world's largest mineral and other extractive companies in order to secure adequate future supplies for their steel, oil and gas industries and of course for increasing the future supply of water in a nation where current levels are very low. There are also signs that China is at last starting to respond to international calls for a fairer system of managing its currency, the renminbi. Indeed, high level meetings are currently taking place between the USA and China in that regard.

Regional Influences

UK

Positive Influences

- In the fourth quarter of 2009 the Office for National Statistics revised up its GDP growth estimate to 0.4% from its original estimate of 0.1%.

- In the Budget the government estimated GDP growth of 1% to 1 ½% in 2010 rising to 3% to 3 ½% in 2011.

- CPI inflation in February fell to 3.0% from 3.1% in January.

- Dividend payouts to shareholders are estimated to rise by 18% for the FTSE 100 companies.

- The Office for National Statistics reported that the trade deficit in February was £6.2B down from £8.1B in January. This was below the consensus estimate of £7.3B and the smallest deficit since June 2006.

- Remarkably the Organisation for Economic Co-operation and Development predicts that in the first half of 2010, the UK will have the fastest rate of economic expansion of any of the World's large industrialised countries. The UK "Think Tank" forecasts that output will increase by 2.0% in the first quarter of 2010 and by 3.1% in the second quarter of 2010.

- Ernst & Young say that corporate profit warnings dropped to a 10 year low in the first quarter of 2010.

Negative Influences

- In the Budget public spending is estimated to be £167B in 2010 which is £11B less than the estimate made in December, but still a shocking level. The government estimates that the deficit will fall to £163B in 2011 and to £74B in 2014/15.

- In the fourth quarter of 2009, whilst public sector employment rose 7,000, private sector employment fell 61,000.

- The Budget, with the General Election close at hand (6th May) turned out to be an unsurprising damp squib.

- The increasing demands of our ageing population.

- Bankruptcies are at an all time high.

US

Positive Influences

- The Labour Department reported that new claims for jobless benefits fell by 14,000 to 442,000 for the week ending 19th March. This was the lowest level since December 2008.

- In March 162,000 new jobs were created, the best performance for 3 years. The unemployment rate remained unchanged at 9.7%.

- Larry Summers, the senior economic adviser to Obama, stated "there is the sense that the country's long term problems – healthcare, energy, education and long run fiscal deficits are being addressed. All of these should increase a generalised sense of confidence and, this will be a source of stimulus to the economy".

- The Conference Board's consumer confidence index for March showed a strong increase for March to 52.5 from 46.4 in February.

- The US Institute for Supply Management's manufacturing index for March grew to 59.6 (February 56.5). This is the highest level since July 2004 and is in part due to a rebound in inventories.

- On 16th March the Federal Reserve Board kept its interest rate on hold saying economic conditions were likely to warrant "exceptionally low" interest rates for an extended period". Inflation is likely to remain subdued "for sometime".

- The Commerce Department stated that consumer spending in February grew by 0.3% (January +0.4%), its fifth consecutive monthly rise.

Negative Influences

- Although February new orders for durable goods advanced 0.5% this was below consensus estimates of 1.0%.

- Sales of new houses fell to 308,000 in February, the lowest level since records began in 1963.

- The National Association of Realtors reported that sales of existing houses in February decreased by 0.6%, the third consecutive monthly drop, but nevertheless an increase of 7.0% on an annualised basis.

- The Labour Department reported that the February producer price index dropped 0.6% which was worse than expected, but 4.4% higher for the year.

- The Commerce Department reduced its estimate of GDP for the fourth quarter of 2009 from 5.9% to 5.6%.

- February housing starts fell by 5.9% partly blamed on severe winter storms.

Europe

Positive Influences

- The Eurozone corporate purchasing managers' index (includes both manufacturing and services) advanced in March to 55.9 (February 53.7), it eighth consecutive month of growth and the fastest rate since August 2007.

- The European Commission reported that industrial production in the Eurozone rose 0.9% in February which was faster than expected.

Negative Influences

- Irish GDP shrank by 2.3% in the fourth quarter of 2009 partly due to devastating floods there.

- The leading rating agency Fitch downgraded Portugal's credit rating to AA- from AA stating "significant budgeting under performance in 2009" and "the structured weakness in the country's economy".

- In France the mid term election results augured particularly badly for Nicolas Sarkozy's UMP party which was trounced by the socialists.

- On 31st March Moody's, the rating agency, downgraded 5 leading Greek banks. Indeed, Greek banks have had to seek more aid as savers have withdrawn deposits due to the obvious threat over a further escalation of the current debt crisis.

- Eurostat reported that, in the fourth quarter of 2009, GDP was unchanged due in part to the phasing out of the government's emergency measures within the financial system.

During the quarter there was, unusually, a distinct paucity of macro economic data from both the Asia/Pacific region and also Japan. The principal influences are shown below:-

Asia/Pacific

Positive Influences

- China's rate of GDP surged a remarkable 11.9% in the first quarter of 2010.

- The World Bank predicts that the Chinese economy will expand by 9.5% in 2010. This represents an increase on their previous estimate of 8.7%.

- There was a surge in merger and acquisition activity in Asia.

- Singapore's GDP in the first quarter of 2010 was extremely strong and rose +13.1%.

Japan

Negative Influence

- February machine orders fell by a marked 5.4%

Conclusion

So, in conclusion, what is the principal combination of factors needed for equity returns to make further meaningful progress between now and the end of 2010 and to build on the surprisingly robust returns already achieved in the first quarter of the year? The answer is that the required factors are very much the same as those that have been needed for quite some time. They are as follows:-

- Evidence that the crisis in the international banking system is largely overcome with no further major incidents or casualties.

- That governments and central banks will be able to successfully exit from the plethora of stimuli, rescue programmes and emergency measures that they applied in 2008 and 2009; particularly with regard to quantitative easing. In exiting it will be important to ensure that the respective financial systems continue to remain adequately hydrated.

- That the main industrialised nations are able to demonstrate that their economies are healing and once again showing worthwhile underlying rates of GDP growth. In other words that these countries are climbing out of their respective recessionary conditions and thereby decreasing the oft mentioned fear that economies might relapse into double dip recessions.

- Whilst it is becoming generally accepted that, later in 2010 interest rates will increasingly have to rise, it is vital that this will not impact or snuff out a return to economic growth which in certain cases could be somewhat anaemic.

- That corporations will continue to improve productivity, rebuild inventories, strengthen their balance sheets and provide consistently rising earnings and dividends.

- That investors, both institutional and private, will continue to regain their confidence and feel good factor and make further switches out of cash into still attractive high yielding equities.

- That inflation remains under control. In that regard the finite reserves of minerals, oil and gas are concerning. OPEC estimates that the price of oil could average $80 a barrel between now and the year end. It is, of course, inevitable that inflation will pick up as economies recover.

- That fiscal deficits will be seen to reduce, especially in the UK and USA. It will also be important that, within the Eurozone, the "intensive care" economies of Greece, Ireland, Portugal and Spain are kept closely under the monitoring radar. In the case of the UK, were it to lose its triple A credit rating, then there would be acute difficulty with future gilt auctions and sterling would most surely endure further suffering. It is a current worry that, at this time in the UK, there does not appear to be a creditable policy to reduce its bloated level of structured debt.

- That there will be a distinct improvement in consumer morale due in part to an increase in employment levels together with better job security.

- It is desirable that merger and acquisition activity picks up to include IPOs (initial public offerings).

- That there is evidence that World trade is making a genuine recovery.

- That in the UK it is imperative that further globalisation takes place. However, in that regard, let it not be forgotten that Britain has very substantial international investments with almost half of the FTSE 100 company earnings coming from overseas. Not to mention their ownership of very substantial global assets.

If most of the prerequisites contained in the above wish list come to pass, and it is a big "if", then these favourable factors should be reflected in improved equity levels, particularly in emerging markets, but nothing like to the same extent as the returns achieved in 2009. In sum and at best, equity returns for the year as a whole could be in the mid to high single digit area. But, because of the strong returns already achieved in the first quarter of 2010, the implication is that the best of respective returns have already been seen for the year with quieter markets to be expected between now and the year end. Financially secure corporate balance sheets and rising earnings levels will be at a premium. Stocks with these attributes will continue to provide a sanctuary for investors, particularly those with relatively high yields. This applies to stocks both within the UK and globally. As always, foreign exchange rates will have to be most carefully watched. Particularly sterling which has been one of the worst casualties of the World recession.

With regard to other asset classes:

- Fixed Interest returns will probably be somewhat flat, particularly with regard to sovereign debt, especially UK gilts which are still under the cloud of a possible downgrade by the rating authorities. Index linked stocks could make further progress as they offer a protection against inflation which is generally expected to increase. Corporate bonds could also make further advances, but only to a small extent after their strong returns in 2009.

- Property should continue with its gradual recovery from its most severe down cycle. There are certainly strong signs of investor interest returning to the sector to take advantage of many attractive valuations; even with regard to large trophy offices.

- Private Equity stands likely to benefit due to a greater availability of liquidity and also a distinct improvement in the IPO market. The secondary market in private equity pooled funds has current attractive offerings as it is a way of circumventing the "j" curve effect.

- Hedge Fund of Funds should continue to take advantage of current attractive opportunities. They should also continue to prove their worth as a form of portfolio insurance which is normally uncorrelated to other asset classes.

- Global Tactical Asset Allocation (GTAA) should find better opportunities than in 2009 and should benefit from lower market volatility. Also currency positioning should prove a better source of profits than in the past.

- Infrastructure should be able to further enhance its attraction as an asset class due to the many good value investments that abound, especially in the USA and China whose economies are both so dependent on an efficient national infrastructure. This continues to be an excellent long term asset class for a pension fund.

On the economic front it should be re-emphasised that strong rates of GDP growth are continuing to be achieved in China, India and Brazil. It is significant that, over the last decade, the stock markets of those countries, including Russia have outperformed the traditional industrialised countries' stock markets by an extremely substantial amount. Is this a pointer for the future? Emphatically yes. In the longer term globalisation in all asset classes should prove beneficial to pension fund performances.

Valentine Furniss FCSI
15th April 2010

Investment Report: Q1, 2010

Market Summary

The first quarter of 2010 was generally a period of favourable returns of real assets (Figure 1). Apart from a loss of nerve midway through January, 'risk' remained in vogue even after the heady gains of 2009. The exception was the commodity sector where, led by oil, excess investment returns fell back. Although property continued its recovery, £ weakened steadily ahead of the election and in response to the more favourable economic progress being made elsewhere (Europe and Japan apart). The UK equity market, comprising strong exposure to resource-related companies and overseas earners, outperformed the global average. Credit spreads (the yield on corporate bonds over gilt) continued to narrow.

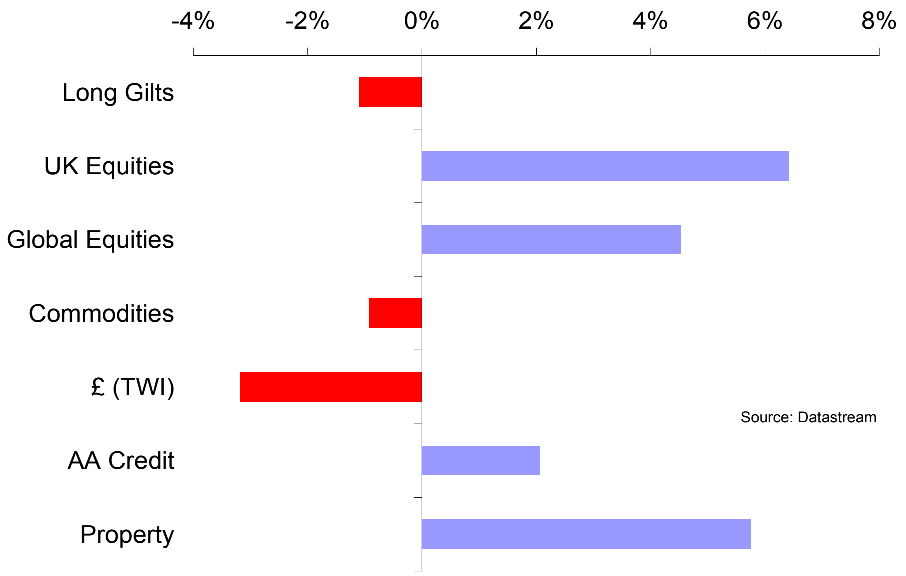


Figure 1: Market Performance – Q1, 2010 (total return)

Since the end of Q1, the picture has been quite different (Figure 2). The debt crisis that engulfed Greece and threatened a raft of nation states within Europe saw the next, inevitable stage of the Credit Crunch develop at the sovereign level. The threat of systemic failure within the European banking system increased sharply and investors duly sold out of positions. The severity of the European crisis led to marked € weakness, an unprecedented remedial package (see insert) and even managed to eclipse the political drama unfolding (at the time of writing) in the UK.

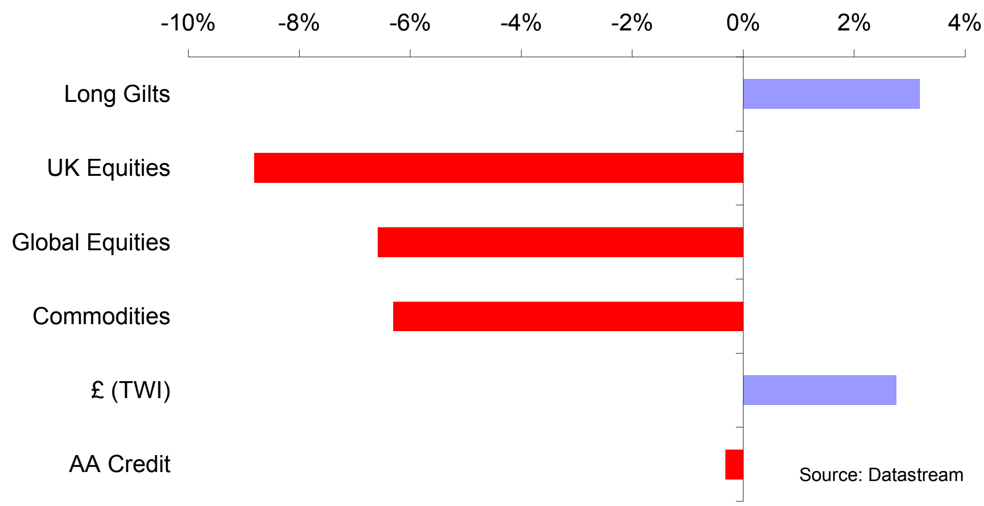


Figure 2: Market Performance – since end March (to 7th May)

Market Observation

We remain in an economic and market environment for which there is scarce precedent in living memory. Returning to conditions that we might perceive to be normal, is going to prove challenging.

Figure 3 highlights that slope of the US yield curve (a proxy for all others) is incredibly steep. Such a slope portends of economic strength and developing pressure on inflation. Yet policy rates, across the major economies, remain at emergency levels – with no immediate sign of changing.

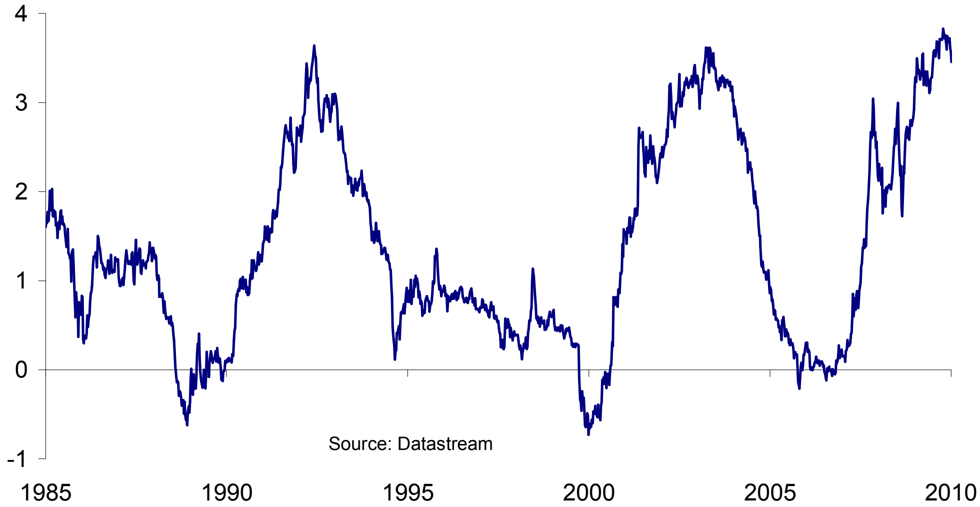


Figure 3: US Yield curve (long yields less two year yields - %)

Part of the reason is that one of the strongest challenges is the difference in conditions experienced between major companies and the much more numerous and just as significant, smaller employers. Figure 4 shows the yawning and unprecedented gap in corporate confidence between large and small companies.

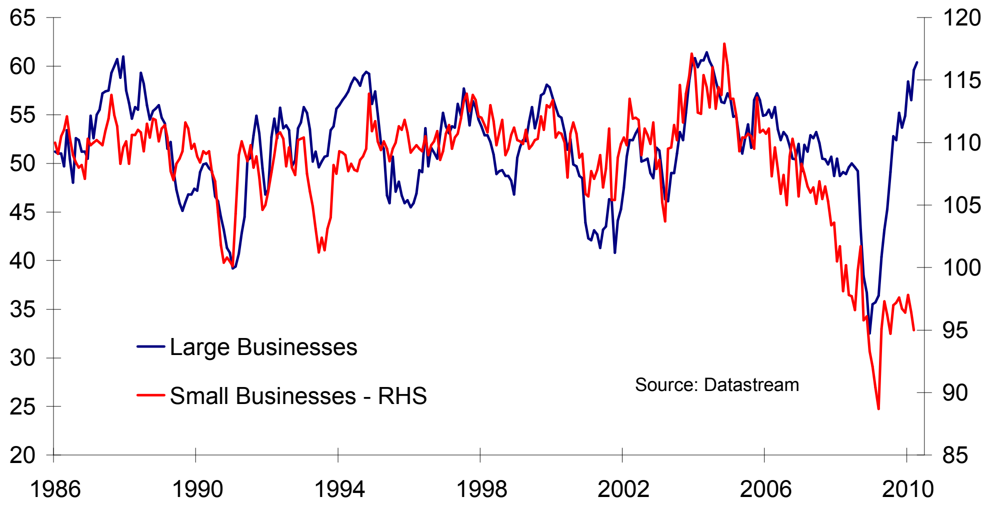


Figure 4: US Business sentiment (small versus large companies)

Large corporations have found it easy to access the capital markets and so avoid the need to deal with banks whereas smaller companies have yet to see any relaxation of bank lending. In addition, many small companies depend on finance secured on the owner's personal assets. The decline in house values thus feeds back negatively into the small company sector.

These contrasts – there are many more – illustrate the challenges - and manifest uncertainty - faced by policymakers. They support a market backdrop likely to be characterised by violent markets swings. The Appendix reprises a note provided for Officers that discusses this feature and its possible impact on pension schemes.

Commentary

There is usually a lag between a financial crisis erupting and the discovery of its biggest victims. The 1990's boom and the dotcom bubble burst in March 2000. However, the poster children for that era did not emerge until Enron and Worldcom folded in 2001 and in 2002 (respectively). The housing bubble, and the structured products built around it, began to burst in early 2007 but it took over a year for Lehman Brothers to go under. The Great Recession probably ended in the summer of 2009 yet here we are, almost a year later, and the poster children are being revealed; Greece is one. Goldman Sachs may, or may not, be another. And the €, arguably the ultimate structured product, could even end up as a prominent feature on the poster.

Markets are still supported by cyclical tail-winds. Evidence of economic strength on both sides of the Atlantic has come through in recent weeks, not least in better-than expected labour market data in the UK. Corporate announcements have validated market expectations that earnings would be strong, with approximately 75% of companies in both the US and Europe beating estimates. Balance sheets are generally exceptionally strong, providing support to credit markets. Earnings momentum is proving a powerful support for equity markets; valuations are not yet a challenge.

However, market reaction to the fears over the bailing out of Greece has been sobering. It is a reminder that structural headwinds, such as sovereign risk, will become a serious hindrance at some stage. The problems catalysed by Greece are likely to postpone the time when major central banks around the world raise interest rates. Nonetheless it is possible that the sell-off in markets has partly been caused by the tightening of policy in major emerging and commodity based economies. Brazil raised interest rates by 0.75% from a record low of 8.75% on April 28. Australia raised interest rates to 4.50% on May 4 and Canada's central bank has hinted strongly that it will raise interest rates in June. On May 2, China raised the reserve requirement ratio for banks for a third time this year and has limited loans for property purchases. This could be seen as a harbinger of events in the likes of the US.

Although a 'tweak' to US interest rates would, in reality, have little real impact, its impact on sentiment could be huge and we can understand why policy makers would be reluctant to do so while financial markets are jittery and significant imbalances remain. They have spent or lent trillions of dollars, euros and pounds propping up the financial system, individual financial firms and now individual countries. It would be foolhardy to jeopardise that investment by premature policy tightening. Note also that there are fiscal woes in the world beyond those evident in Greece. A catalyst for the recent sell-off in mining stocks has been the planned introduction in 2012 of a 40% tax on mining company profits in Australia to pay for changes to the retirement savings system and for infrastructure.

Australia's action is a reminder that fiscal challenges go beyond paying for the clean up after the Great Recession. There is not a developed economy in the world that does not face huge costs associated with its ageing population, the promises made to retirees about the size of their pensions and the payment of their medical expenses. This structural headwind is far enough in the future to be unlikely to affect markets in the near-term. It is also worth noting that political interference remains a potential headwind with the SEC action against Goldman Sachs appearing to be an escalation of the political pressure on Wall Street. Wall Street was perceived as the beneficiary of a more generous bail-out than any other industry. And now Wall Street is leading the recovery in profitability. No financial firms in the S&P500 have produced earnings below estimates in Q1 and the sector has had the largest increase in earnings forecasts in the wake of those earnings.

This is socialisation of losses and privatisation of profits – a combination that is bound to produce a backlash from the general population. Goldman is the leading Wall Street firm and it is therefore in the eye of the storm. Goldman has powerful friends (Warren Buffett and Bill Clinton have spoken out in support recently) but it is also loathed by politicians and envied by competitors and could easily continue to be a target of a political system that needs scapegoats. Every country has its own 'Goldman'.

The temptation for politicians to interfere is understandable and, perhaps, irresistible. There is considerable precedent for seeing such intervention as a long-term negative. Markets have yet to focus on this threat.

Insert: The ECB Bailout (Stabilisation Fund)

Running into the weekend of May 8th/9th there were significant concerns that some European banks would be unable to re-open on the Monday morning; several 'Northern Rock's' lay in prospect. It was against this backdrop that the ECB and EU devised a set of unprecedented rescue/remedial measures to act, effectively, as a war chest against further market instability.

The detail of the plans can be summarised as:

- €60bn of loan's from the EU's existing budget;
- €440bn of loan guarantee's provided by the EU;
- €250bn of loans from the International Monetary Fund;
- the ECB will purchase the bonds of member states;
- measures to provide emergency access to funding and US$ implemented during the early part of the Credit Crunch are reinstated;

The Stabilisation Fund is expected to ensure that, in future, the provision of emergency funding measures to the likes of Greece, can occur much faster than previously, not least because it avoids the need for lengthy ratification through the various national parliaments.

In exchange for access to the resources of the Fund, recipient states need to agree rigorous austerity measures supervised by the IMF, the EU and, in all likelihood, the ECB; there is to be no 'free lunch'.

The immediate reaction in the financial markets was unambiguously positive however, the enduring consequence can only be clear once some of the following aspects/issues are understood:

1. It has taken the EU etc several weeks to understand the severity of the market crisis. There can be no guarantee that those responsible for operating the Stabilisation Fund will react any faster.
2. The IMFs involvement appears conditional on exhaustion of EU etc monies and the currency swap facility is only being offered on terms so onerous that few banks are likely to access it.
3. The political independence of the ECB is clearly under threat. Only 2 days before, the ECB had denied that the outright purchase of government bonds would occur. A politicised ECB – especially against the backdrop of European politics – would lead to a significant loss of credibility.
4. The EU have declared that they "will defend the € at all costs". This, together with the knowledge that a financial 'safety net' exists could easily weaken the resolve of recipient states in implementing the appropriate fiscal adjustments. A large part of the Greek crisis was down to market fears over the preparedness of the Greeks to 'stomach' the cuts required.
5. The announcement represents a big step forward towards full fiscal union and the joint issuance of government bonds; it is then a small step towards the issue of ECB bonds. It is unclear whether all nations are willing to move quickly to this position.
6. At present, that bond-buying programme does not constitute Quantitative Easing as understood in the UK – liquidity within the financial systems will not be allowed to increase. As events of recent days have shown, this can change quickly. If it does, the dynamics of the market will also alter sharply; inflation will be firmly on investors' agenda.

Overall, European policymakers had to be press-ganged into an understanding of the severity of the situation; nothing it seems has been learned from 2008/9. It remains to be seen just how much of the package is bluff; governments will hope that the promise of their support ensures that it will never be needed.

Standing back, the policy based on debt-for-debt replacement is ultimately flawed. Some investors are going to have to face facts; some of the money that they lent all too easily, will never be paid back.

Strategy Guidance

The Pension Fund is inherently 'long' risk assets. On this basis, any assessment of unexpected events is best biased to the negative.

1. Notwithstanding the rise in equity markets that has taken place, we have not yet extricated ourselves fully from the severe global economic slowdown foretold by a raft of leading economic indicators in 2008/9. Sentiment rallied strongly off the lows last year but has been jolted by the re-emergence of the Credit Crunch at the sovereign level. Job creation is patchy in the developed economies. Investors are beginning to realise just how miraculous it would have been had the global economy emerged simply from the cataclysm of Q4, 2008.
2. Movements on the foreign exchanges are likely to remain accentuated as national contrasts form a greater part of investor thinking; the € fares badly in any such assessment. The currency of choice (within the developed nations) remains the US$. Politics will limit the ability of £ to be dragged higher by the US$ but £ remains a more attractive currency than the € - outside of protracted political confusion / ineffective leadership.
3. Risk mitigation strategies will likely prove crucial in the months ahead, as we are not yet "out of the woods". The markets remain poorly positioned to absorb any petering out of this nascent recovery. A severe (20+%) sell-off in financial markets is unlikely but the consequences will be more severe simply because of the poverty of remedial policy options.
4. Prudence requires that systemic and economic fractures must still be examined for their possible (negative) impact on the PF. Possible areas of specific concern are listed below.
   - A strong move towards greater protectionism still cannot be discounted.
   - The systemic crisis was averted as the problems were 'nationalised'; fresh weakness has been characterised by issues of a sovereign nature as events in the peripheral European states highlight (see insert). The EU etc have 'upped the ante'. Markets may yet call their bluff.
   - Higher commodity prices threaten, once again, to depress disposable incomes and, combined with persistently subdued economic growth, threaten to foster an environment typically characterised as 'stagflation'; this is a poor backdrop for investing generally but specific asset classes, e.g. commodities, can be attractive.
   - Led by moves in developing and commodity economies, risks surrounding extrication from the current emergency monetary policy setting are growing. Central banks will be keen to avoid slipping into a Japanese style policy paralysis but too swift a move to tighten policy threatens to kill the recovery.
5. In the face of these risks, the case remains that policymakers will do whatever necessary to rebuild confidence and avoid a sharp economic recession. Against this backdrop risk-free inflation protected assets are ideal if priced attractively. Unfortunately, UK index-linked stocks are very richly priced. Other, more attractive, index-linked markets exist.
6. Despite suggestions to the contrary, official interest rates are set to remain low for some time. Longer dated, forward rates are set to fall further and offer the PF protective potential (risk mitigation). Markets such as Australia and NZ provide the best opportunity for these strategies.
7. The multi-year outlook remains that of a broad but ultimately trend-less, trading range for equity markets. Timely, though ideally infrequent, adjustments to the broad asset allocation may be considered; 'contingency' cover will be important.

   Operation of some of the market specific / contingency related strategies should form part of the mandate of the specialist asset allocation manager that is currently the subject of a selection exercise (see Appendix).

Appendix: Self-exciting Flutter

Those who have never watched the videos of the Tacoma Bridge collapse should do so now[1]. It proves clear evidence that huge structures, although built solidly to endure, can collapse. The physicists attribute the bridge's demise to the self-exciting oscillation born of aeroelastic flutter. The bottom-line is that once something big gets out of control, it is very difficult to stabilise it again.

It is telling that, despite the apparent global economic recovery, the European financial system is still incapable of dealing with the debts created by a country representing just 2% of its overall economic mass – Greece. The banks remain highly fractured and unable to withstand the capital write-downs consistent with the degree of value destruction obvious in assets e.g. property exposures.

Dating back to the onset of the Credit Crunch (January 2007), asset markets have been characterised by extremely violent behaviour. Readers will obviously recognise this in the slump in equity, credit and commodity markets of 2008/9. However the subsequent rise in the same markets were just as dramatic; they weren't described as 'violent' because, of course, they suited investors.

Based on the behaviour of markets in recent weeks, it is clear that the 'violence' hasn't ended. The speed of the moves remains incredibly fast, reinforced by the clamour of investors trying to join or bail from market swings or trends.

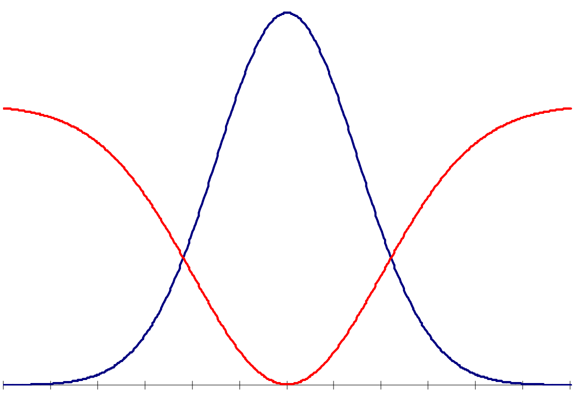
Extraordinary challenges:

- the obsession that lenders are, largely, indemnified from their actions
- Über-easy interest rates,
- the counterfeiting that is QE,
- the fiscal adjustments necessary to deal with the mountain of debt,
- demographics,
- socioeconomic upheaval, and
- the inevitable end to the folly of debt-for-debt substitution,

all conspire to ensure that, to any reasonable forecast horizon and regardless of what happens in the real economy, market behaviour will not be *normal.* In its place will remain a bias for polarised outcomes; prices marked sharply up or sharply down. [In the graphic, the stylised distribution of outcomes is going to that of the red line, not that in blue.]

It is essential that those responsible for pension fund portfolios recognise this 'self-exciting' nature of markets and modify their portfolio design accordingly while they still have time. The correct response is, and neatly described by such as Ruffer, through the use of complementary exposures. However, this approach can only be effective if these offset exposures created are managed, i.e. gains are adroitly monetised.

The essence of the approach is to augment the strategic investments with other, smaller (by value) exposures which are likely to perform with a high degree of convexity in – otherwise hostile - market extremes. These are investments which will have merit on their own account but are likely to be substantially re-rated should markets jump to a polar extreme. When this happens it is essential that the resulting gains are harvested for they will evaporate when, during the next flutter, markets swing back in the opposite direction. This is a 'long vol' approach to portfolio construction and quite different from the standard 'long risk' approach.



Just as bridges aren't meant to violently gyrate, major asset portfolios aren't meant to be subjected to frequent rebalancing. The approach described shouldn't require major upheaval, just maintenance appropriate to the complementary exposures. Some may still see this as synonymous with trading; it isn't.

[1] *http://www.youtube.com/watch?v=3mclp9QmCGs*

If markets continue to move violently within the very wide trading ranges established in recent years, then we can be confident that there is likely to be more value in the range than the trend (which is to go nowhere). We might also fear that each oscillation, as at Tacoma, was far from constructive. Driven by the issues described earlier, the global financial system undoubtedly has its own self-exciting, aeroelastic flutter. Getting it to calm down is going to be no small challenge.

Pension fund portfolios can close their eyes to the threats embedded within this environment believing, in error, that it will end soon. Alternatively they can amend their behaviour as suggested. In practice, few will change much and this will ensure that, for those that do, the benefits will emerge.

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PENSION FUND BUDGET 2009 – 2010 - OUTTURN

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Appendix

SUMMARY

At Committee in March 2010, Committee approved the budget for 2010 – 2011 and noted the forecast position as at Month 9 on the 2009 – 10 budget. This report now brings the outturn position for the 2009 -10 budget to Committee.

RECOMMENDATION

1. **It is recommended that committee note the budget outturn position for the 2009 -10 financial year.**

BUDGET MONITORING 2009/10 – Outturn Position

As explained in the March report, preparing a budget for the Pension Fund is complex and the investment areas are very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. Therefore, budgets for the Pension Fund are prepared which make no forecast for the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. As a result the controllable budget is based only on the 'Surplus from Operations' elements.

Actual Income /expenditure against original budget

The original budget for 2009/10 forecast a deficit from operations of £46k, which compared with the actual surplus from operations for the year of £1,420k. The increase of £1,466k was due to an increase in income of £257k and a reduction in expenditure of £1,208k

The main differences between the original budget and the actual income/expenditure were:

Income:
- An increase in employees contributions of £50k;
- An increase in employers contributions of £57k; and
- An increase in transfer values received of £151k.

Expenditure:
- A reduction in benefit payments of £152k;
- A reduction in transfer values paid out of £990k; and
- A reduction in administration expenses of £66k

Committee had raised their concern at the forecast deficit of the 2009 – 10 budget. However, the actual figure is much improved, avoiding the need to draw on investment income to pay for the day-to-day operations of the Fund.

FINANCIAL IMPLICATIONS

As part of the governance responsibilities for the Pensions Committee they are required to approve and monitor an annual budget for the Fund. This report sets out the budget outturn for the financial year 2009/10. In addition, the prior year budget is compared against projected income and expenditure.

The management of the Pension Fund, including the setting of the budget, ensures that the Pension Fund is managed in an efficient and cost effective way. Poor management of the finances of the Pension Fund would lead to increased costs which would need to be reflected in higher contributions being paid by employers in the Pension Fund.

LEGAL IMPLICATIONS

This report details the outturn on the Pension Fund budget for 2009 – 10 financial year. The Committee will wish to be clear that the financial assumptions on which the budget is based are sound and realistic. It will also wish to satisfy itself that the budget is robust enough to accommodate the potential pressures outlined in the report whilst ensuring that the fund is managed as efficiently as possible to maximise the benefits to members of the Scheme.

	2008-09 Actual	2009-10 Projected	2009-10 Outturn
Member Income			
Employers Contributions	19,291	21,398	21,448
Employees Contributions	7,911	8,253	8,310
Transfer Values Receivable	3,983	3,906	4,057
Net Member Income	**31,185**	**33,558**	**33,815**
Member Expenditure			
Pension Payments	(20,623)	(22,115)	(22,025)
Lump Sum Retirement Benefits	(4,645)	(4,526)	(4,602)
Lump Sum Death Benefits	(421)	(639)	(503)
Refunds of Contributions	(4)	(8)	(7)
State Scheme Premiums	(1)	(3)	(2)
Transfer Values Payable	(2,919)	(5,547)	(4,557)
Net Member Expenditure	**(28,613)**	**(32,838)**	**(31,696)**
Net Member Surplus	**2,572**	**719**	**2,119**
Administration Expenditure			
Pensions Administration	(481)	(538)	(421)
Miscellaneous Costs	(93)	(55)	(86)
Investment Administration	(169)	(172)	(192)
Net Administration Expenditure	**(743)**	**(765)**	**(699)**
Surplus from Operations	**1,829**	**(46)**	**1,420**
Irrecoverable Withholding Tax	196	221	(171)
Net Irrecoverable Withholding Ta	196	221	(171)
Returns on Investments			
Investment Income	15,239	10,549	11,066
Change in Market Value of Investm	(139,734)	141,181	136,635
Management Fees	(2,145)	(1,989)	(2,090)
Net Returns on Investments	(126,640)	149,741	145,611
Net Surplus in Period	**(124,811)**	**149,696**	**146,860**
Fund Value B/fwd 01/04/2008	542,045	417,430	417,430
Fund Value	**417,234**	**567,126**	**564,290**

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RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR

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

SUMMARY

This report summarises the number of Early Retirements in the last quarter. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

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

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

Number of Cases in the year ending 2009/10

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
2009/2010	16	0	13	31

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

- There is no reasonable prospect of the employee obtaining gainful employment* before reaching normal retirement age (age 65). In these cases <u>service is awarded up to age 65</u>
- The employee cannot obtain gainful employment* within a reasonable period** of leaving local government employment***, it is likely that they will be able to obtain gainful employment* before their normal retirement age (age 65). In these cases <u>25% of their potential service to age 65 is awarded</u>.

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

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

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

EARLY RETIREMENT COSTS MONITOR

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

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

This authority took the decision, in agreement with the fund actuary, to increase the employer's contribution rates as prescribed in the last valuation by 1%, effective from 1 April 2008, to meet anticipated early retirement costs. This 1% employer's contribution is locked in to the rate until March 2011.

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

MONITOR

Detail for Valuation Period 01.04.2008 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	501,559	111,600,000	0.45
2010/11			

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.

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GOVERNANCE ISSUES INCLUDING AN UPDATE TO THE STATEMENT OF INVESTMENT PRINCIPLES

Contact Officers	Nancy Leroux
Papers with this report	Appendix A: Revised Statement of Investment Principles

SUMMARY

This report is to provide an update on Pension Fund Governance issues; to recommend an update to the Statement of Investment Principles (SoIP); and to inform members on training opportunities.

RECOMMENDATIONS

1. **That Committee approve the revised Statement of Investment Principles**

INFORMATION

Revision to the Statement of Investment Principles

In June 2009 a report was presented to Committee to explain the changes to the Myners principles and the SoIP was updated to mention that these principles would be adopted at some point. The original 10 principles have now been removed from the SoIP and the new 6 included. The SoIP must also include details of the Fund's compliance with these principles. At this stage this has been done against the headline principles only.

However, the 6 new principles have been subdivided into a further 92 issues, covering the broad range of investment decision making and disclosure. Whilst we can claim broad compliance with the overall aim of the main principles, we will need to undertake a detailed review of the sub issues to provide a detailed compliance report. This review will be undertaken during the next financial year and regular update reports will be brought to committee. At this stage, the updated SoIP only details compliance against the headline principles.

On the 1st January 2010 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 came into force. The updated regulations have necessitated a number of amendments to the SoIP including investment limits, stock lending, and additional information regarding risk and compliance.

Changes to the investment strategy have also impacted the SoIP and include; amendments to fund managers, asset classes, benchmark details, performance targets and fee structures.

The updated SoIP with changes highlighted is attached at Appendix A.

Future Member Training and Development Events

DATE	EVENT	LOCATION	RSVP By
16 June	Alliance Bernstein Global Research Symposium	Great Russell Street London WC1	ASAP
16 June	NAPF Hot Topics Seminar	Cheapside London EC2V	ASAP
25 June	GSAM Local Authority Conference	Somerset House London WC2R	ASAP
8 - 10 September	LGC Local Authority Pensions Summit	Celtic Manor, Newport, South Wales	TBC

FINANCIAL IMPLICATIONS

Direct Financial implications arising from the report on the SoIP are the ongoing cost of member training. This cost will vary annually depending on the level of training required.

LEGAL IMPLICATIONS

The SoIP report complies with regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1st January 2010.

Appendix A

Statement of Investment Principles

(Revised June 2010)

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

INVESTMENT RESPONSIBILITIES

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

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

The **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, Adams Street Partners, Alliance Bernstein Ltd, Fauchier Partners, Goldman Sachs Asset Management, LGT Capital Partners, Marathon Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management (UK) Ltd. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

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

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

Hymans Robertson LLP act as the Fund's Actuary and Investment Consultant and give written advice on appropriate investment strategies. 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 (public and private), bonds (government, corporate and index-linked), property, cash and absolute return and fund of hedge fund strategies. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

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

The suitability of investments

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

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

The expected return on investments

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

Alliance Bernstein	- 2.00% p.a. in excess of benchmark
Fauchier	- 5.00% p.a. in excess of benchmark
Goldman Sachs	- 0.75% p.a. in excess of benchmark
Marathon	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% 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.

Fee Structures

Alliance Bernstein	- Tiered fee based on portfolio value.
Fauchier	- Performance based
Goldman Sachs	- Tiered fee based on portfolio value.
Marathon	- Performance based
Ruffer	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS 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 selection of fee structures.

Risk and diversification of investments

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

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

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

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

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

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

The realisation of investments

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

Pension Fund Treasury Management Policy

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

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

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

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

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

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

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

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

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

The council is a member of Local Authority Pension Fund Forum 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 C are the Pension Committee's broad guidelines on exercising the Council's voting rights.

STOCK LENDING

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

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

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

COMPLIANCE

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

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

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

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

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

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

Principle 3 Risk and liabilities	In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities. These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Compliant The review of the Funding Strategy takes into account relevant issues and implications.
Principle 4 Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	Partly Compliant Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision making and deferral of decisions are recorded in the committee papers. Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.
Principle 5 Responsible ownership	Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme members on the discharge of such responsibilities.	Partially Compliant The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles. Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.
Principle 6 Transparency and reporting	Administering authorities should: • act in a transparent manner, communicating with shareholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives	Partially Compliant The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated as required. The Pension Annual Report provides details of manager and fund

	• provide regular communication to scheme members in the form they consider most appropriate.	monitoring and is available on the Council website. Members are directed to the website but hard copy reports are available on request. The minutes and decisions taken at Pension Committee meetings are available on the Council website.

APPENDIX B

Limits on Investments

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

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

1.Restrictions identified in the above table does not apply if:

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

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

2. Restrictions identified in the above table do not apply to:

(a) National Savings Certificates;

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

(c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

(d) a deposit with a relevant institution.

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

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

APPENDIX C

Voting Guidelines

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

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

APPENDIX D

INVESTMENT STRUCTURE – PERFORMANCE BENCHMARK, PERMITTED RANGES AND COMPARATIVE INDICES

ALLIANCE BERNSTEIN			
Asset Class	Benchmark %	Ranges %	Index
North America	35	20 – 50	FTSE: AW North America
Europe (Ex UK)	30	15 - 45	FTSE: Developed Europe ex-UK
Japan	15	0 – 30	FTSE: AW Japan
Pacific (Ex Japan)	10	0 – 25	FTSE: Developed Asia Pacific ex-Japan
Emerging Markets	10	0 – 25	FTSE All World Emerging Markets
Cash	0	0 – 10	
Total	**100**		

FAUCHIER			
Asset Class	Benchmark %	Ranges %	Index
Fund of Hedge Funds	100	n/a	LIBOR 3 month
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**		

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

APPROVAL OF THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Pension Fund Annual Report & Accounts for the year to 31 March 2010

SUMMARY

It was agreed last year that Pensions Committee would approve and sign off the Pension Fund Annual Report, prior to it being taken to Audit Committee on 28 June and then being released to external audit to undertake the annual audit of the accounts.

The pension fund accounts are contained within the Councils' main financial statements which under the Accounts and Audit Regulations 2003 must be approved by the Audit Committee.

RECOMMENDATIONS

That Committee approves the Pension Fund Annual Report & Accounts for the financial year ended 31 March 2010.

INFORMATION

Requirement for Approval

The Director of Finance & Resources is responsible for the preparation of the Council's Statement of Accounts that present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2010. The Pension Fund Annual Report must contain the accounts for the Pension Fund, which also form part of the Council's main accounts and so fall under the responsibility of the Director of Finance & Resources. The 2009/10 pension fund accounts were released by the Director of Finance & Resources for approval on 11 June 2010.

Whilst Audit Committee must formally approve the accounts, they are unable to approve the additional content within the Pension Fund Annual Report. As the Annual Report is also subject to an audit by our external auditors, Deloitte, it falls to Pensions Committee to approve the Annual Report.

Changes to the Annual Report

Guidance on the publication of Pension Fund Annual Reports was published by the Department of Communities and Local Government (CLG) during 2009, with which all administering authorities in England and Wales with statutory responsibility for the Local Government Pension Scheme must comply. The guidance provides a general framework for the content of the annual report.

The Annual Report for the year ending 31 March 2010 is the first report Hillingdon has produced in line with this guidance.

Committee Action

Committee is requested to approve the 2009/10 Annual Report after which the Chairman is asked to sign and date the Annual Report to formally complete the Council's approval of the Annual Report.

FINANCIAL IMPLICATIONS

There are no direct financial implications in this report.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

Pension Fund
Annual Report & Accounts
for the year to 31 March 2010

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CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2010

Administering Authority	London Borough of Hillingdon
Pension Fund Committee Members as at 31 March 2010	Cllr Philip Corthorne (Chairman) Cllr Michael Markham (Vice-Chairman) Cllr George Cooper Cllr Paul Harmsworth Cllr Mike Cox John Thomas (UNISON) John Holroyd (Pensioner/Deferred Member Rep) Nick Manthorpe (Active Member Rep)
Director of Finance & Resources	Christopher Neale
Investment Consultant	Hymans Robertson LLP
Investment Advisers	Valentine Furniss Scott Jamieson
Fund Managers	UBS Alliance Bernstein State Street Global Advisors Goldman Sachs Asset Management LGT Capital Partners Adam Street Partners
Actuary	Hymans Robertson LLP
Legal Services	Raj Alagh, Borough Solicitor LBH
Auditor	Deloitte LLP
Banker	HSBC
Custodian for Fund Assets: (+ fund accounting and performance measurement)	Northern Trust
AVC Provider	Prudential Assurance Company
Officer Support	Nancy Leroux, Senior Finance Manager Ken Chisholm, Pensions Manager James Lake, Investment Manager Tunde Adekoya, Pension Fund Accountant

2. Management Report

(a) Introduction

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

The Pensions Team, within the Human Resources Service of the Deputy Chief Executive's Office, administers all aspects of the benefits regulations and the maintenance of membership records. The Pensions Investment team, within the Accountancy Service of the Finance & Resources Directorate, oversee the accounting and management information requirements of the fund. Day to day management of the investment of the funds is undertaken by independent fund managers.

During the year Pensions Committee meet formally on four occasions and in addition have regular meetings with Fund Managers to review performance.

(b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Those other bodies are listed in section (e) below.

Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. Within Hillingdon council, of the 7,289 employees who were eligible to join the scheme as at 31 March 2010, 4,508 were scheme members, which equates to 62% of the workforce.

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

5 Year Analysis of Fund Membership

Membership type	2005/06	2006/07	2007/08	2008/09	2009/10	5 year movement
Active	6,120	6,106	6,192	6,249	6,235	+1.9%
Pensioner	4,312	4,476	4,660	4,832	4,991	+15.7%
Deferred	3,477	4,243	4,158	4,541	4,772	+37.2%
Total Membership	**13,909**	**14,825**	**15,010**	**15,622**	**15,998**	**+15.0%**

Early Retirement

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

Type of Retirement	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Redundancy or Efficiency	35	36	51	32	21
Ill Health	23	10	24	20	15
Total	**58**	**46**	**75**	**52**	**36**

The age and membership profile as at 31 March 2010 is shown below-

Age Band	**Active**	**Deferred**	**Pensioner/Dependent**	**Total**
0 -5	0	0	0	0
6 – 10	0	0	8	8
11 – 15	0	0	21	21
16 – 20	70	29	15	114
21 – 25	249	176	4	429
26 – 30	387	330	0	717
31 – 35	474	372	0	846
36 – 40	767	571	8	1,346
41 – 45	1,072	865	22	1,959
46 – 50	1,205	915	68	2,188
51 – 55	934	853	108	1,895
56 – 60	703	566	370	1,639
61 – 65	337	90	1,114	1,541
66 – 70	36	3	994	1,033
71 – 75	1	2	868	871
76 – 80	0	0	669	669
81 – 85	0	0	418	418
86 – 90	0	0	239	239
91 – 95	0	0	59	59
96 – 100	0	0	6	6
Over 100	0	0	0	0
Total	**6,235**	**4,772**	**4,991**	**15,998**

(c) Key Performance Data

As part of our performance management arrangements, Hillingdon Council takes part in the CIPFA Pensions Administration Benchmarking Club. In 2008/2009 the club had 56 members who submitted data for the reporting year. 15 (including Hillingdon) of these were London Boroughs. The club members measure performance against agreed performance indicators (PIs) for specific items of work. At the start of each year, the pension team sets targets for the following year's performance and then monitor the actual performance against the target.

The table below details Hillingdon's performance against its own target and against other local authority pension funds.

Performance Indicator	Hillingdon Target	Hillingdon Actual Performance %	London Average %	Total Club Average %
Letter detailing transfer in quote	10 days	90.3	87.9	82.5
Letter detailing transfer out quote	10 days	64.8	84.6	81.8
Process refund & issue payment	5 days	79.6	92.8	83.7
Letter notifying estimate of benefit	10 days	87.3	94.8	90.8
Letter notifying actual benefit	5 days	91.8	93.5	88.5
Letter acknowledging death	5 days	100.0	95.9	93.3
Letter notifying amount of dependant's benefit	5 days	100.0	93.0	88.0
Calculate & notify deferred benefits	10 days	92.5	88.5	81.2

While performance is above average in 50% of the PIs, there are clear areas of underperformance, especially in relation to the provision of transfer out quotations and the payment of refunds. This can be partially explained in how the fund chooses to prioritise the workload of the section. The excellent performance in dealing with death cases exemplifies this. The priority for 2010/11 is to improve overall performance.

It has been several years since a member satisfaction survey was undertaken and so this will be a priority for 2010/11.

(d) Staffing

The pensions' administration team has eight permanent members of staff and one temporary member and a mix of full and part time employees. However the team also undertakes duties for the HR service and therefore only four full time equivalent posts are devoted to pure LGPS work.

The Department for Communities and Local Government publish the Government's SF3 statistics for staff to pension scheme member ratios. The latest available statistics for 2008/09 are as shown below. The published statistics indicate that the London Borough of Hillingdon pensions' team is in the upper quartile, which exemplifies the value for money the team is providing.

FTE Staff to Scheme Member Ratio

Authority	Hillingdon	All English	Inner London
2008/09	1:3780	1:2566	1:2967

The staff to pension scheme member ratio for 2009/10 is 1:3999.

(e) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total of contributions paid by each in 2009/10 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Heathrow Travel Care	13,824.06	16.35
Hillingdon & Ealing Citizens Advice	47,581.64	14.50
Look Ahead	34,869.09	18.60
MITIE	17,150.66	21.00
Greenwich Leisure	81,032.75	16.80
Integrated Cleaning Management	52,616.26	21.00
Yes Dining	105,614.45	21.00
Dalkia	135,262.52	21.00
London Housing Consortium	152,420.54	16.35
Hillingdon Homes	1,899,271.80	15.90
Uxbridge College	864,767.14	12.90
Stockley Academy	166,955.85	18.50
Harefield Academy	191,878.81	13.00

3. Financial Performance

During 2009/10 a separate budget was produced for the Pension Fund for 2009/10 and 2010/11. This was approved by Pensions Committee in March 2010. Going forward, future budgets will be monitored by Pensions Committee on a quarterly basis.

By the very nature of the Pension Fund, given the volatility there can be in most elements of the revenue account, preparing a budget for the Pension Fund is complex and the investment areas very difficult to predict given that they are subject to the vagaries of investment markets. Investment income and investment management fees are also unpredictable given that they are based on investment market performance which is largely outside the control of the Pension Fund. Therefore, budgets for the Pension Fund are prepared which make no forecast for the change in market value of investments, as this element of the budget is not one that can be predicted with any level of certainty. This is particularly the case given recent volatility in markets which makes forecasting even more difficult than usual. Given that this factor is not an element over which the Committee has any great degree of control as far as setting the Pension Fund budget is concerned, no forecast is made for the appreciation/depreciation of the investments. It is however fully recognised that the movement in the valuation of Fund assets will have a significant impact on the overall funding level of the Pension Fund and on the actuarial valuation and contributions set by the Fund Actuary.

Actual Income /expenditure against original budget

The original budget for 2009/10 forecast a deficit from operations of £46k, which compared with the actual surplus from operations for the year of £1,420k. The increase of £1,466k was due to an increase in income of £258k and a reduction in expenditure of £1,208k

The main differences between the original budget and the actual income/expenditure were:

Income:
- An increase in employees contributions of £50k;
- An increase in employers contributions of £57k; and

- An increase in transfer values received of £151k.

Expenditure:
- A reduction in benefit payments of £152k;
- A reduction in transfer values paid out of £990k; and
- A reduction in administration expenses of £66k

These differences refer to the net additions from dealing with members as shown in the fund accounts in Part F of this report.

4. Risk Management

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

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

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

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

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

Key Risk 4 – Administrative Risks - This risk mainly covers errors arising from the administration of the fund. A highly experienced administrative team is the main mitigation to this risk, with all processes and procedures being fully documented and routine checks in place to ensure compliance.

Key Risk 5 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the fund will help further mitigate these risks.

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

Market Review - Year to 31 March 2010

After sharp falls in the previous 12 months, equity markets recovered very strongly during the year to end March 2010. In the early months, evidence that government stimulus packages were being effective supported markets. Expectations that the worst of the economic crisis would soon be over gathered strength.

Hope turned to reality in the final months of 2009, as major developed economies recovered from recession. The US and Japan were first to report a return to economic growth, followed by the Eurozone (which has since ground to a standstill).

In January 2010, and after six consecutive quarters of economic contraction, the UK also returned to economic growth. Both manufacturing and service sectors contributed to the recovery. During the recession, the UK economy contracted by close to 6% in aggregate. This loss will take some time to make good, particularly if some capacity was permanently lost during the recession.

In contrast to the developed economies, China weathered the economic storm relatively well. The economy expanded by a little under 8.7% during 2009, despite the global downturn. China is now close to overtaking Japan's position as the world's second largest economy.

UK equities, as measured by the FTSE All Share Index, returned 52.3% over the twelve months to end March 2010. In local currencies, European (ex UK) equities returned 51.4% and those of North America 49.1%. Japanese equities returned 29.7%. When translated into Sterling, returns from North America and Europe (ex UK) were lower, reflecting the appreciation of Sterling against the US$ and the Euro. Against the Yen, Sterling changed little over the period.

The best performing global sectors (relative to the FTSE 'All World' Index) over the twelve months were Basic Materials (+18.6%) and Financials (+13.8%). The poorest performing sectors were Utilities (-18.5%) and Telecoms (-17.8%).

Yields on government fixed interest bonds rose (prices fell) modestly during the twelve months, the 'All Stocks' Index returned just 0.8%. In contrast, index linked issues returned 10.3%, reflecting concerns over inflationary pressures as the economy moves out of recession. The strongest returns in bond markets came from corporate issues, +31.2% over the year, as credit spreads narrowed from historically high levels.

The global economic recovery remains uneven and is tentative at best. Fears of a 'double dip' recession cannot be dismissed and for this reason central banks are treading a wary path. The expectation is that short-term interest rates will remain low for some time. In the UK, the Bank of England held short-term interest rates at a record low of 0.5% throughout the twelve months and, commencing in March 2009, provided £200bn of additional economic stimulus, through its programme of quantitative easing.

The Greek debt crisis which erupted towards the end of the period illustrates the perils of running a high level of public debt. Loss of investor confidence is the major threat. In the UK, the immediate and most pressing economic challenge for the new Government will be the management of public finances. A robust approach is required to retain the confidence of the international community and to avoid a serious decline in Sterling against its major trading partners. The next budget will be very different from that delivered in March.

John Hastings, 30 April 2010, for and on behalf of Hymans Robertson LLP

INVESTMENT POLICY

This year's report looks at steps Pensions Committee are taking to develop the Fund's investment strategy. Included on the previous page is a summary of the financial conditions in which the fund has operated over the 12 months from 1 April 2009 to 31 March 2010. The report also considers the performance of the Fund over the most recent 3-year period (ending 31 March 2010).

Funding and investment strategies

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

Investment strategy

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

Manager	UK equity %	O'seas equity %	Bonds %	Property %	Private Equity %
State Street	6.0	25.0	4.0		
Alliance Bernstein	10.0	10.0			
UBS	18.0				
Goldman Sachs			12.0		
UBS Property				10.0	
Adams Street					2.5
LGT					2.5
Total	34.0	35.0	16.0	10.0	5.0

A significant proportion of Fund assets were managed passively by State Street, which arose from a decision taken by the Pension Committee in March 2009 to replace Capital International. The assets managed by Capital were "parked" with State Street while steps were put in place to select new managers.

Throughout the year the Pensions Committee, with support from Hymans Robertson, have been working to develop a revised investment strategy, to review the fund's heavy dependence on equities and the risks arising from such a concentration. As a result, Committee agreed to introduce some further asset classes into the fund's portfolio and to review the equity managers and their holdings. In April 2010 and additional equity manager, Marathon, was appointed.

Planned Changes to asset allocation

Absolute return

The objective of absolute return funds is to deliver a satisfactory level of investment returns but with a lower level of volatility (i.e. variation in value) from one year to the next. The Pension Committee considered two different types of absolute return mandates – products which invest in conventional assets where the manager adapts asset allocation to protect capital value, and Funds of Hedge Funds where the return depends on manager skill rather than exposure to market direction. In April 2010, the Pension Committee appointed two new mandates, one in each category. Ruffer will manage 10% of Fund assets in an absolute return mandate based on conventional assets, and Fauchier will manage 5% of Fund assets in a Fund of Hedge Funds mandate. Both of these new mandates will be funded by reducing the value of the Fund's equity holdings.

Infrastructure

The objective of Infrastructure assets is to provide capital to businesses which provide core services such as water or electricity supply, telephony and transport hubs such as airports. These tend to be stable businesses which require efficient management to deliver the core services we all rely on. The advantage for the Pension Fund is that the investment returns should be relatively stable but would also be expected to increase over time broadly in line with inflation. Fund benefits increase with inflation, so infrastructure assets would be expected to be a good match for liabilities over time. In April 2010, the Pension Committee appointed Macquarie, a specialist infrastructure manager, to manage 5% of Fund assets in infrastructure. This will also be funded by reducing equity exposure.

As a consequence of the introduction of these new mandates, and once the appointment of the new managers has been completed, the overall asset allocation of the Fund will change as follows.

Manager	Approach	UK equity %	Global equity %	Bonds %	Property %	Other %
State Street	Passive	8.0	7.0	6.0		
Alliance Bernstein	Global equity		10.0			
Marathon	Global Equity		10.0			
UBS	UK equity	13.0				
Goldman Sachs	Bonds			11.0		
UBS Property	Property				10.0	
Ruffer	Absolute return					10.0
Fauchier	Hedge funds					5.0
Macquarie	Infrastructure					5.0
Adams Street	Private equity					2.5
LGT	Private equity					2.5
Total		**21.0**	**27.0**	**17.0**	**10.0**	**25.0**

Governance of Investment Decisions

Over the course of the last 12 months, the Pension Committee has been considering the need for closer scrutiny of the investment management of Fund assets. The financial environment has changed as a result of the credit turmoil in 2008. Markets are experiencing a greater level of uncertainty. While the Pension Committee will continue to meet on a quarterly basis, as before, the Committee recognised there would be an advantage in establishing a specialist sub group which would be able to undertake some of the Committee's activities in a more dedicated fashion, and which could be more responsive to investment situations which might emerge between quarterly meetings. A recent example was problems with the finances of the Greek government which created difficulties for the Euro. While the Pension Fund had virtually no direct exposure to Greece, there was a need to assess whether problems with the Euro would create any risks for the Fund, and whether there are means to mitigate that risk. At present, steps are being taken to set up a formal Sub-Committee which can act with some delegated responsibility to consider issues like the Greek crisis in greater detail and can report findings to the Pension Committee. The Pension Committee has also appointed a specialist independent investment advisor, Scott Jamieson, to support the work of this group.

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

State Street

State Street manages fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate. It has achieved this goal consistently, as expected. The scale of assets managed by State Street increased when Capital was replaced in the second quarter of 2009. Capital's assets were parked with State Street while the appointment process for new managers was undertaken. The parked assets will be used to fund some of the new mandates, so the proportion of fund assets managed by State Street will revert to its previous level when the appointment process is complete.

Alliance Bernstein

Alliance Bernstein's mandate is split half-and-half between UK equities and overseas equities. Relative performance was particularly weak over the period of the credit turmoil in the year from 1 April 2008 to 31 March 2009. There has been a recovery in performance over the most recent 12 month period but Alliance Bernstein continue to experience challenges particularly in UK equities. The greater part of the UK equity assets managed by Alliance Bernstein will be sold to be used as a source of funds for some of the new mandates.

UBS (UK equities)

UBS manages UK equities using a value style. Performance of the mandate had suffered in the period leading into the credit turmoil because of the defensive positioning of UBS's portfolio. However, this defensive position meant it was better placed to cope with some of the difficulties of 2008 and UBS also performed strongly over the recovery in 2009. The proportion of Fund assets managed by UBS will be scaled back a little as part of the overall strategic readjustment which aims to reduce the overall allocation to UK equities.

Goldman Sachs

Goldman Sachs, in common with many bond managers, struggled in the period of the credit turmoil but has recovered strongly over the most recent 12-month period.

UBS Property

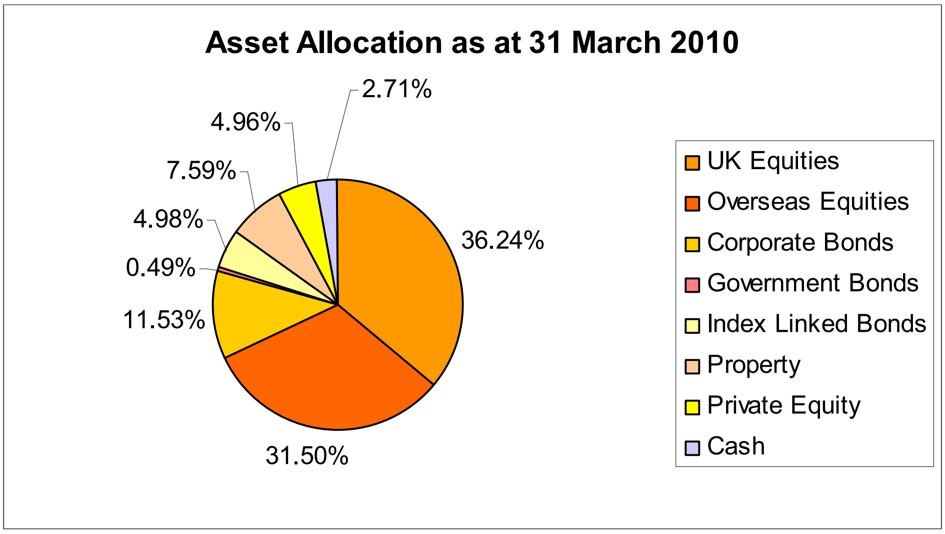
The property mandate managed by UBS changed; previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a fund of funds arrangement with the assets managed in several pooled property funds managed by several managers, but with UBS responsible for selecting the pooled funds. Reorganisation costs to the new arrangements have held back performance over the last 12 months.

Private equity

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 5% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Netherlands. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification.

Fund Valuation and Asset allocation as at 31 March 2010

At 31 March 2010 the total value of the pension fund investments was £563,820 million. The following diagram identifies the asset allocation, by asset class, as at 31 March 2010.



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During the last financial year, in addition to fund managers using their limited discretion to make minor variations in the allocation of investments between markets, largely on a tactical basis, the decision was taken to move to an overweight position in Corporate Bonds in order to take advantage of opportunities in this class. This strategy proved to be successful with both the manager and asset class contributing towards performance. Additionally, a large sale within the Property portfolio resulted in an underweight holding in this class and an overweight position in cash. This was mainly attributed to falling property prices.

The following table shows the total of investments and cash held by each manager as at 31 March 2010:

INVESTMENT MANAGER	AS AT 31 MARCH 2010		AS AT 31 MARCH 2009	
	£'000	%	£'000	%
Adams Street	15,742	2.80	14,210	3.41
Alliance Bernstein	113,639	20.23	79,729	19.10
Capital International	0	0	74,754	17.91
Goldman Sachs Asset Management	62,871	11.19	52,483	12.58
LGT	12,458	2.22	12,015	2.88
State Street Global Advisors	209,228	37.24	73,660	17.66
UBS	105,655	18.81	70,529	16.90
UBS Property	42,222	7.51	39,864	9.56
Total	**561,815**	**100.00**	**417,244**	**100.00**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), Schedule 1, set out the legal requirements which apply investments of the Fund, and place restrictions on investments. The restrictions, which are detailed within Part H of this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2010 were:

Top 5 Holdings	Market Value as at 31 March 2010 £000s	Percentage of Fund Value
SSgA UK Equity	46,764	8.29%
GSAM Corporate Bonds	44,343	7.86%
SSgA North America Equity	40,961	7.26%
SSgA Europe (ex UK) Equity	32,922	5.84%
SSgA Corporate Bonds	20,579	3.65%

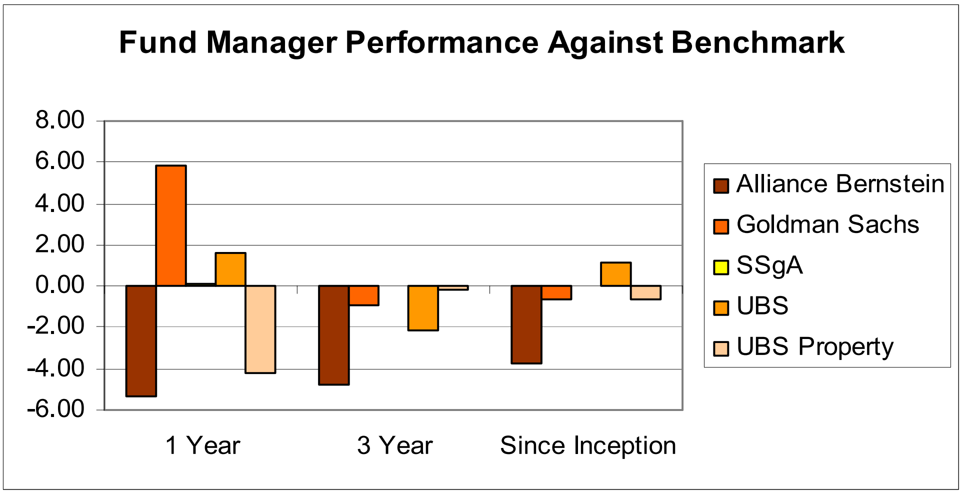
The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2010 £000s	Percentage of Fund Value
BP	13,463	2.39%
Royal Dutch Shell	13,940	2.47%
Vodafone	13,371	2.37%
GlaxoSmithKline	12,220	2.17%
HSBC	7,652	1.36%
Rio Tinto	6,785	1.20%
Unilever	6,073	1.08%
Anglo American	5,088	0.90%
Barclays	5,008	0.89%
Astrazeneca	3,444	0.61%

Investment Performance

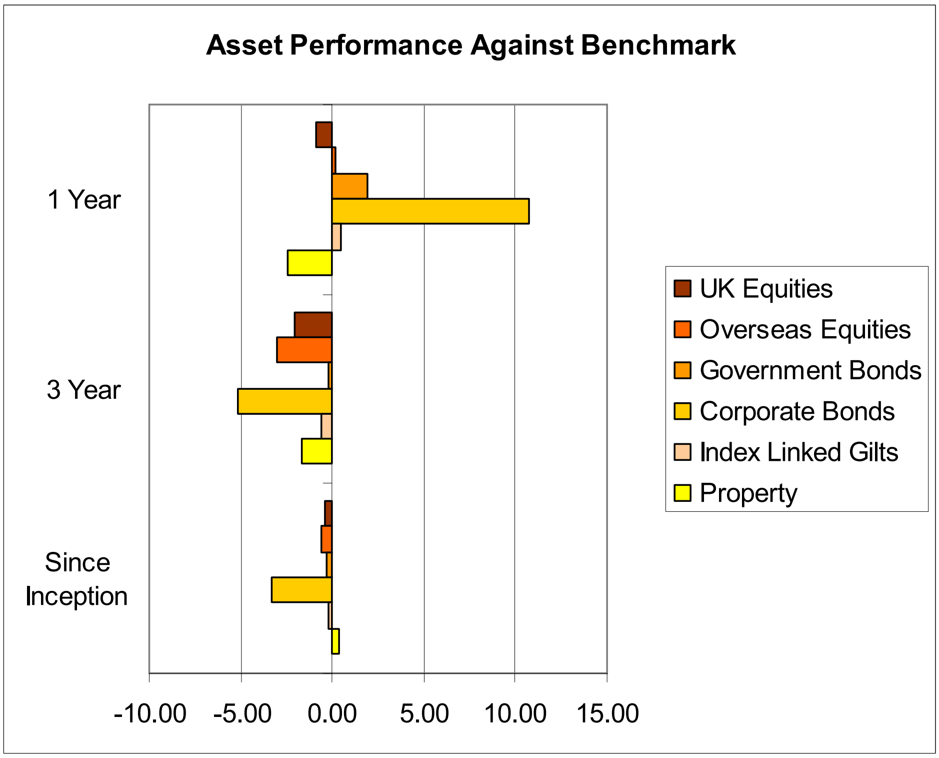
The rally in financial markets throughout 2009/10 assisted the fund in producing a positive return for the year of 37.90% which was 2.70% above the average local authority return of 35.20%. However, against the fund's overall customised benchmark the fund underperformed by 1.76%.

All fund managers produced positive returns over the year but against their benchmarks performance was mixed with both positive and negative contributions. However, the figures are much improved on the 3 year and since inception figures.



Performance	1 Year			3 Year			Since inception		
Manager	**Fund**	**B'mark**	**+/-**	**Fund**	**B'mark**	**+/-**	**Fund**	**B'mark**	**+/-**
Alliance Bernstein	44.99	50.36	-5.37	-2.12	2.68	-4.80	0.18	3.93	-3.75
GSAM	20.04	14.18	5.86	6.06	6.94	-0.88	5.79	6.42	-0.63
UBS	53.89	52.30	1.59	1.01	3.12	-2.11	10.30	9.14	1.16
UBS Property	7.39	11.64	-4.25	-10.46	-10.26	-0.20	-4.88	-4.21	-0.67
SSgA	42.80	42.68	0.12	-	-	-	29.03	28.97	0.06
Total Portfolio	**37.90**	**39.66**	**-1.76**	**-0.64**	**2.14**	**-2.78**	**6.57**	**6.93**	**-0.36**

In terms of asset classes, all equities provided impressive returns as markets recovered from their previous year lows. Fixed income provided good returns and an out performance against the benchmark in each category. Finally, the property sector also posted positive performance but fell behind the benchmark due to the time lag involved in deploying cash sale proceeds.



Performance	**1 Year**			**3 Year**			**Since inception**		
Asset Class	**Fund**	**B'mark**	**+/-**	**Fund**	**B'mark**	**+/-**	**Fund**	**B'mark**	**+/-**
UK Equities	51.38	52.30	-0.92	-2.28	-0.23	-2.05	6.64	7.03	-0.39
Global Equities	48.29	48.08	0.21	2.45	5.43	-2.98	6.04	6.62	-0.58
Gov't Bonds	2.68	0.77	1.91	5.92	6.15	-0.23	5.42	5.76	-0.34
Corporate Bonds	27.56	16.79	10.77	1.11	6.29	-5.18	1.56	4.90	-3.34
Index Linked Gilts	10.81	10.36	0.45	6.19	6.78	-0.59	6.60	6.78	-0.18
Property	9.24	11.64	-2.40	-11.95	-10.26	-1.69	8.20	7.85	0.35
Total	**37.90**	**39.66**	**-1.76**	**-0.64**	**2.14**	**-2.78**	**6.57**	**6.93**	**-0.36**

Custody

The Northern Trust Company act as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity during the period. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust.

Regular service reviews take place with Northern Trust to ensure continuous monitoring of service requirements.

Responsible Investing

The Fund 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 Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

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

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

Fund Managers' rights to vote on behalf of the Fund are subject to conforming with the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes.

Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the fund managers and reported to Committee on a quarterly basis.

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

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.

PART C – SCHEME ADMINISTRATION

ADMINISTRATION

The London Borough of Hillingdon Pension Fund is fully administered in-house. The Council's Pensions Administration team is part of the Human Resources service within the Deputy Chief Executive's Office and provides pension and compensation services to current and former employees and pensioners of the London Borough of Hillingdon Fund. These services include the full range of administrative duties for an employing and administering authority as follows:

- Administer the Local Government Pension Scheme (LGPS) as an Employing and Administering Authority in accordance with relevant legislation and Committee decisions.
- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide information to Scheme members, external scheme Employers and the Pensions Committee on options available under the Council's Pension Scheme.
- Exploit information technology to improve service standards and efficiency.
- Train and develop staff to meet these service objectives.

The team deals with contributing members of the LGPS with London Borough of Hillingdon, performing the duties of both an administering and employing authority. The main areas of work cover the deduction of contributions, calculation and payment of benefits, transfers of pension rights in to and out of the LGPS and deferred benefits. In addition to carrying out the day-to-day functions of pensions' administration, the team assists in the formulation of Council policies within the legislative framework of regulations under the LGPS.

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

During the year 2009/10, there were six Stage 1 appeals, of which three progressed to Stage 2. One case was subsequently referred to the Pensions Ombudsman.

Review of 2009/2010

The number of scheme members with whom the team deals has increased year on year by approximately 3.5%. This can be seen in the table shown earlier, in Part A, detailing fund membership data. The latest available Government SF3 statistics (for 2008/09) indicate the cost per member for all English and Welsh Authorities was £29.10 compared with an outer London average of £51.10 per scheme member. The cost for London Borough of Hillingdon was £47.56, which compares favourably to London, despite the continued increase in the numbers of scheme members.

No regulation changes were introduced during 2009/10.

INVESTMENT ADMINISTRATION

Whilst the London Borough of Hillingdon Pension Fund engages external Fund managers to mange the investments of the fund, the administration of the investment arrangements is managed in house. A small team oversee the relationship with the fund managers, monitor their performance, prepare the fund accounts and fully support the Pensions Committee.

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

PENSION COMMITTEE TRAINING

During the last year, committee made an undertaking that they would commit to 3 days training per year and drafted a set of principles for Member Development. These principles were as follows:

1. The value of continual enhancement of knowledge about matters relating to their role on the Pensions Committee has been fully accepted by Members.

2. An annual target of three days training (21 hours) per year is considered to be acceptable for committee Members.

3. Substitutes are also expected to enhance their knowledge and a target of one days training (8 hours) hours per year is considered to be acceptable

4. It will be up to each Member to determine the gaps in their knowledge and the sources they wish to use in developing their skills.

5. The following sources are considered relevant:

    - Attendance at full committee meetings (comparable to 4 hours per meeting)

    - Attendance at briefing meetings with officers, fund managers and other invited speakers (comparable to 2 hours per meeting)

    - Internal seminars on pension related subjects (comparable to 3 hours per meeting)

    - Attendance at relevant external conferences (comparable to 8 hours per day, per event)

    - Relevant reading material i.e. reports from advisors, fund managers and other sources, pension and financial related magazines and conference delegate packs obtained by fellow Members or officers (up to a maximum 12 hours per year)

    - On-line and power point presentations (comparable to 1 hour per presentation)

6. Officers will be responsible for keeping a record of attendance at meetings and conferences. Members should keep them advised as to time spent on other activities.

7. Officers will continue to inform Members as to relevant meetings and events and of relevant reading material held at the Civic Centre and available to Members.

Since these principles were developed, CIPFA have introduced a ‘Knowledge and Skills Framework’ for LGPS Pensions Committees which covers the training needs of both elected members on Committee and the officers supporting the committee. Work is underway to develop the framework for use within Hillingdon and this will be fully introduced during 2010/11.

Over the course of 2009/10, members of pensions committee attended several training courses and seminars, and several specific seminars were held in house, supported by the fund managers and advisors. Reports from managers and on development issues are regularly circulated to Committee Members.

PART D – ACTUARIAL REPORT

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of London Borough of Hillingdon Pension ("the Fund") took place on 31 March 2007.

Security of prospective rights
In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts are paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 19 March 2008.

The Local Government Pension Scheme is a statutory scheme i.e. members' benefits are as set out in the Local Government Pension Scheme Regulations 1997 and Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

This statement should be read in that context.

Summary of methods and assumptions used
Full details of the method and assumptions are described in our valuation report dated 19 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from London Borough of Hillingdon, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases and for members to leave or retire in line with our assumptions. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	March 2007	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets had a market value at 31 March 2007 of £577 million. These assets were sufficient to meet approximately 92% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 25 years.

Experience since April 2007
Market conditions since the previous formal valuation have been unfavourable. In particular, assets have significantly underperformed relative to the assumptions set at the valuation and the outlook for price inflation has worsened causing the funding level to deteriorate.

This is likely to cause upward pressure on the level of employer contributions following the next formal valuation of the Fund as at 31 March 2010. The employer contribution rates and Funding Strategy Statement will be reviewed as part of the valuation which will be reported in March 2011.

Bryan T Chalmers FFA

30 April 2010

For and on behalf of Hymans Robertson LLP

PART E – GOVERNANCE COMPLIANCE STATEMENT

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The current statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Best Practice Compliance Statement be published. These documents are included overleaf.

A full review of the governance arrangements for the fund is being undertaken during 2010, part of which will review and update these statements. The documents are also available at:
http://www.hillingdon.gov.uk/media/pdf/g/q/Governance_Policy_Statement_2008.pdf

Governance Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO. 2) REGULATIONS 2005
Issued by: Pension Section, Finance and Property Department
Authorised by: Pensions Committee March 2008

Under the terms of the above regulations, which came into force on 14th December 2005, the Council must publish a Governance Policy Statement not later the 1st April 2006, Statement revised March 2008.

CONSTITUTION

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

LONDON BOROUGH OF HILLINGDON COUNCIL

PENSIONS COMMITTEE

DIRECTOR OF FINANCE AND RESOURCES

DELEGATED OFFICERS

The Constitution allows for the appointment of a Pensions Committee, which has the following Terms of Reference:

Terms of Reference for the Pensions Committee

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities
2. To review the Statement of Investment Principles and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.

4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
8. To authorise the admission of other bodies to the Fund
9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure
10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers
11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.

Membership of the Pensions Committee

The Pensions' Committee comprises of five council members [voting] with the same political balance as the Council, plus one Trade Union member [non-voting] and two scheme member representatives, one active member and one retired member (both non-voting). Meetings are open to the public; however, there are occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Dates and Place of Meetings

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

Access to Agenda, Reports and Minutes of Meetings

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

FUNDING STRATEGY STATEMENT

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

The Office of the Deputy Prime Minister (ODPM) has stated that the purpose of the FSS is to:

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

It is in this context that the FSS has been compiled, setting out in detail the Fund's approach to meeting its individual funding requirements. The FSS is reviewed in detail at least every three years and the next full review is due to be completed by 31 March 2011.

STATEMENT OF INVESTMENT PRINCIPLES

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

SCHEME OF DELEGATION

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

STANDING ORDERS

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

Governance Best Practice: Compliance Statement

Structure

a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

Fully Compliant – Pension Committee

b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

Partially Compliant – Scheme Members represented on Committee

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

Not applicable – No secondary committee

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

Not applicable – No secondary committee.

	Not Compliant*				Fully Compliant
a)					✓
b)				✓	
c)					N/A
d)					N/A

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Employers other than London Borough of Hillingdon are not represented as LBH accounts for 95% of the scheme membership.

Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, e.g., admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

Partially compliant as not all scheme employers or admitted bodies have the opportunity to be represented

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Full compliance

	Not Compliant*				Fully Compliant
a)				✓	
b)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Full compliance – See governance statement

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Partial compliance – See governance statement – not fully transparent

	Not Compliant*				Fully Compliant
a)				✓	

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

<u>Training/Facility time/Expenses</u>

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

Full compliance

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Full compliance

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

Full Compliance

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

Not applicable – No secondary committee

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Not applicable – Lay members included

	Not Compliant*				**Fully Compliant**
a)					✓
b)					N/A
c)					N/A

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

Full compliance

	Not Compliant*				**Fully Compliant**
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Scope

a) That administering authorities have taken steps to bring wider scheme issues, such as administration issues, within the scope of their governance arrangements

Full compliance – See governance statement

	Not Compliant*				**Fully Compliant**
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Full Compliance

	Not Compliant*				**Fully Compliant**
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Part F. Fund Account and Net Assets Statement

FUND ACCOUNT

	Notes	Year Ended 31 March 2010 £000's	Year Ended 31 March 2009 £000's
Contributions	3	29,758	27,202
Transfers In	4	4,057	3,983
Less: Benefits	5	(27,130)	(25,689)
Less: Leavers	6	(4,566)	(2,924)
Less: Administrative Expenses	7	(699)	(743)
Net Additions from dealings with members		**1,420**	**1,829**
Investment Income	8	11,066	15,239
Changes in market value of investments	9	136,635	(139,342)
Taxation (Irrecoverable Withholding Tax)		(171)	(196)
Investment Management Expenses	11	(2,090)	(2,145)
Net Return on Investments		**145,440**	**(126,444)**
Net Increase/(Decrease) in the fund during the year		**146,860**	**(124,615)**
Net Assets at start of year		**417,430**	**542,045**
Net Assets at end of year		**564,290**	**417,430**

NET ASSETS STATEMENT

		31 March 2010	31 March 2009
Investment Assets	9	563,820	419,824
Investment Liabilities	10	(1,611)	(2,575)
Current Assets	12	2,540	2,105
Current Liabilities	13	(459)	(1,924)
TOTAL NET ASSETS		**564,290**	**417,430**

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

Christopher Neale
Director of Finance & Resources
xx September 2010

Notes To Pension Fund Accounts

1. BASIS OF PREPARATION

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Financial Reports of Pension Schemes Statement of Recommended Practice (Revised May 2007).

2. ACCOUNTING POLICIES

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

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis.

c) Valuation of assets - Equities and fixed income are valued at bid prices - where bid price is not available, the mid price is used. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement.

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

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

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

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

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

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

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

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

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

FUND OPERATION AND MEMBERSHIP

This defined benefit scheme is administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for employees and former employees. The benefits include retirement allowances and pensions payable to former employees and to dependents. The scheme is administered locally by the Council through its pension fund, but the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

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

Notes To Pension Fund Accounts

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

Admitted Bodies:

Greenwich Leisure
Dalkia Energy & Technical Services
Hillingdon & Ealing Citizens Advice
Look Ahead Housing and Care
Heathrow Travel Care
Yes Dining
Integrated Cleaning Management Ltd/Mitie

Scheduled Bodies:

Harefield Academy
Hillingdon Homes
London Housing Consortium
Stockley Academy
Uxbridge College

As at 31 March 2010 there were 6,235 employees contributing to the fund, with 4,991 in receipt of benefit and 4,772 entitled to deferred benefits.

The pension fund investments are managed by seven fund managers: UBS Global Asset Management, Goldman Sachs Asset Management, SSgA, Capital International, Alliance Bernstein, Adam Street Partners and LGT Capital Partners. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2009/10:

Cllr G Cooper
Cllr P Corthorne (Chairman)
Cllr M Cox
Cllr P Harmsworth
Cllr M Markham
Mr J Holroyd (Pensioner/Deferred Scheme Representative) (Non Voting)
Mr N Manthorpe (Active Scheme Representative) (Non Voting)
Mr J Thomas (UNISON) (Non Voting)

3. CONTRIBUTIONS

	31 March 2010 £000's	31 March 2009 £000's
Employers		
Normal	16,944	15,240
Deficit Funding	4,504	4,051
Employees		
Normal	8,173	7,783
Additional Contributions	137	128
	29,758	**27,202**

Deficit Funding:- At the last actuarial valuation (31 March 2007) the fund was 92% funded, with the remaining 8% deficit to be recovered over a period of 25 years with a common contribution rate of 17.8%.

4. TRANSFERS IN

	31 March 2010 £000's	31 March 2009 £000's
Group transfers in from other schemes	0	0
Group transfers in from other schemes	0	35
Individual transfers in from other schemes	4,057	3,948
	4,057	**3,983**

5. BENEFITS

	31 March 2010 £000's	31 March 2009 £000's
Pensions	22,025	20,623
Commutations and lump sum retirement benefits	4,602	4,645
Lump sum death benefits	503	421
	27,130	**25,689**

Notes To Pension Fund Accounts

6. LEAVERS

	31 March 2010 £000's	31 March 2009 £000's
Refunds of Contributions	7	4
State Scheme Premiums	2	1
Individual transfers out to other schemes	4,557	2,919
	4,566	2,924

7. ADMINISTRATIVE EXPENSES

	31 March 2010 £000's	31 March 2009 £000's
Administration and processing	573	650
Audit Fee	40	38
Actuarial fees	86	55
	699	743

8. INVESTMENT INCOME

	31 March 2010 £000's	31 March 2009 £000's
Interest from fixed interest securities	712	2,069
Dividends from equities	7,188	12,458
Income from index-linked securities	300	297
Income from pooled investment vehicles	1,515	2,254
Interest on cash deposits	42	487
Other (for example from stock lending or underwriting)	1,309	(2,326)
	11,066	15,239

9. INVESTMENT ASSETS

	Value at 1 April 2009 £000's	Purchases at cost and derivative payments £000's	Sales proceeds and derivative receipts £000's	Change in market value £000's	Value at 31 March 2010 £000's
Fixed interest securities	35,874	10,954	(50,503)	3,675	0
Equities	202,383	119,998	(193,455)	81,613	210,539
Index-linked securities	16,029	5,364	(3,503)	548	18,438
Pooled investment vehicles	144,774	164,182	(42,950)	50,799	316,805
	399,060	300,498	(290,411)	136,635	545,782
Other Investment balances	3,072				1,410
Fund Managers' Cash	17,692				16,628
Total Net Assets	419,824				563,820

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

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £644k (£648k in 2008/09). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

9. INVESTMENT ASSETS (CONTINUED)

	31 March 2010 £000's	31 March 2009 £000's
Fixed Interest Securities		
UK Public Sector quoted	0	12,879
UK Corporate quoted	0	9,055
Overseas Public Sector quoted	0	2,176
Overseas Corporate quoted	0	11,764
	0	**35,874**
Equities		
UK quoted	154,142	103,495
Overseas quoted	56,397	98,888
	210,539	**202,383**
Index Linked Securities		
UK public sector quoted	18,438	15,645
UK corporate quoted	0	384
	18,438	**16,029**
Pooled Investment Vehicles		
UK Managed funds - other	194,355	15,000
UK Unit Trusts - other	0	61,317
UK Unit Trusts - property	41,612	30,181
Overseas Managed Funds - other	0	263
Overseas Unit Trusts - other	52,863	12,721
Private Equity	27,975	25,292
	316,805	**144,774**
Other Investment balances		
Forward FX Unrealised Loss	(336)	1
Amount due from Brokers	512	873
Outstanding dividend entitlements and recoverable withholding tax	1,234	2,198
	1,410	**3,072**
Cash deposits		
Sterling	16,628	17,692
	16,628	**17,692**

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts as these are managed independently of the fund by Prudential plc.

10. INVESTMENT LIABILITIES

	31 March 2010 £000's	31 March 2009 £000's
Amount Outstanding to Brokers	1,599	2,575
Dutch Tax Reclaim Fee	12	0
	1,611	**2,575**

11. INVESTMENT MANAGEMENT EXPENSES

	31 March 2010 £000's	31 March 2009 £000's
Administration, management and custody	1,984	2,064
Performance measurement services	4	4
Other advisory fee	102	77
	2,090	**2,145**

Notes To Pension Fund Accounts

12. CURRENT ASSETS

	31 March 2010 £000's	31 March 2009 £000's
Employers' contributions due	187	152
Employees' contributions due	74	65
Debtor: London Borough of Hillingdon	61	0
Cash balances	2,218	1,888
	2,540	**2,105**

13. CURRENT LIABILITIES

	31 March 2010 £000's	31 March 2009 £000's
Accrued Expenses	419	663
Creditor: London Borough of Hillingdon	40	1,261
	459	**1,924**

14. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2007. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 92% of the fund's accrued liabilities at the valuation date. The market value of the fund's assets at the valuation date, 31 March 2007, was £577m. The value of the deficit at that date was £50m.

The revised employers' contribution rates were effective from 1 April 2008 and were set to recover the deficiency over a period of 25 years. The total common contribution rate is 17.8% for the period of 1st April 2008 to 31 March 2011.

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

Investment Return	6.10%
Earnings Growth	4.70%
Price Inflation	3.20%

15. RELATED PARTY TRANSACTIONS

It is required under Financial Reporting Standard 8 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (3) to the Pension Fund accounts. The Council provides administration services for the

No senior officers had any interest with any related parties in relation to the pension fund. From the Pension Committee, Cllr George Cooper declared an interest as a trustee of the Hillingdon & Ealing Citizens Advice.

16. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2010, securities worth £26,425k were on loan by Northern Trust from our portfolio and collateral worth £27,879k was held within the pool including Hillingdon. In the same period, a net income of £163k was received.

17. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

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

Statement of Responsibilities for the Statement of Accounts

1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Director of Finance);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

2. The Director of Finance's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2010 and its income and expenditure for the year then ended.

Christopher Neale

DIRECTOR OF FINANCE & RESOURCES

xx September 2010

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

I confirm that this report was considered by the Pensions' Committee at its meeting in June 2010, and approved by the Chairman on 23 June 2010.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

23 June 2010

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 28 June 2010.

Signed on behalf of the London Borough of Hillingdon

John Morley

CHAIRMAN (AUDIT COMMITTEE)

28 June 2010

PART G – FUNDING STRATEGY STATEMENT

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in June 2009. The statement is reproduced here and is also available at http://www.hillingdon.gov.uk/media/pdf/t/t/2008_FSS.pdf

1. Introduction

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

It has been reviewed by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 31 March 2008.

1.1 Regulatory Framework

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

The FSS forms part of a framework which includes:

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

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2011 based on data at 31 March 2010. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Nancy le Roux, Senior Finance Manager – Corporate Finance, in the first instance at nleroux@hillingdon.gov.uk or on 01895 250353.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department for Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding Policy

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

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

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

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

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

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

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

For some employers it may be agreed to pool contributions, see Section 3.7.3.

Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial year 2008/09.

Any costs of early retirements other than on the grounds of ill health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision). In the case of London Borough of Hillingdon, they have agreed with the Fund actuary to pay an additional 1% employer's contribution per annum over this valuation period.

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

3.2 Solvency and Target Funding Levels

[1] See Regulation 77(4)
[2] See Regulation 77(6)

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

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

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with the PMA/PFA92 series projections up to calendar year 2017 for pensioners and 2033 for non-pensioners, with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

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

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

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

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

3.4.1 Employers that admit new entrants

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

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

3.4.2 Employers that do not admit new entrants

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

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

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

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

3.5 Adjustments for Individual Employers

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);

- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death,

over the period between the 2004 and 2007 valuations and each subsequent triennial valuation period.

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

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [where Hymans Robertson calculates asset shares – see section 3.6 below], including, but not limited to

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

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

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

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

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

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Most employers have not been allowed to phase in increases to their contribution rates payable from 2008. This stance may be revised in future.

3.7.4 *Phasing in of Contribution Reductions*

Any contribution reductions will be phased in over six years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

3.7.5 *The Effect of Opting for Longer Spreading or Phasing-In*

Employers who are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.6 *Pooled Contributions*

3.7.6.1 *Smaller Employers*

The Administering Authority may allow various smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but rare events such as ill-health retirements or deaths in service. At present, however, there is no such pool.

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

3.7.6.2 *Other Contribution Pools*

Schools are also pooled with their funding Council.

Some Admission Bodies with guarantors are pooled with their Council.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation under Regulation 78 to determine whether there is any deficit.

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

(a) For Best Value Admission Bodies, the assumptions would usually be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value Admission Bodies that voluntarily elect to terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

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

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

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions whenever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement. London Borough of Hillingdon has elected to pay an additional 1% per annum employer's contribution to fund these early retirements with effect from 1 April 2008. Both the number of early retirements and the costs will be monitored on an ongoing basis.

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

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

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds, and property. As at 31 March 2007, the proportion held in equities and property was 85% of the total Fund's assets.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

This lowest risk strategy is not necessarily likely to be the most effective strategy in the long-term.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund, the security of members' benefits and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The funding basis adopts an asset out performance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. Both the Fund's Actuary and its investment adviser consider that the funding basis does conform to the requirement to take a "prudent longer-term" approach to funding.

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

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

4.3 Balance between risk and reward

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

Enabling other investment strategies will require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a low risk portfolio of index-linked bonds. It reports to employers, through the performance reports distributed at Pensions Committee, the papers and minutes of which are in the public domain.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

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

5.2 Financial Risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance and setting managers' targets relative to bond-based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their*

	index benchmark.
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.*
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Sensitivity analysis in triennial valuation calculations helps employers understand the potential impact of life expectancy.* *Fund actuary monitors combined experience of around 50 LGPS funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each*

	1-year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the ODPM and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *Copies of all submissions are available for employers to see by contacting Nancy Leroux.*
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006	

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to	*In addition to the Administering Authority monitoring membership movements on a*

carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*

An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, wherever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2007 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 valuation report are as follows:

Employer	2008/09	2009/10	2010/11
London Borough of Hillingdon	16.6%	17.35%	18.1%
Hillingdon Homes	15.9%	15.9%	15.9%
Uxbridge College	12.9%	12.9%	12.9%
Central Parking Systems	14.7%	14.7%	14.7%
Hillingdon & Ealing Citizens Advice	14.5%	14.5%	14.5%
Heathrow Travel Care	15.6%	16.35%	17.1%
Stockley Academy	17.8%	17.8%	17.8%
Harefield Academy	12.5%	12.5%	12.5%
London Housing Consortium	15.6%	16.35%	17.1%
Look Ahead Housing & Care	18.6%	18.6%	18.6%

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

Annex B – Responsibilities of Key Parties

The Administering Authority should

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain an FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP.

The Individual Employer should

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill-health early retirements if appropriate; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should

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

PART H – STATEMENT OF INVESTMENT PRINCIPLES

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2010. The amendments reflect all manager and mandate changes implemented during the 2009/10 year.

The latest SoIP is set out overleaf and cam also be accessed at www.hillingdon.gov.uk/media

Statement of Investment Principles
(Revised March 2010)

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 administrating authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.

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

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

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

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

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

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

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

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision-making is listed below and is in accordance with best practice adopted by other local authorities.

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 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 meet its obligations without excessive risk and 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 D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

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

The suitability of investments

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

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

The expected return on investments

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

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.

Fee Structures

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

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.

Pension Fund Treasury Management Policy

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

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

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

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

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

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

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

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

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

The council is a member of Local Authority Pension Fund Forum 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' rights to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and the prevailing regulations.

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

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.

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

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

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

	be clearly communicated to advisors and investment managers.	monitoring of the fund.
Principle 3 Risk and liabilities	In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities. These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Compliant The review of the Funding Strategy takes into account relevant issues and implications.
Principle 4 Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	Partly Compliant Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision-making and deferral of decisions are recorded in the committee papers. Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.
Principle 5 Responsible ownership	Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme members on the discharge of such responsibilities.	Partially Compliant The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles. Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.
Principle 6 Transparency	Administering authorities should:	Partially Compliant

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

APPENDIX B

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 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.

APPENDIX C

Voting Guidelines

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

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

Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25%of total fees. Appointment of auditors is for at least 5 years.

APPENDIX D

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**		

PART I – COMMUNICATIONS POLICY STATEMENT

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

The Communications Policy is currently out of date and will be revised during 2010 once the new governance arrangements for the fund are in place.

Communication Policy Statement

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

Issued by: Pension Section, Finance and Property Department
Authorised by: Pensions Committee March 2006

Under the terms of the above regulations, which came into force on 14 December 2005, the Council must publish a statement of policy concerning communications with scheme members and employing authorities no later than 1 April 2006.
This Communications Policy Statement concerns communications with scheme members, representatives of members, prospective members and employing authorities. It details:

a) the provision of information and publicity about the Scheme

b) the format, frequency and method of distributing such information or publicity, and

c) the promotion of the scheme to prospective members and their employing authority

There are a number of stakeholders that have an interest in the affairs of the Fund and these may be summarised as follows:-

Stakeholder	Primary Interests
London Borough of Hillingdon as Administering Authority	• administration of the scheme in accordance with the regulations • cost of scheme • stability of cost of scheme • fiduciary duty to other stakeholders whom it must treat equally • investment strategy
Scheduled Employers: Hillingdon Homes Uxbridge College Stockley Academy Harefield Academy	• cost of scheme • stability of cost of scheme • investment strategy
Admission Employer Bodies: Citizens Advice Bureau Heathrow Travel Care Central Parking Systems Park Lodge Farm	• affordability of scheme • stability of cost of scheme • investment strategy
Active Members: Current employees, of Hillingdon and of the	• solvency of scheme • ability to pay pensions at distant future date

Scheduled and Admitted bodies, who have elected to join the scheme	• implications of rising costs for benefits and contributions
Deferred Members	• solvency of scheme • ability to pay pensions at distant future date
Pensioners	• ability to pay pensions now • security of pensions liability
Prospective Members	• benefits • solvency of scheme ability to pay pensions at distant future date
Local Taxpayers	rising impact on Council Tax and services returns on scheme [as a cost mitigating factor] funding level (i.e. unfunded liabilities)
Government [ODPM]	• stability of cost of scheme • avoidance of political issues arising • good governance • consistency of administration • funding level (i.e. unfunded liabilities)

1. WEB SITE: www.hillingdon.gov.uk/central/pensions/index.php

The **web site** of the London Borough of Hillingdon Pension Fund is the main vehicle for publishing information in relation to the fund. All information relating to the Local Government Pension Scheme and to the Hillingdon Fund is available on the web site. As this site is part of Hillingdon Council's public web site it is available to all our stakeholders. Hard copies of any of the documents will be made available to any member, prospective member or employer on request.
The web site is split into the following sections to make it easier to find the required: information.

Fund Information:

- Annual Report and Accounts
- Abbreviated Annual Report (to be introduced during 2006/07)
- Statement of Investment Principles
- Funding Strategy Statement
- Copies of all pension Fund Policies
- Details of Pension Committee meetings, reports and minutes
- Performance information of the funds investments

Member Information:

- Joining Information
- Details of the Benefits available
- Scheme booklets
- Regulations
- Information on relevant topics – e.g. increasing contributions,
- Copies of all relevant forms
- Some frequently asked questions

Latest News

- This section highlights all the latest information available about the scheme

Communications:

- Newsletters
- Circulars
- Regulation Updates

Employer Information:

These pages will be developed during 2006/07 and will hold all information relevant to employers and have links to copies of relevant forms.

Useful Links:

There are links to other related web sites – for example DWP, HMRC, The Pensions Regulator.

2. OTHER METHODS OF COMMUNICATION

The next section details the means by which we communicate directly with our key stakeholders and the frequency of such communications. Where information is sent to members it is posted to their home address.

Scheme Employers

- Our main contact with scheme employers is through operational contact and this will be formalised during 2006/07 through the creation of a Service Level Agreement with each employer.

- Currently, we write directly to all scheme employers to keep them informed of all changes. As the web site is developed, there will be more frequent use made of email and notifications of postings on the web site.

- During 2006/07 we aim to commence an annual consultative meeting with employers, both as an information forum and as a means of direct consultation with our employers.

Active Members

- We send annual benefits statements to our members following the end of the financial year.
- Each time there is a regulations change, which affects members' benefits, we write directly to members to inform them.
- We consult our active members every 2 years through a survey
- During 2006/07 we plan to hold a series of pension surgeries to help members understand the regulation changes and their effect on their benefits.
- Updates to the web site are notified via 'Horizon'.

Pensioner Members

- An annual newsletter is sent to pensioners each spring.
- We consult a sample of our pensioner members every 2 years through a survey

Deferred Members

- We send annual benefits statements to our deferred members following the end of the financial year.
- An annual newsletter is sent to members each autumn.

Prospective Members

A summarised version of the scheme booklet is sent to all new members of staff along with an application form.

PART J OTHER INFORMATION

SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a very comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information, including the Scheme booklet *A Guide to the LGPS*, can be obtained by contacting the Pensions Section at Civic Centre, Uxbridge, (telephone 01895 566054). Further information is available from the website: www.hillingdon.gov.uk

Normal Retirement Age

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

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

Pension (Normal)

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

Pension (Ill Health)

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

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

Second Tier: If it is likely that the employee will be able to obtain gainful employment before age 65 the employee's LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement but the benefits are only payable for a maximum period of 3 years.

Lump Sum Retirement Grant

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

Death Grant

(i) Death in Service

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

(ii) Death after Retirement

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

(iii) Death of a member with Preserved benefits

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

Spouses, civil partners and nominated cohabiting partner's Pension

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

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

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

Children's Pension

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

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

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

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

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

Pension Increases

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

Contracting Out Status (with effect from 1 April 2002)

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

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

REGULATIONS

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

PART K AUDITORS’ REPORT

To be added on completion of audit

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REPORT ON THE COUNCIL'S GUIDELINES FOR THE EXERCISE OF DISCRETIONS UNDER THE LOCAL GOVERNMENT PENSION SCHEME (BENEFITS, MEMBERSHIP & CONTRIBUTIONS) REGULATIONS 2007, AND THE LOCAL GOVERNMENT PENSION SCHEME (ADMINISTRATION) REGULATIONS 2008

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

SUMMARY

The Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007, and the Local Government Pension Scheme (Administration) Regulations 2008 (the regulations) require the Council and the other fund employers to exercise certain discretions in respect of the scheme membership. An update report on the exercise of discretions was last reported in full to committee in September 2008. This report recommends an update to the policy to ensure equal treatment of all scheme members, including Councillor members. This policy must be published once it comes into effect, but does not require to be published in advance.

RECOMMENDATIONS

1. That the Council's guidelines for the exercise of its discretion under Regulation 30 of the Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007 in relation to Councillor members be amended to allow the early payment of benefits without reduction, from age 55, where, following an election, a Councillor member has either lost his seat, been deselected as a candidate by his party or chosen to stand down as a Councillor.

2. If recommendation 1 is agreed that it comes into effect from 1 May 2010.

3. That the Council's guidelines for the exercise of all other discretions under the Local Government Pension Scheme (Benefits, Membership & Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 remain as previously published.

BACKGROUND

In considering the issues raised in this report, members should be aware that while both employees and councillors are eligible to join the Local Government Pension Scheme (LGPS), there are several differences in the benefit regimes for the two types of member.

Statutory Elements

Feature	Employee Scheme	Councillor Scheme
Type of Scheme	Final Salary	Career Average
Contribution Rate	Range between 5.8% and 7.5%	6%
Upper age for Joining	75	75
Death in Service Benefit	2 x Final pay	2 x Career average pay
Normal Retirement Age	65	65
Earliest Retirement Age (without employer consent/retire from office)	60 Benefits reduced if 85 year rule not met	60 Benefits reduced if 85 year rule not met
Ill Health Retirement	Immediate payment of benefits	Immediate payment of benefits
Early retirement on the grounds of redundancy or efficiency over age 55	Immediate payment of benefits	Not applicable

Additionally, there are differences in the discretionary policies, which may be formulated. Where it is stated the discretion does not apply, that is because Schedule 8 of the regulations does not permit the discretion.

Feature	Employee Scheme	Councillor Scheme
Augmentation of service	Specific Policy in place	Not permitted under the regulations
Employer consent retirement between 50 and 59	Council's Policy does not permit	Current policy allows with reduction. This report contains an amendment to that policy
Abatement of pension on re-employment	Fully abate if retired on redundancy or efficiency grounds	Not permitted under the regulations
Compassionate Retirement	Policy does not permit	Policy does not permit
Flexible retirement	Allowed as an employers discretion according to the needs of the service	Not permitted under the regulations
Shared Cost AVC Scheme	Policy does not permit	Not permitted under the regulations

INFORMATION

Regulation 30 – Voluntary Early Retirements

This regulation gives the employing authority discretion to grant payment of retirement benefits to employees who leave, or have previously left, once they have attained the age of 55. If that employee has not achieved the rule of 85 then benefits will be reduced in line with GAD advice. In cases of compassion, the employing authority can waive this reduction. The Council also has the discretion to allow councillors who retire from office between the ages of 55 and 59 to elect for immediate payment of their pension benefits. Those benefits would be reduced for early payment unless the rule of 85 was achieved.

Current policy:

Active members – No early payment permitted
Deferred members – No early payment permitted
Councillor members – Policy allows reduced payment

Policy decision:

Active Members – The current policy is clear and members are aware that early retirement before the age of 60 is permitted only on the grounds of redundancy or efficiency. As the age of the population continues to rise and the size of the workforce diminishes, it is neither timely nor appropriate to encourage early retirement. Employment policy should be focussing on the retention of the workforce. Therefore, it is not proposed to recommend a change to this policy.

Deferred Members – The current policy is clear and there is no confusion as members are informed on leaving that payment of benefits will not be permitted prior to age 60, except in cases of ill health.

Payment on Compassionate Grounds – This facility was withdrawn due to the unreasonable pressure it put on the pension fund. It is not proposed to make a change to this policy.

Councillor members – Unlike scheme members, redundancy and efficiency early retirement does not apply to Councillor members and as a result this discretion offers the only option through which benefits could be released early. As all Councillor members currently have very short service, the resultant benefits are subject to a large actuarial reduction. The current policy permits the exercise of this discretion, on the members' request, if a Councillor over the age of 55 retires voluntarily from office. This will mean that the pension is brought into payment upon request, and without the need for a pensions committee decision, but is actuarially reduced if the member has not achieved the rule of 85. This report recommends a change to that policy to allow the reduction to be waived where a councillor's retirement is as a direct result of an election, where a Councillor member has either, lost their seat, been deselected as a candidate by their party or chosen to stand down as a Councillor.

The reasoning behind this recommendation is that such an event is very similar to that of a redundancy situation for an employee, where the scheme member has limited control over the decision. Therefore, this change is being recommended to ensure equal treatment of membership classes.

FINANCIAL IMPLICATIONS

At the election on 6 May 2010, there were 3 Councillor members of the scheme, aged over 55, who were not re-elected. The total cost to the Pension Fund of bringing these benefits into payment without reduction would be just under £10,000, which would not have a material impact on the solvency of the fund.

LEGAL IMPLICATIONS

As is set out in the body of the report, the Local Government Pension Scheme [Benefits, Membership & Contributions] Regulations 2007 and the Local Government Pension Scheme [Administration] Regulations 2008 enable the Council to exercise certain discretions in respect of the scheme membership. The Pensions Committee has previously agreed guidelines in respect of the exercise of these discretions, in respect of both Hillingdon Councillors and employees, in order to allow for consistent and wednesbury reasonable decision-making.

With regard to Hillingdon Councillors, the current guidelines permit the exercise of a discretion in circumstances where a Councillor over the age of 55 retires voluntarily from office. If the recommendations in the report are agreed, the guidelines will be amended so as to allow the early payment of benefits in the wider circumstances set out within them.

It is permissible for the Pensions Committee to amend the guidelines in this manner but once it does so, two specific requirements will need to be observed Firstly, they should be applied consistently so as to avoid any potential challenges from scheme members. Secondly, they will need to be published in accordance with the provisions of the above Regulations in order for them to have full legal effect"

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

Agenda Item 13

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Agenda Item 14

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