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HILLINGDON
LONDON

A

Pensions Committee

Date: **WEDNESDAY, 22 SEPTEMBER 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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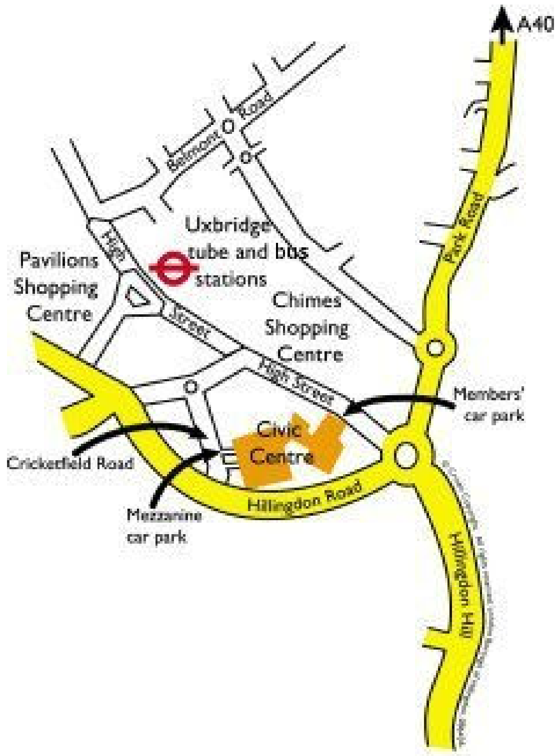

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Agenda

PART 1

PART 2

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HILLINGDON
LONDON

Minutes

PENSIONS COMMITTEE

23 June 2010

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

	Committee Members Present: Councillors Philip Corthorne (Chairman), Michael Markham (Vice Chairman), Paul Harmsworth (Labour Lead), George Cooper and Richard Lewis **Advisory Members /Co-optee Members Present**: John Holroyd and Andrew Scott **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Nancy LeRoux and Nikki Stubbs **Also Present:** Valentine Furniss, John Hastings and Scott Jamieson	
1.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Councillor Duncan.	**Action by**
2.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Harmsworth, Cooper and Corthorne declared a personal interest in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room. Councillor Cooper declared a personal interest in all Agenda Items, in that he was a trustee of the CAB, and remained in the room.	**Action by**
3.	**MINUTES OF THE MEETING - 30 MARCH 2010** *(Agenda Item 3)* **RESOLVED: That the minutes of the Pensions Committee meeting on 30 March 2010 be agreed as a correct record.**	**Action by**
4.	**MINUTES OF THE MEETING - 14 APRIL 2010** *(Agenda Item 4)* **RESOLVED: That the minutes of the Pensions Committee meeting on 14 April 2010 be agreed as a correct record.**	**Action by**
5.	**MINUTES OF THE MEETING - 13 MAY 2010** *(Agenda Item 5)* **RESOLVED: That the minutes of the Pensions Committee meeting on 13 May 2010 be agreed as a correct record.**	**Action by**

6.	**TO CONFIRM THAT THE ITEMS OF BUSINESS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THAT THE ITEMS MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 6)* **RESOLVED: That:** 1. **Agenda Items 1 to 12 be considered in public; and** 2. **Agenda Items 13 to 15 be considered in private for the reasons stated on the agenda. Members of the press and public would be excluded from the meeting during the consideration of these items.**	**Action by**
	PRESENTATION (PART II) The Committee received a presentation regarding the transition update from Mr Tariq Khalifa and Mr Craig Blackbourn from Nomura plc. Members thanked Mr Khalifa and Mr Blackbourn for the excellent work that Nomura plc had done. **RESOLVED: That the presentation be noted.**	**Action by**
7.	**REVIEW OF PERFORMANCE MEASUREMENT OF THE FUND** *(Agenda Item 7)* The Chairman introduced the report which reviewed the fund management performance of the London Borough of Hillingdon Pension Fund for the quarter to 31 March 2010. Members were encouraged that Hillingdon had outperformed against the WM average by 0.05% and that the one year performance figure had outperformed the average by 2.70%. It was noted that this was partly as a result of the investments in equities which had performed well over the last 12 months. The recent problems experienced by BP had resulted in a large decrease in its share price. As approximately 15% of UK dividend income in the last year had come from BP, it was unclear what the income effect of recent events would be on the Hillingdon Pension Fund. **RESOLVED: That the content of the report and the performance of the Fund Managers be noted.**	**Action by**
8.	**BUDGET REPORT AND OUTTURN** *(Agenda Item 8)* The Chairman introduced the report and noted that it supported good governance for the Committee to receive regular updates on the pension fund budget. Members were advised that the Committee would receive a quarterly report. The figures contained within the report had been based on a projection on Hillingdon's position in December 2009. The outturn for 2009/2010 had been better than expected and ensured that the Fund operated on	**Action by**

	the surplus generated. **RESOLVED: That the Committee note the budget outturn position for the 2009-10 financial year.**	
9.	**EARLY RETIREMENT MONITOR** *(Agenda Item 9)* The Chairman introduced the report which summarised the number of early retirements in the last quarter. It was noted that the figures were well within the required parameters. Given the anticipated Government funding reductions to local authorities, it was likely that there would be redundancies made at the London Borough of Hillingdon and a resultant increase in the number of early retirements. However, as the Council had been under its 1% target for the last few years, the authority had some leeway. Members were advised that, although enhancements had been removed from the scheme, the Committee had the ability to agree to enhancements in exceptional circumstances. **RESOLVED: That the content of the report be noted.**	**Action by**
10.	**REPORT ON GOVERNANCE** *(Agenda Item 10)* Consideration was given to the report which updated Members on Pension Fund governance issues. The report also advised of a recommended update to the Statement of Investment Principles (SoIP) and informed Members of training opportunities. Officers reported that they would not be attending the LGC Local Authority Pensions Summit in September 2010 due to the cost, in the current financial climate. **RESOLVED: That Committee approve the revised Statement of Investment Principles.**	**Action by**
11.	**PENSION FUND ANNUAL REPORT AND ACCOUNTS 2010** *(Agenda Item 11)* The Chairman introduced the report and advised the Committee that additional background information from Deloitte regarding the 2009/2010 Pension Fund Audit Plan had been circulated to Members by email and tabled at the meeting. It was noted that the Pension Fund had been audited in its own right for the first time last year. As the Audit Committee had no working knowledge of this area, it had been agreed that the Pensions Committee would approve and sign off the Pension Fund Annual Report prior to it being considered by the Audit Committee and then released to external audit to undertake the annual audit of the accounts. A report would be produced by Deloitte once it had completed its audit. Members were advised that the external auditor's fee was paid from the Pension Fund.	**Action by**

The CLG had been prescriptive about what was included in the Annual Report. As it was quite large and complicated, it was agreed that, in future, a summary would be produced so that the content could be better understood by Fund members without having to read through the main report. Both the summary and main report would be made available in the public domain. Future consideration would be given to how the Council communicated with its Fund members.

It was recognised that there was a need to strengthen governance arrangements around the Pension Fund and that additional funding had been secured for a post to support this need. This new post would look to update policies as well as the information available on the website and would work closely with the Council's Communications Team. Work would also be undertaken to set up a Service Level Agreement (SLA).

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

12. **DISCRETIONS POLICY** *(Agenda Item 12)* — **Action by**

The Chairman introduced the report which recommended that the Council's guidelines for the exercise of discretions under the *Local Government Pension Scheme (Benefits, Memberships & Contributions) Regulations 2007* and the *Local Government Pension Scheme (Administration) Regulations 2008* be updated. This policy update would ensure equal treatment of all scheme members, including Councillor members, and would need to be published once it came into effect.

It was believed that the proposal would not impact significantly on the Council. Following the recent local election, three Councillors would have fallen into this category. This would have equated to a cost of approximately £10k.

RESOLVED: That:

1. **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. **recommendation 1 comes into effect from 1 May 2010; and**

3. **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.	
13.	**REVIEW OF INVESTMENT STRATEGY & INVESTMENT SUB COMMITTEE** *(Agenda Item 13)* This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).	**Action by**
14.	**RISK MANAGEMENT REPORT** *(Agenda Item 14)* This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).	**Action by**
15.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** *(Agenda Item 15)* This item was discussed as a Part 2 item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).	**Action by**
	The meeting, which commenced at 5.30 pm, closed at 6.47 pm.	

This is a summary of the Pensions Committee proceedings. If you would like more detailed information on any of the resolutions, please contact Nikki Stubbs on 01895 250472. Circulation of this decisions sheet is to Members of the Pensions Committee and appropriate officers.

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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 reports from Adams Street and LGT Advisor Investment Reports

SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the quarter to 30 June 2010. The value of the fund as at the 30 June was £519m.

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 30 June 2010 showed an underperformance figure of 0.43% with negative returns of 8.24%, compared to the negative benchmark 7.81%.

Performance Attribution

	Q2 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	(0.46)	1.78	(1.18)	(0.57)	(0.67)
UBS	(2.25)	(4.13)	(2.76)	(2.57)	1.00
Alliance Bernstein	(2.65)	(5.95)	(5.77)	-	(4.12)
UBS Property	(0.90)	(5.56)	(0.86)	-	(0.84)
SSgA	0.10	0.23	-	-	0.13
SSgA Drawdown	0.13	0.42	-	-	0.42
Total Fund	**(0.43)**	**(2.28)**	**(2.96)**	**(2.07)**	**(0.38)**

2. The underperformance for the quarter was mainly due to the passive currency effect and to a lesser extent stock selection. These factors detracted from performance by 1.66% and 0.19% respectively. In contrast asset allocation had a positive impact adding 1.39%. This theme continues in the one year figures with stock selection and currency detracting, with asset allocation contributing to performance.

3. Alliance Bernstein returned a negative 15.05% against a benchmark of negative 12.40% underperforming by 2.65%. While no single stock had a large negative impact, general stock selection in financials, materials and consumer discretion detracted the most.

4. GSAM underperformed their benchmark by 0.46% returning 1.35% against their benchmark of 1.81. Negative contributions from corporate selection in May and June more than offset the positive contribution achieved during April. The main detractors came from positions in financials and industrials.

5. UBS delivered negative performance of 14.05% underperforming their benchmark by 2.25%. The fall in the BP share price accounted for nearly a third of the overall UK market decline. Their overweight position in BP was therefore a major contributor to the underperformance.

6. In terms of the property mandate Northern Trust and UBS report differing performance figures showing 2.20% and 3.10% respectively against a benchmark of 3.10%. The methodology applied by the fund manager allows for new money and accrued income not received, to be included as flows and as such this has inflated the performance figure compared to the custodian. In terms of performance within the portfolio the best results came from Standard Life Pooled Pensions Property Fund, UBS Triton Property Fund and Schroders Exempt Property Fund.

7. The requirement for SSgA as a passive manager is to replicate their performance benchmark. Over the two funds there was outperformance of 0.10% and 0.13% on the main fund and drawdown fund respectively.

Absolute Returns

	Alliance Bernstein £000	GSAM £000	SSgA (3 funds) £000	UBS £000	UBS Property £000
Opening Balance	113,731	62,871	209,741	105,710	43,331
Appreciation	(13,073)	775	(10,488)	(15,979)	489
Income Received	796	74	-	1,156	464
Investment/ Withdrawal	(49,309)	(332)	(82,035)	(507)	(230)
Closing Balance	52,145	63,388	117,218	90,380	44,054
Active Management Contribution	(1,958)	(288)	133	(2,132)	(388)

8. The above table provides details on the impact of manager performance on absolute asset values. The outperformance of SSgA had a positive impact on the appreciation of holdings contributing £133k. In contrast the underperformance of Alliance Bernstein, GSAM, UBS and UBS Property reduced asset appreciation by £1,958k, £288k, £2,132k and £388k respectively. As the new mandates with Marathon, Ruffer and Fauchier were not funded until the end of Q2 they have not been included in the above.

9. At the end of June 2010, £29.61m (book cost) had been invested in private equity, which equates to 5.70% 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, Adams Street called £701k with no distributions whilst LGT called £600k and distributed £107k.

10. The securities lending activity for the quarter resulted in income of £59.4k. Offset against this was £20.8k of expenses leaving a net figure earned of £38.6k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 June 2010 the assets on loan totalled £25.5m representing approximately 13% of this total.

11. For the quarter ending 30 June 2010, Hillingdon returned a negative 8.24%, underperforming against the WM average by 1.44%. The impact of Q2 has reversed a one year outperformance figure of 2.70% for Q1, to an underperformance in Q2 of 0.57%.

Market Commentary

12. At the start of the quarter there was uncertainly within equity markets. Whilst mainly positive economic data offered market participants encouragement over the health of the world economy, this contrasted with investor concern on the unfolding Eurozone debt crisis, with the latter proving to be the dominant force in market direction. Several sovereign credit downgrades including Greece Spain and Portugal unnerved investors and the EUR 750bn stabilisation package did little to allay concerns. Uncertainties around execution and longer term implications of the package only served to unsettle markets further.

13. Bond yields in leading countries fell during the quarter driven by two main factors. Firstly the increase in risk aversion which led to a flight to quality and secondly bond markets started to price in the possibility of a double-dip recession and lower inflation. In the UK, bonds rallied on the new government's emergency budget which helped alleviate concerns over the UK losing its AAA credit rating. The focus on risk aversion was evident in the increasing yield spread between corporate and government bonds.

14. The UK commercial property market continued to gain in the second quarter of 2010 adding to the improvements at the start of the year. The forward looking real estate derivative market deteriorated but still indicates further gains for the remainder of the year.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

London Borough of Hillingdon

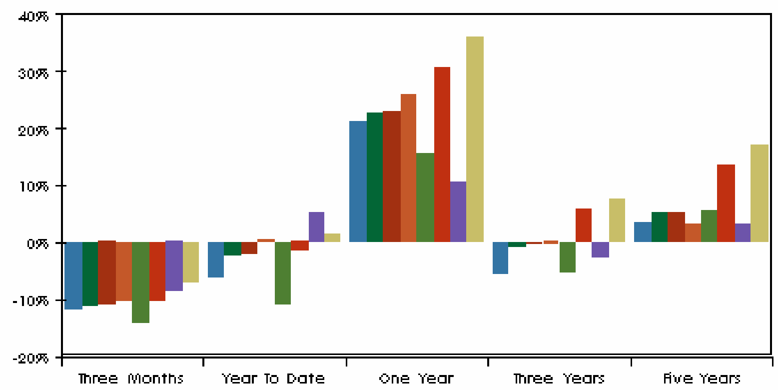
2nd Quarter, 2010

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	-11.8	-6.1	21.1	-5.7	3.5
FT: World	-11.3	-2.5	22.9	-0.9	5.2
FT: World ex UK	-11.1	-2.0	23.2	-0.4	5.4
FT AW: United States	-10.4	0.7	26.0	-0.1	3.2
FT: Developed Europe ex UK	-14.3	-11.0	15.7	-5.5	5.7
FT AW: Japan	-8.7	5.4	10.5	-2.8	3.2
FT: Developed Asia Pac x Jp	-10.4	-1.6	30.8	5.9	13.5
MSCI Emerging Markets GD	-7.0	1.4	35.9	7.8	17.2

All index returns are in GBP terms unless stated otherwise.

Northern Trust

The second quarter of 2010 has seen equity markets falter with every single major index posting a 3 month return in the red. A much vaunted US recovery, the strength of the US Dollar and continued growth in China are crucial to the healing of the global economy. The Bank for International Settlements reiterated the warning that Sovereign Debt and the extended period of low interest rates could sow the seeds of the next disaster. A lack of coordination amongst European policy makers has left markets everywhere preoccupied with the health of Eurozone economies. Following the well documented economic issues in Greece, pressure increased as Spain was downgraded by Fitch and Portugal went to review with Moody's. The Bank of Canada became the first G7 central bank to move back towards reality, pushing its target rate back up to 0.5%. The shift to growth stocks has continued through quarter 2 as investors look for companies with good earnings potential. The quarter ended on worrying news from the manufacturing sectors of both China and the US on top of disappointing US unemployment figures and home sales. Despite that, most analysts are still predicting that the world will avoid a double dip recession. One year regional index returns are still firmly in the black and in the main show double digit growth. Gold prices ended June up again from March at $1,210 per ounce. The price of crude oil finished Q2 down at $72 per barrel. Commodities related shares with links to the emerging markets are still backed to do well. The FTSE World was down 11.3% (GBP) over quarter 2 2010 although remains ahead over 1 year, now by 22.9% (GBP).

The FTSE 100 returned -12.6% (£) over Q2. Two headlines have dominated in the UK over the last 3 months, the failure of the General Election to deliver an outright majority and the BP Deepwater Horizon oil rig tragedy in the Gulf of Mexico. The ensuing coalition government, hard-line economic budget and aftermath of the oil spill as well as negative sentiment emanating from mainland Europe has left the market mixed throughout the second quarter. The decision by Germany to ban shortselling in its top 10 financial institutions hit confidence hard. Quantitative easing and the record low interest rate were maintained despite the creeping threat of rising inflation. The second estimate of Q1 GDP came in at 0.3% up from 0.2%. Oil and gas were amongst the worst performers over the quarter while utilities, though still in the red faired best at sector level. RPI for March was up to 3.7% and unemployment showed a marginal increase to 7.9% in June. The FTSE All Share was down 11.8% (GBP) over the second quarter.

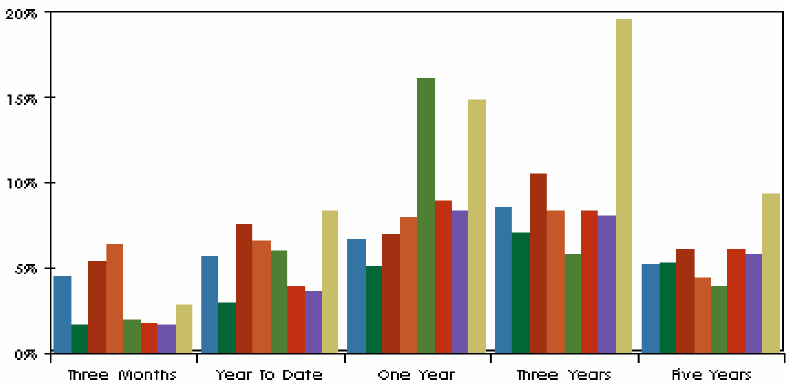
The FTSE Europe ex UK index returned -14.4% (GBP) continuing to underperform regional counterparts as it did ending 2009. The Euro fell 7.4% vs the US $ during May alone extending its longest losing streak in 10 years. Huge budget deficit reduction plans show the extent of change required. On the upside 1,100 banks prepared to repay EUR 442bn in one year loans borrowed from the ECB and the take up of new 3 month loans was lower than expected. Exports continue to benefit from the weak Euro. The Healthcare sector performed well again as did Consumer Goods while Financials moved further into the red. Unemployment increased across the Eurozone and has now reached 10.1% although in Germany the rate fell. Eurozone CPI inflation ended May up again at 1.6%, remaining below the ECB's 2% ceiling. The ECB left its main rate unchanged at 1%.

The S&P 500 suffered its worst May return since 1962. US Stockmarkets continue to be influenced by external events; European government budgeting, the oil spill clean up and North Korean belligerence. The strong dollar has inspired concerns about the competitiveness of US exports. The US treasury sold a second tranche of Citigroup stock bringing government profit from this line to in excess of $2bn while still owning an 18% stake. All sectors lost; the largest retreats coming in Materials, Financials and Energy. Utilities and Telecoms suffered least. US unemployment continues to increase; 8 million jobs have been lost over a period of 3 years. Sales of homes continued to fall (as expected) following the end of the temporary tax credit. 1st quarter GDP was revised down from 3% to 2.7%. The federal funds target rate was maintained at its all time low of 0-0.25%. The FTSE US index was down 10.4% (GBP) over the second quarter of 2010.

Japanese equities again outstripped all contemporaries over the 3 month period but also remained firmly in the red. Toyota forecast a rise in earnings with positive news from the US and demand from China. A 4.9% expansion of the Japanese economy was confirmed for Q1. The FTSE Japan returned -8.7% (GBP) for Q2 and the FTSE Asia Pacific ex Japan returned -10% (GBP). Commodity producing and Emerging Market currencies were hit hard as investors discounted a potential hit to global growth although recent declines in commodity prices should relieve some of the inflation experienced. Latin American equities again outperformed notably Peru and Chile. Sector wise the more defensive Consumer Staples and Telecoms were key. Brazil continues to perform well as the unemployment rate fell again to a record low and GDP is forecast to expand to 6.5% this year. Despite a drop in oil prices hitting the Russian economy the unemployment rate dropped off there too and sales data rose. MSCI Emerging Markets index returned -7% (GBP) for the second quarter.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	4.5	5.7	6.7	8.6	5.2
FTSE All Stock 0-5 Yr. Gilts	1.6	2.9	5.1	7.1	5.3
FTSE All Stock 5-15 Yr. Gilts	5.4	7.6	7.0	10.6	6.1
FTSE All Stock > 15 Yr. Gilts	6.4	6.6	8.0	8.4	4.5
ML STG N-Gilts All Stocks	2.0	6.0	16.2	5.8	3.9
FTSE Index Linked	1.7	4.0	9.0	8.3	6.1
FTSE Index Linked 5+ yrs	1.6	3.7	8.4	8.1	5.8
JPM GBI Global	2.9	8.3	14.8	19.6	9.3

All index returns are in GBP terms unless stated otherwise.

Northern Trust

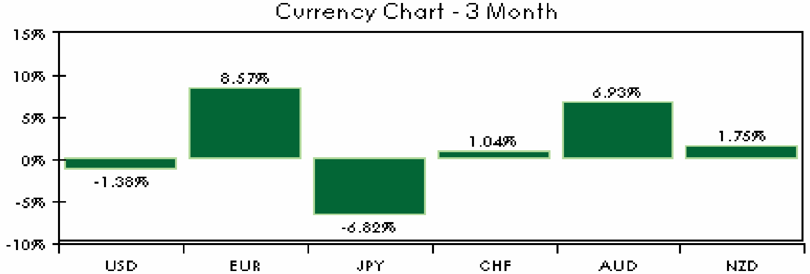
Concern about the health of the world economy has resumed in recent weeks, as widespread declines in leading indicators of economic activity, suggest that the second half of 2010 could be one of a severe weakening in the pace of economic recovery. This saw the benchmark 10-year government bond yields in the US and UK slump to year lows. Worries about the risk of sovereign debt default in Europe and the fragility of European banks have not diminished, however they are now being seen in the greater perspective of growing signs of weaker growth and the sluggish labour market in the US. While building inflation pressures in the emerging economies are a concern, economic growth is more robust than in the developed markets. However should the major developed economies falter, there will be negative trade implications for the export driven emerging economies.

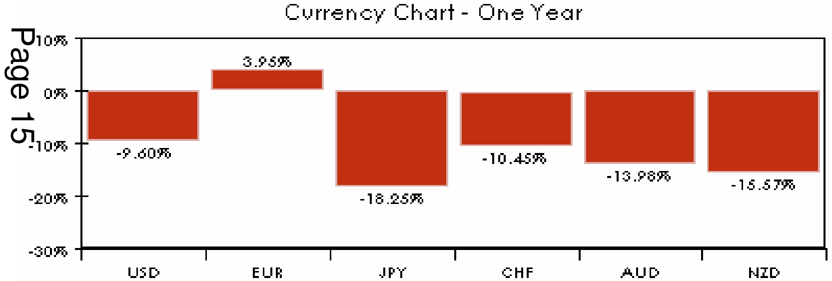
In the UK with a new coalition government in place after inconclusive elections in early May, the focus over the quarter was on the emergency Budget on the 22nd June and the strategy to reduce the budget deficit, currently at £156bn. The Chancellor held to his promise of an accelerated deficit reduction announcing additional net fiscal tightening of £40bn over the next five years, above the £73bn already announced by the previous government. Received well by the credit rating agencies, gilts rallied with the 10 year yields dropping to close June at 3.35 compared to 3.95 at the start of Q2. The Bank of England (BoE) continues to leave the base rate unchanged at 0.5% and the Asset Purchase Facility (APF) at £200bn, although one member of the Monetary Policy Committee (MPC) argued for an increase to 0.75% citing inflationary expectations. The National Institute for Economic and Social Research (NIESR) estimated that the UK grew by 0.7% in the second quarter, its fastest expansion since before the recession. However, export growth has slowed in June according to the purchasing managers' index (PMI), recording a level of 50.7 down sharply from the series high 59.9 two months ago. This has impacted UK growth forecasts looking for net exports to play a key role in the recovery. The FTSE All Stock Gilts closed up at 4.5% (GBP) for the quarter, while the ML Sterling Non Gilts returned 2.0% (GBP).

Considering that the sovereign debt crisis in Europe looks set to remain a dominant theme in the financial markets,unsurprisingly the European Central Bank (ECB) continues to maintain the main refinancing rate at the record low 1.0%. Although the financial support measures package from European governments has helped to calm fears of imminent default in the so-called peripheral countries – Greece, Ireland, Portugal and Spain; credit spreads, bond spreads over the benchmark German 10 year bund and the soaring cost of insurance against default risk all indicate these fears have not subsided. Worries about the health of banks in the euro-zone pushed stock-markets down around the world as around 1,120 banks prepared to repay €442bn for the 1-year Long Term Re-financing Operation loans they borrowed from the ECB last June. Investors were relieved by news that the take-up of new ECB three month loans offered to banks was much lower than expected, though signs of economic weakness in the US and China continued to trouble investors. The iTraxx Europe 5yr index, representative of 125 investment grade entities across 6 sectors saw spreads widen drastically from 78.63 at the end of Q1, to a high of 139.67 at the beginning of June and narrowing to 128.71 at quarter end. The JPM European Govt Bond index returned 3.5% (EUR) and the Barclay Capital Euro Aggregate Corporate bond index returned 0.3% (EUR) for Q2 2010.

The US Federal Reserve open committee (FOMC) continues to hold the target rate at 0-0.25% at the interest rate-setting meeting in June. This followed weak economic data – disappointing job growth, unexpectedly low employment and surveys suggesting that manufacturing and services are losing momentum. Combined with the concerns with Europe's sovereign debt markets and banks, the FOMC focus has moved from when to sell its bond portfolio (some $1,600bn of Treasury and mortgage backed bonds purchased since 2008), to consider more asset purchases. The 10 year Treasury yield closed the quarter down to 2.96%, as investors sold off equities and sought haven in Treasuries. On the corporate bond side, the year long rally in credit markets also ran out of steam in the second quarter. The quarter opened well, as corporate bonds continued a rally that lasted from late 2008 through the first quarter of 2010 and included the best annual returns for high yield bonds on record in 2009. That strength ended in late April with the flare of up sovereign debt worries in Europe. As borrowing costs in Greece and other European nations soared, US corporations had a harder time borrowing too. For the quarter, the JPM US Govt Bond index returned 4.8% (USD) while the Barclay Capital Global Aggregate Corporate Bond index return -1.1% (USD).

Currency Performance (in GBP)





Currency Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-1.38	-7.64	-9.60	-9.77	-3.61
European Union euro	8.57	8.18	3.95	-6.52	-3.85
Japanese yen	-6.82	-12.71	-18.25	-20.87	-8.11
Swiss franc	1.04	-3.41	-10.45	-14.04	-7.06
Australian dollar	6.93	-1.36	-13.98	-9.63	-5.66
New Zealand dollar	1.75	-1.98	-15.57	-5.90	-3.38

All index returns are in GBP terms unless stated otherwise.

Severe volatility returned to the financial markets in the second quarter, as fears over the imminent sovereign debt default in euro-zone peripheral countries – Greece, Ireland, Italy, Portugal and Spain, required policy makers to take drastic measures to restore market confidence. Weak economic data from the US, combined with imminent fiscal tightening taking place in many countries has raised concerns of a global "double dip" recession. The key event in the emerging economies was the removal of the peg of the Chinese renminbi to the US dollar, surprising many by the timing ahead of the G20 conference in Canada. The VIX volatility index rose from 17.59 at the end of March, peaking at 45.79 mid May before closing at the end of the quarter at 34.54.

In the UK, the General Election in May delivered the first hung parliament since 1974, putting sterling under selling pressure and resulted in a Conservative – Liberal Democrat coalition government. Policy was left unchanged (base rate at 0.5% and £200bn of QE) at the Bank of England (BoE) June Monetary Policy Committee (MPC) meeting, although MPC member Andrew Sentence notably dissented arguing for a 0.25% hike due to rising inflation risks. Compared to the BoE's target rate of 2.0%, annual CPI came in at 3.4% for May, while the BoE's Inflation Attitudes survey in June revealed the public's 12-month inflation expectation rose from 2.5% to 3.3%. The Chancellor delivered an emergency Budget in June, announcing additional net fiscal tightening of £40bn above the £73bn already pencilled in by the previous Labour Government over the next five years. The Budget was well received by both credit rating agencies and financial markets although the level of austerity also raised the prospect of a double dip recession. The end of the quarter brought news of slowing housing market activity, while the manufacturing and construction PMI were steady in June, holding at 57.5 and 58.4 respectively vs May. Sterling closed the quarter down against the US dollar by -1.4% and the Yen by -6.8%, however was up against the Euro by 8.6%

The US dollar and traditional safe havens, such as the Swiss franc and Yen, have been clear beneficiaries of the crisis in Greece. However data in June pointed to a more fragile recovery than earlier in the quarter, with the Swiss franc replacing the US dollar as the preferred refuge in the G10. The dollar depreciated against the Swiss franc by -6.9% in June. The pace of growth in US private (non-farm) payrolls significantly dropped from April. Consumer confidence also declined sharply in June, per the Conference Board, a research firm. Its index fell to 52.9 from 62.7 in May. The federal funds target rate held at 0-0.25% and expectations for an increase have moved back to 2011. However Federal Reserve Chairman Bernanke has signalled that the Fed is unlikely to wait until the labour market fully recovers and 'we can't wait until inflation gets out of control before….normalising interest rates'. Despite the disappointing data, the dollar closed the quarter gaining against the Pound and Euro by 1.4% and 9.9% respectively, and down versus the Yen at -5.4%.

The euro-zone sovereign debt crisis remains the overarching theme in the region, although the intensity has eased from Q1. The EU announced in May a substantial aid package amounting to €750bn to support Greece and other euro members that might need funding. However markets were further shocked by Germany's unilateral decision to impose a temporary ban on the uncovered short selling of certain types of euro-zone debt and credit default swaps. As a consequence the euro came under intense selling pressure, falling to below $1.20 for the first time since March 2006 and to a record low versus the Swiss franc. Market nerves were tested as the quarter ended with the expiration of the ECB's first 1-year €442bn Long Term Re-financing Operation (LTRO) loans. However the news that the take up of new unlimited ECB 3 month loans offered to banks was lower than expected relieved investors. The euro ended the quarter down versus sterling, the dollar and the Yen at -3.1%, -0.2% and -3.0% respectively.

Scheme Performance

During the second quarter of 2010 London Borough of Hillingdon underperformed the Total Plan Benchmark by -0.47% (relative), returning -8.24% vs.-7.81%.
Although asset allocation contributed a strong +1.39%, the passive currency effect of -1.66% (Corporate Bonds (-0.73%) and Europe Ex UK (-0.45%)) brought the fund back into a negative position and was the primary source of the quarters underperformance.
On an overall contribution basis, UK Equities (-0.79%) and Real Estate (-0.31%) are the main asset detractors from the fund this quarter, while Cash (+0.53%), Corporate Bonds (+0.30%) and Index-Linked (+0.18%) all contributed a positive affect.

Over the longer period of 1 year the underperformance of -1.90% is driven by currency affect of -1.24% and Stock Selection of -1.52%. Asset Allocation redeemed +1.02%.
On an overall contribution basis over the 1yr period, UK Equities (-1.23%) and Cash (-0.66%),being the main negative contributors, with Japanese Equities (+0.25%), Index-Linked Gilts (+0.17%) and Government Bonds (+0.12%) were the main positive contributors

Of the six managers that had holdings for the full 3 months of this quarter, two managers, 29.11% of the portfolio, underperformed by over 250 basis points. 21.95% underperformed by a range of 45 – 87 basis points while 23.94% managed an outperformance of 11 – 13 basis points. The remaining 25% of the portfolio assets were either held for less than a 3 month period or remain in the Nomura transition account which is not measured for performance on an individual account basis, but is included in the overall total plan calculations.
Historically, the Fund remains showing a pattern of ten periods within the last twelve quarters as having negative relative returns. Consequently, the Fund underperforms over all short and long term periods.

Manager Performance

Alliance Bernstein

Alliance Bernstein has had a reduction of 50% of the value of their mandate and a change to the definition of their mandate and therefore their benchmark. Because of this mid month mid period restructuring, attribution is unavailable at present for periods greater than 1 month.
Over the quarter Alliance returned an underperformance of -2.65%. This extends the underperformance of the account to 12 periods out of 12 over the last 3 years.
The account significantly underperformed over all time periods.

Goldman Sachs

After four consecutive quarters of outperformance Goldman Sachs returned to underperformance this quarter, returning 1.35% versus a benchmark of 1.81%.
The fund remains slightly ahead over the year to date time period. 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 second quarter of 2010, UBS underperformed the FTSE All Share -14.05% vs. -11.80%.
In Stock selection (-3.40%), Consumer Services (-0.96%), Oil and Gas (-0.93%), Health Care (-0.61%) and Industrials (-0.53%) were the main detractors. Asset Allocation of +0.86% in part redeemed some of the stock selection losses, but negative contributions from Oil and Gas (-0.42%) and Consumer Goods (-0.26%) offset gains in Basic Materials (+0.47%), Telecommunications (+0.40%) and Healthcare (+0.31%).
Over the longer period of 1 year the combined relative contribution from Oil and Gas (-1.35%), Health Care (-1.13%), Consumer Goods (-0.93%) and Financials (-0.92%) all contribute to an underperformance of -3.41%.
Over the longer time periods 3yrs and 5yrs the manager underperforms by, -2.82% and -2.46% respectively on a relative basis. Since inception in December 1988, UBS retains its outperformance, returning 9.40% vs. 8.40%.

UBS Property

UBS Property underperformed their benchmark (2.20% vs.3.10%). The underperformance of q4 09 (-3.74%) remains the single biggest factor for the underperformance of the fund over all the longer time periods, 1 and 3years. Since inception the funds return now stands at -4.11% vs. -3.27% an underperformance of -0.86 basis points on a relative basis.

Manager Performance

SSGA

SSGA returned a slight outperformance of 11 basis points this quarter, the majority of this outperformance coming from the outperformance in UK equities (+0.05%) and the overweighting of Corporate bonds (+0.04%).

SSGA Drawdown

The fund slightly outperformed its benchmark by 13 basis points this quarter. Over the inception to date period the fund is now 39 basis points ahead of its benchmark on a relative basis.

M&G Investments

The funding of M&G on the 27th May has returned an absolute return on +0.25% over the period to date.
At present no benchmark has been applied to this mandate.

Ruffer

The funding of Ruffer on the 28th May has returned an absolute return of -2.69% over this period to date. At present no benchmark has been applied to this mandate.

Marathon

The funding of Marathon on the 9th June returned a positive impact with Marathon returning a relative outperformance of +0.36% over this shortened time period.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 4/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 5/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 6/10	Active Contribution Q2 10
Goldman Sachs	0.80	0.61	0.19	0.19	121,227.93	-0.32	0.09	-0.41	-0.41	-257,757.21	0.87	1.11	-0.24	-0.24	-151,576.82	-288,106.10
UBS	-0.42	-1.39	0.97	0.98	1,011,930.72	-7.07	-6.23	-0.84	-0.90	-833,349.56	-7.12	-4.62	-2.49	-2.61	-2,310,671.93	-2,132,090.77
Alliance Bernstein	-1.89	-1.24	-0.65	-0.66	-731,458.66	-7.51	-6.61	-0.90	-0.96	-506,475.62	-6.38	-5.02	-1.36	-1.43	-720,088.49	-1,958,022.77
UBS Property	0.52	1.43	-0.91	-0.90	-400,635.22	1.36	1.12	0.24	0.23	103,861.25	0.31	0.51	-0.21	-0.21	-91,557.06	-388,331.03
SSGA	-0.91	-0.91	-0.00	-0.00	-1,424.27	-4.59	-4.62	0.03	0.03	32,266.78	-3.45	-3.53	0.08	0.08	76,409.61	107,252.12
SSGA Drawdown	0.47	0.45	0.02	0.02	3,955.75	0.01	-0.00	0.01	0.01	2,205.15	0.68	0.58	0.10	0.10	20,277.10	26,438.00

Total Fund Market Value at Qtr End: £489.6 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	489.6	100.00	-8.24	-7.81	-0.43	-0.47	-2.41	-1.38	-1.03	-1.04	18.03	20.31	-2.28	-1.90

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
M&G Investments	0.9	0.19	-	-	-	-	-	-	-	-	-	-	-	-
Nomura	25.1	5.12	-	-	-	-	-	-	-	-	-	-	-	-
Ruffer	49.0	10.00	-	-	-	-	-	-	-	-	-	-	-	-
Goldman Sachs	63.4	12.95	1.35	1.81	-0.46	-0.45	5.25	5.24	0.01	0.01	15.37	13.59	1.77	1.56
UBS	90.4	18.46	-14.05	-11.80	-2.24	-2.54	-8.97	-6.15	-2.82	-3.00	17.01	21.14	-4.13	-3.41
Alliance Bernstein	52.1	10.65	-15.05	-12.40	-2.65	-3.02	-9.29	-5.33	-3.96	-4.19	14.38	20.33	-5.96	-4.95
UBS Property	44.1	9.00	2.20	3.10	-0.90	-0.87	7.34	8.05	-0.70	-0.65	13.47	19.03	-5.56	-4.67
SSGA	96.6	19.73	-8.72	-8.82	0.10	0.11	-2.46	-2.54	0.08	0.08	19.94	19.71	0.23	0.19
SSGA Drawdown	20.6	4.21	1.16	1.03	0.13	0.13	3.30	3.07	0.23	0.22	8.48	8.06	0.42	0.39
Marathon	47.4	9.69	-	-	-	-	-	-	-	-	-	-	-	-

Total Fund Market Value at Qtr End: £489.6 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	-4.66	-1.70	-2.96	-3.01	2.83	4.90	-2.07	-1.97	5.83	6.21	-0.38	-0.36

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
M&G Investments	-	-	-	-	-	-	-	-	27/05/10	0.25	-	-	-
Nomura	-	-	-	-	-	-	-	-	31/07/09	-	-	-	-
Ruffer	-	-	-	-	-	-	-	-	28/05/10	-2.69	-	-	-
Goldman Sachs	7.22	8.40	-1.18	-1.09	7.70	8.27	-0.57	-0.52	31/12/01	5.78	6.45	-0.67	-0.63
UBS	-4.96	-2.20	-2.76	-2.82	1.75	4.32	-2.57	-2.46	31/12/88	9.40	8.40	1.01	0.93
Alliance Bernstein	-9.08	-3.31	-5.77	-5.97	-	-	-	-	31/03/06	-3.60	0.52	-4.12	-4.10
UBS Property	-10.80	-9.94	-0.86	-0.96	-	-	-	-	31/03/06	-4.11	-3.27	-0.83	-0.86
SSGA	-	-	-	-	-	-	-	-	30/11/08	17.00	16.87	0.13	0.11
SSGA Drawdown	-	-	-	-	-	-	-	-	30/06/09	8.48	8.06	0.42	0.39
Marathon	-	-	-	-	-	-	-	-	09/06/10	-2.87	-3.22	0.35	0.36

Total Fund Market Value at Qtr End: £489.6 M

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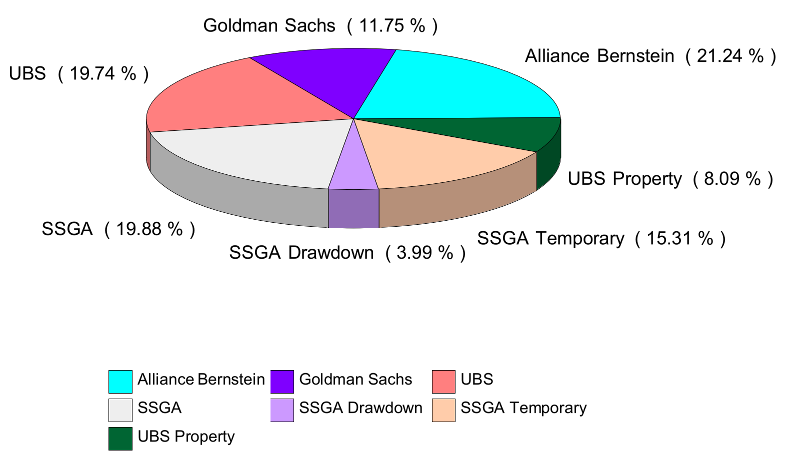
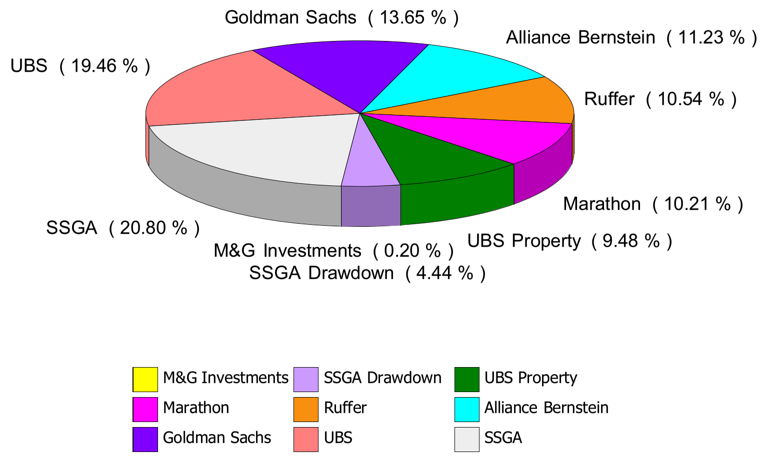
Beginning Weight of Period

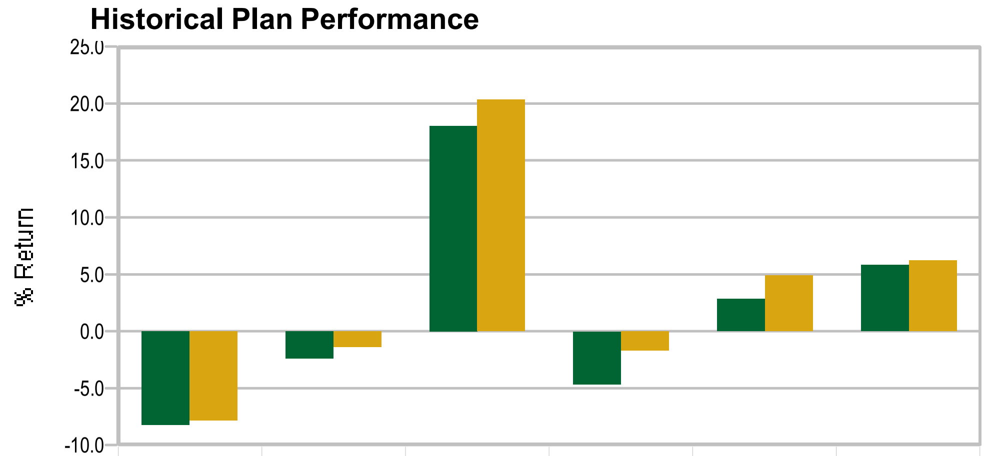


Weighting at End of Period



	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	535,665	100.00	-2,011	-46,853	2,781	489,582	100.00
Goldman Sachs	62,871	11.74	-332	775	74	63,388	12.95
UBS	105,710	19.73	-506	-15,979	1,156	90,380	18.46
Alliance Bernstein	113,731	21.23	-49,309	-13,073	796	52,145	10.65
UBS Property	43,331	8.09	-230	489	464	44,054	9.00
SSGA	106,415	19.87	-535	-9,267		96,613	19.73
SSGA Drawdown	21,393	3.99	-1,029	241		20,605	4.21
M&G Investments	-		922	2		924	0.19
Ruffer	-		50,295	-1,484	145	48,955	10.00
Marathon	-		48,835	-1,403		47,432	9.69
Nomura	282	0.05	30,349	-5,693	147	25,085	5.12
SSGA Temporay	81,933	15.30	-80,471	-750,576	0		

London Borough of Hillingdon



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-8.24	-2.41	18.03	-4.66	2.83	5.83
Benchmark	-7.81	-1.38	20.31	-1.70	4.90	6.21

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-4.66	-1.70
Standard Deviation	15.91	15.48
Relative Return	-3.01	
Tracking Error	1.25	
Information Ratio	-2.38	
Beta	1.03	
Alpha	-2.82	
R Squared	0.99	
Sharpe Ratio	-0.56	-0.38
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	535,665	
Net Investment £(000)	-2,011	
Income Received £(000)	2,781	
Appreciation £(000)	-46,853	
Closing Market Value (£000)	489,582	

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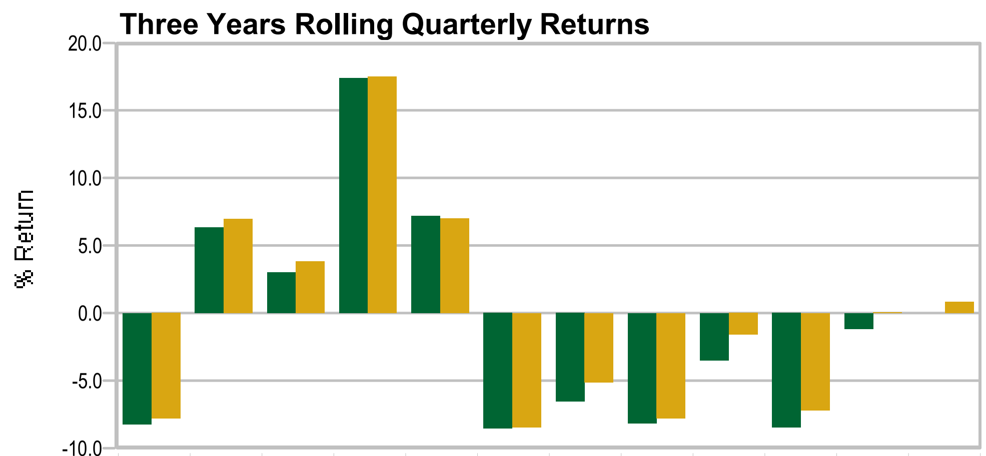
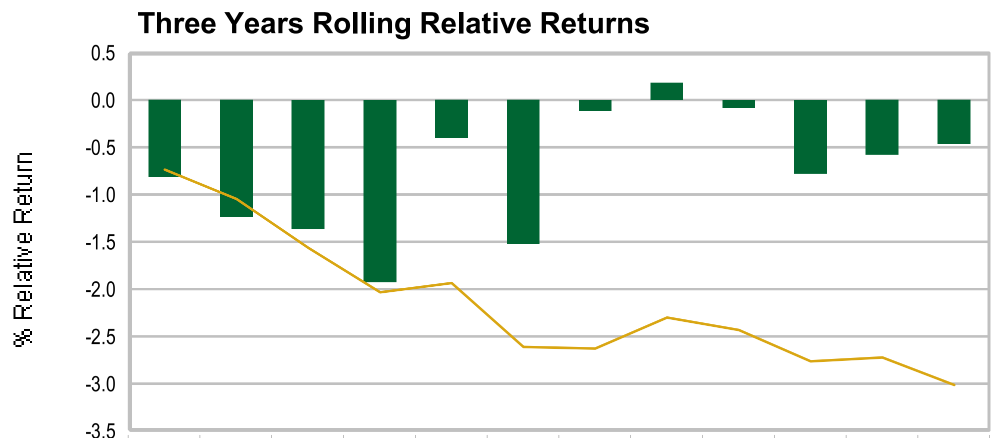


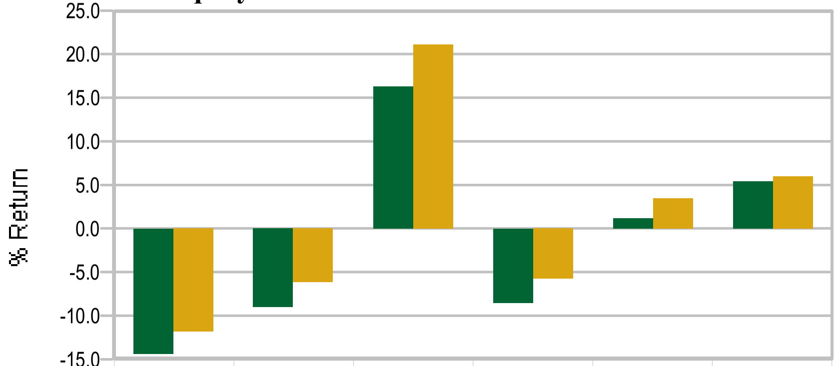
	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	-8.24	6.35	3.02	17.40	7.21	-8.55	-6.57	-8.18	-3.51	-8.47	-1.17	0.00
Benchmark	-7.81	6.97	3.83	17.50	7.02	-8.44	-5.12	-7.80	-1.61	-7.20	0.06	0.83



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-0.82	-1.24	-1.37	-1.93	-0.41	-1.52	-0.12	0.18	-0.09	-0.78	-0.58	-0.47
3Y Relative	-0.74	-1.05	-1.56	-2.04	-1.94	-2.61	-2.63	-2.30	-2.44	-2.76	-2.72	-3.01

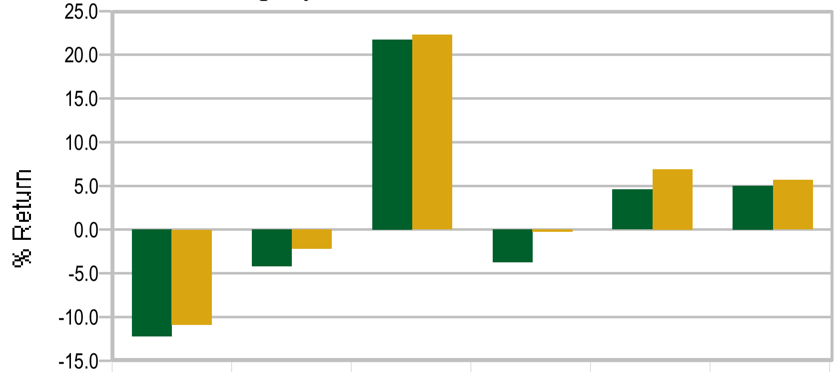
London Borough of Hillingdon

UK Equity



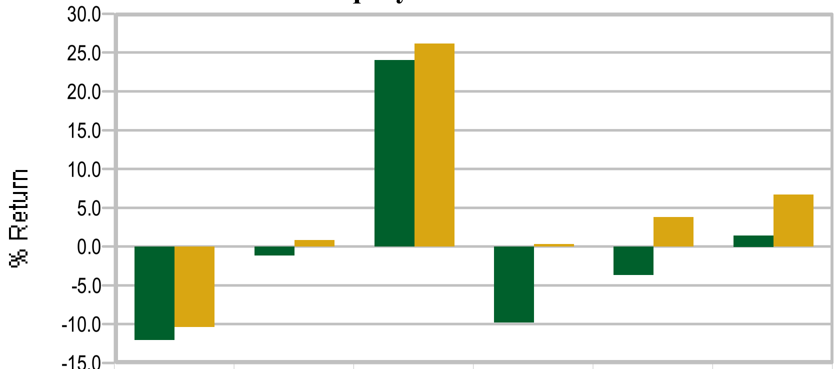
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.35	-8.99	16.25	-8.51	1.19	5.42
B'Mark	-11.80	-6.15	21.14	-5.73	3.48	6.01

Overseas Equity



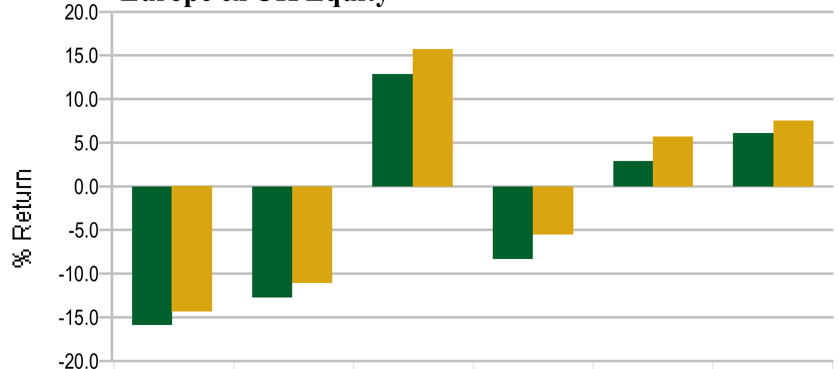
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.21	-4.20	21.71	-3.73	4.58	5.00
B'Mark	-10.88	-2.21	22.27	-0.26	6.90	5.66

North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.00	-1.14	24.02	-9.79	-3.67	1.50
B'Mark	-10.33	0.84	26.11	0.28	3.79	6.67

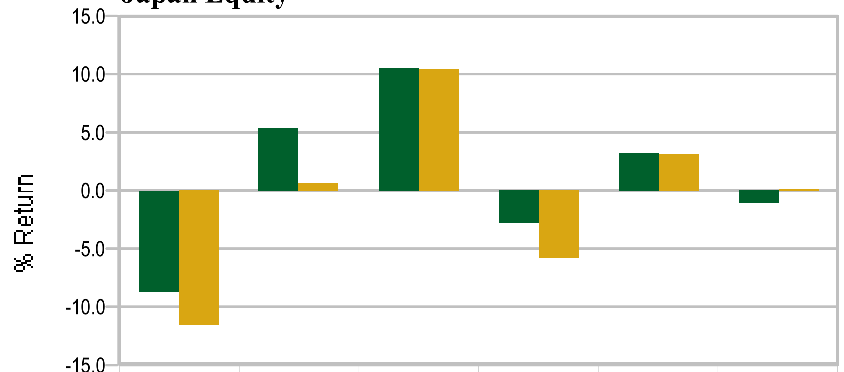
Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-15.82	-12.71	12.84	-8.26	2.88	6.09
B'Mark	-14.32	-10.99	15.71	-5.45	5.70	7.53

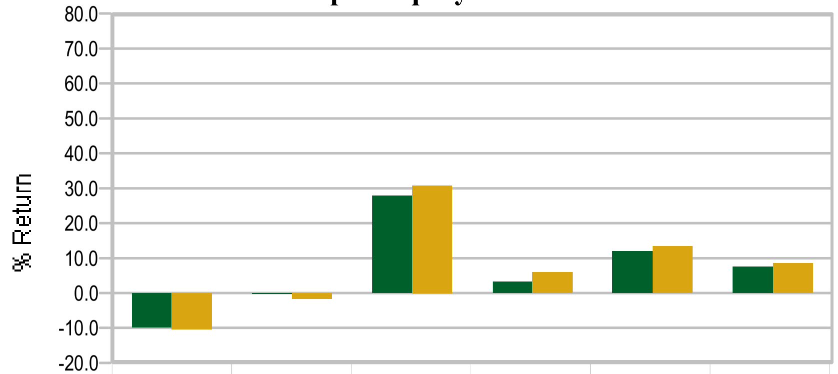
London Borough of Hillingdon

Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.58	0.68	10.48	-5.80	3.12	0.13
B'Mark	-8.73	5.35	10.52	-2.78	3.25	-1.08

Asia Pacific ex Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-9.92	-0.20	27.83	3.16	11.97	7.46
B'Mark	-10.45	-1.65	30.80	5.95	13.47	8.64

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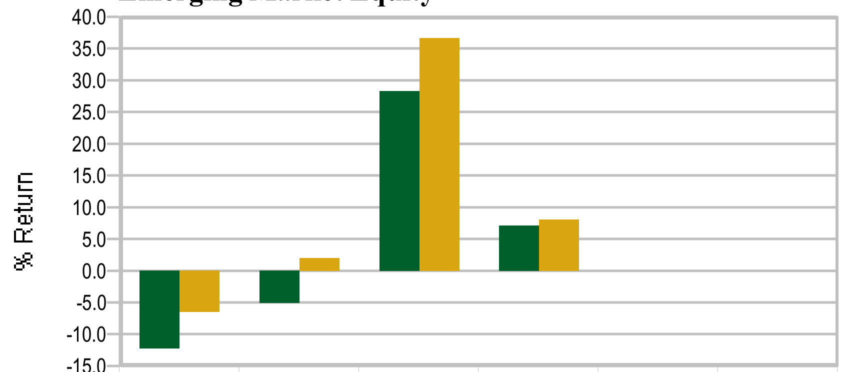
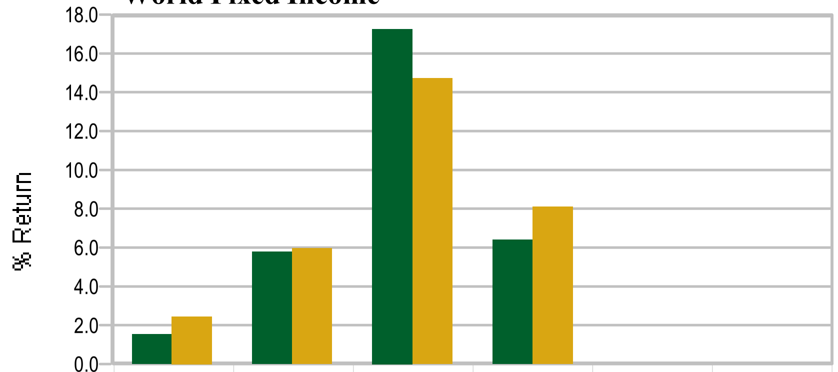
Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.26	-5.10	28.29	7.14	-	-
B'Mark	-6.51	2.00	36.70	8.03	-	-

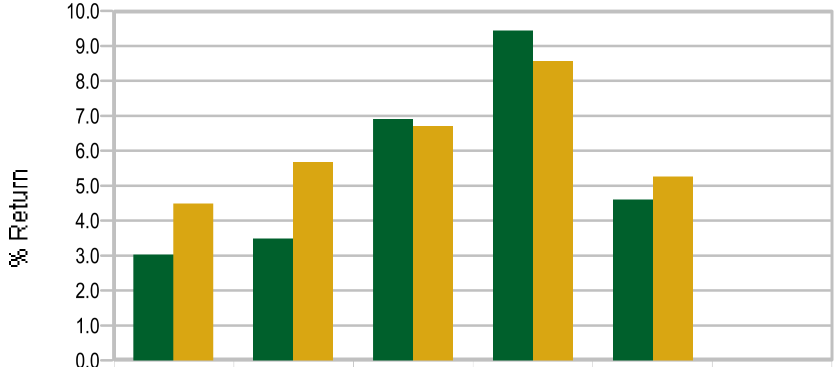
World Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.55	5.79	17.26	6.42		
B'Mark	2.45	5.97	14.73	8.11		

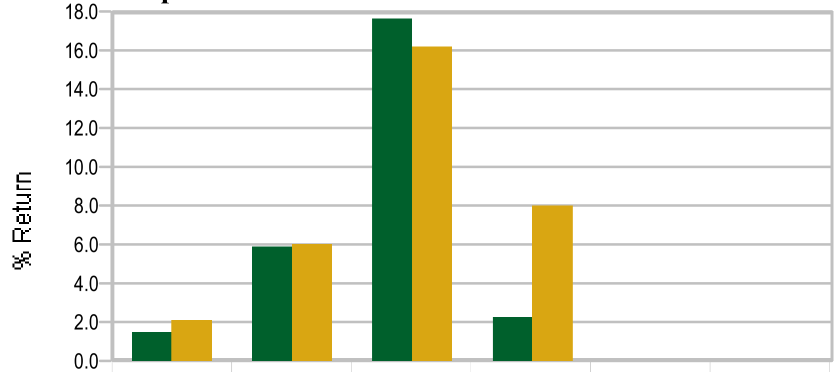
London Borough of Hillingdon

Government Bonds



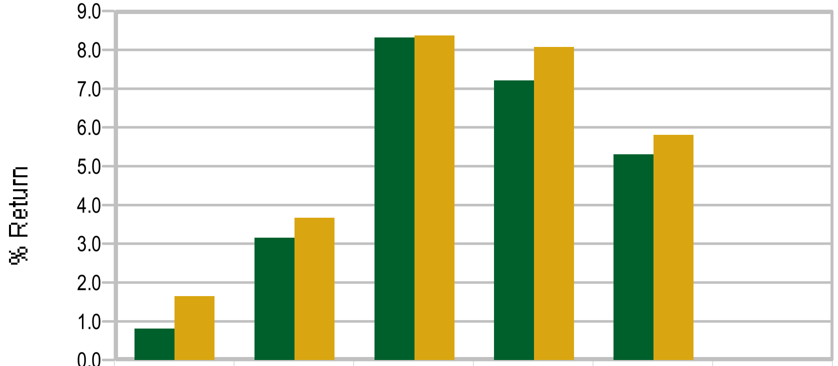
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.04	3.50	6.91	9.45	4.60	-
B'Mark	4.49	5.68	6.71	8.57	5.25	-

Corporate Bonds



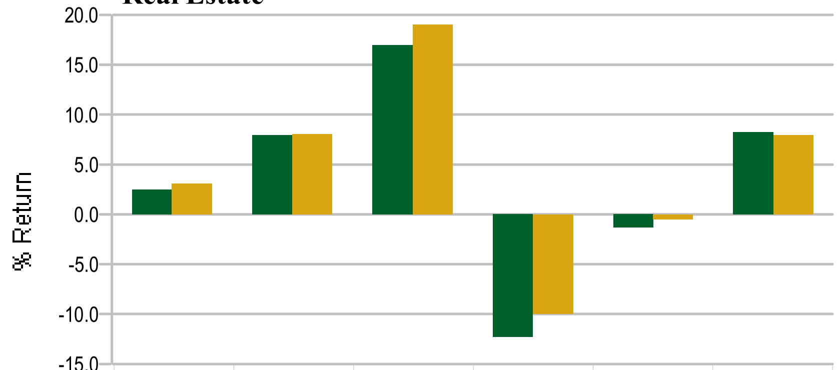
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.48	5.89	17.63	2.26	-	-
B'Mark	2.09	6.02	16.18	8.01	-	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.81	3.15	8.32	7.21	5.30	-
B'Mark	1.64	3.67	8.37	8.07	5.81	-

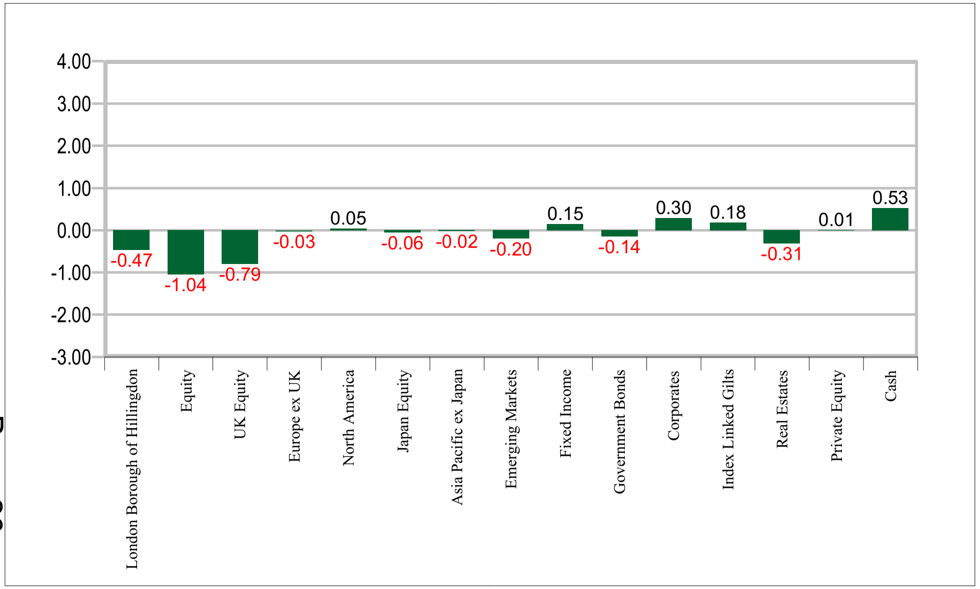
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.47	7.95	16.97	-12.28	-1.32	8.24
B'Mark	3.10	8.05	19.03	-9.94	-0.47	7.94

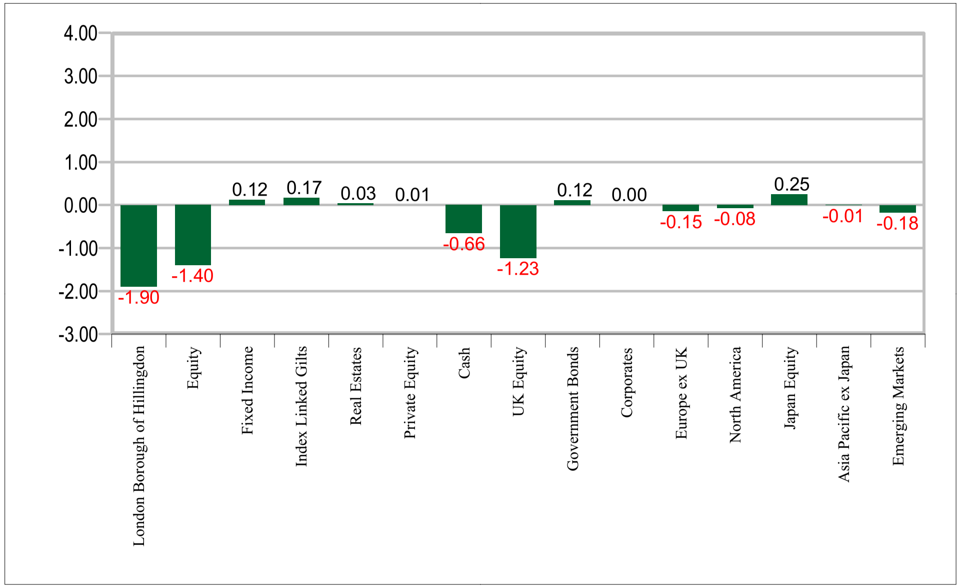
London Borough of Hillingdon

Relative Contribution - Three Months



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	-8.24	-7.81	-0.47	0.02	-1.66	1.39	-0.19	-0.47
Equity	-13.34	-	-13.34	0.00	-0.87	0.66	-0.82	-1.04
UK Equity	-14.35	-11.80	-2.89	0.00	-0.04	0.15	-0.90	-0.79
Europe ex UK	-15.82	-14.32	-1.75	0.00	-0.45	0.14	0.28	-0.03
North America	-12.00	-10.33	-1.86	0.00	0.00	0.15	-0.11	0.05
Japan Equity	-11.58	-8.73	-3.12	0.00	-0.24	0.23	-0.04	-0.06
Asia Pacific ex Japan	-9.92	-10.45	0.59	0.00	-0.11	-0.04	0.13	-0.02
Emerging Markets	-12.26	-6.51	-6.15	0.00	-0.03	0.02	-0.18	-0.20

Relative Contribution - One Year



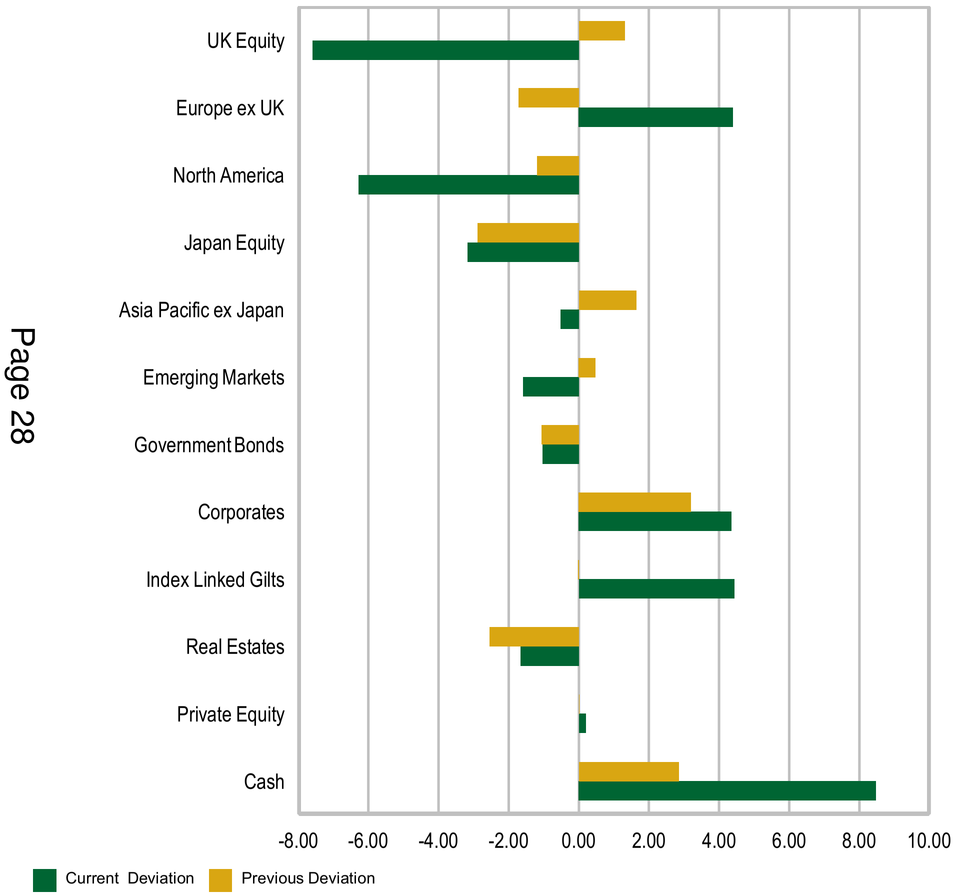
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	18.03	20.31	-1.90	-0.10	-1.24	1.02	-1.52	-1.90
Equity	18.79	-	18.79	0.00	-0.68	1.24	-1.94	-1.40
UK Equity	16.25	21.14	-4.04	0.00	-0.09	0.22	-1.35	-1.23
Europe ex UK	12.84	15.71	-2.48	0.00	0.05	0.02	-0.22	-0.15
North America	24.02	26.11	-1.66	0.00	-0.35	0.09	0.19	-0.08
Japan Equity	10.48	10.52	-0.04	0.00	-0.44	0.67	0.03	0.25
Asia Pacific ex Japan	27.83	30.80	-2.27	0.00	0.03	0.20	-0.24	-0.01
Emerging Markets	28.29	36.70	-6.15	0.00	0.13	0.05	-0.35	-0.18

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	1.55	2.45	-0.88	0.00	-0.74	0.22	0.68	0.15
Government Bonds	3.04	4.49	-1.39	0.00	-0.01	-0.13	-0.01	-0.14
Corporates	1.48	2.09	-0.60	0.00	-0.73	0.35	0.68	0.30
Index Linked Gilts	0.81	1.64	-0.82	0.00	-0.05	0.23	0.01	0.18
Real Estates	2.47	3.10	-0.61	0.00	-0.01	-0.25	-0.05	-0.31
Private Equity	0.24	-	0.24	0.00	0.00	0.01	0.00	0.01
Cash	-0.43	-	-0.43	0.00	0.01	0.52	0.00	0.53

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	17.26	14.73	2.21	0.00	-0.47	0.05	0.53	0.12
Government Bonds	6.91	6.71	0.19	0.00	0.04	0.08	0.00	0.12
Corporates	17.63	16.18	1.25	0.00	-0.51	-0.03	0.53	0.00
Index Linked Gilts	8.32	8.37	-0.04	0.00	-0.07	0.18	0.05	0.17
Real Estates	16.97	19.03	-1.73	0.00	0.13	0.06	-0.16	0.03
Private Equity	0.24	-	0.24	0.00	0.00	0.00	0.00	0.01
Cash	0.49	-	0.49	0.00	-0.15	-0.52	0.00	-0.66

London Borough of Hillingdon

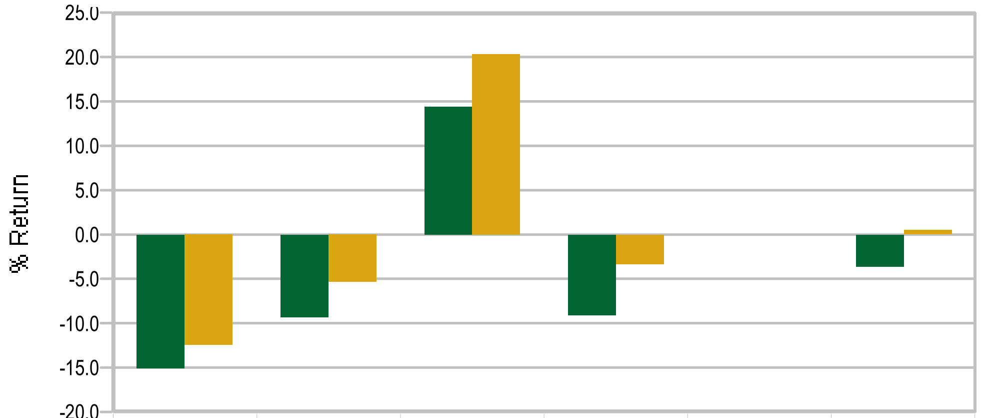
By Asset Category



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	29.24	38.15	36.84	-7.60	36.84	1.31
Europe ex UK	15.46	9.35	11.06	4.40	11.06	-1.71
North America	6.62	11.71	12.90	-6.28	12.90	-1.19
Japan Equity	2.36	2.64	5.53	-3.17	5.53	-2.89
Asia Pacific ex Japan	3.16	5.32	3.68	-0.52	3.68	1.64
Emerging Markets	2.10	4.15	3.68	-1.58	3.68	0.47
Government Bonds	0.55	0.52	1.58	-1.03	1.58	-1.06
Corporates	13.29	12.13	8.94	4.35	8.94	3.19
Index Linked Gilts	9.69	5.24	5.26	4.43	5.26	-0.02
Real Estates	8.86	7.99	10.53	-1.67	10.53	-2.54
Private Equity	0.20	0.01		0.20		0.01
Cash	8.47	2.85		8.47		2.85

Alliance Bernstein

Historical Plan Performance

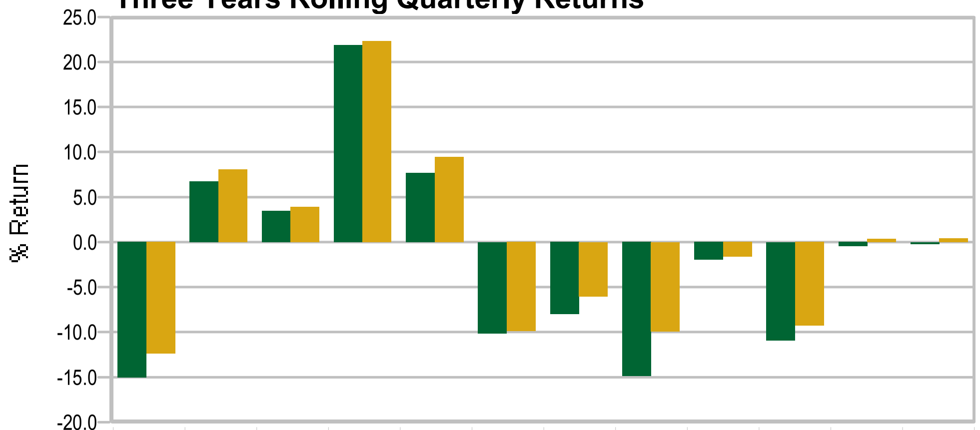


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-15.05	-9.29	14.38	-9.08	-	-3.60
Benchmark	-12.40	-5.33	20.33	-3.31	-	0.52

Risk Statistics - 3 years

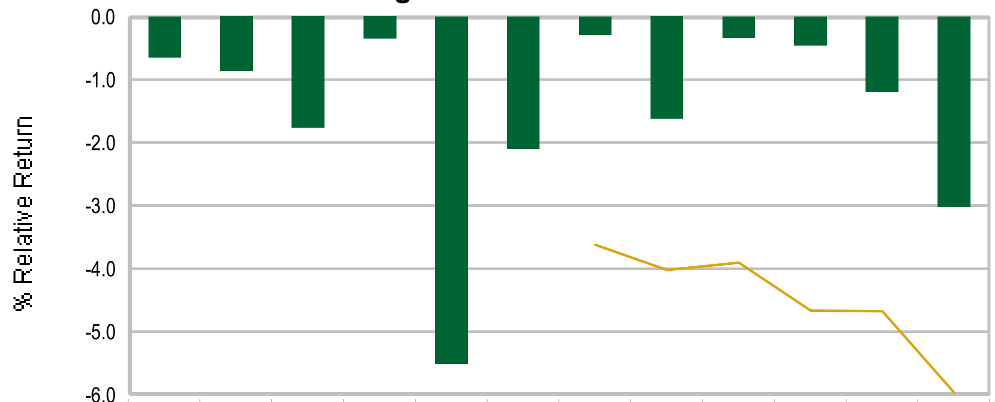
	Fund	B'mark
Performance Return	-9.08	-3.31
Standard Deviation	21.10	20.12
Relative Return	-5.97	
Tracking Error	2.12	
Information Ratio	-2.72	
Beta	1.04	
Alpha	-5.52	
R Squared	0.99	
Sharpe Ratio	-0.63	-0.38
Percentage of Total Fund	10.7	
Inception Date	Mar-2006	
Opening Market Value (£000)	113,731	
Net Investment £(000)	-49,309	
Income Received £(000)	796	
Appreciation £(000)	-13,073	
Closing Market Value (£000)	52,145	

Three Years Rolling Quarterly Returns



	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	-15.05	6.77	3.47	21.87	7.69	-10.14	-8.01	-14.89	-1.97	-10.90	-0.49	-0.22
Benchmark	-12.40	8.07	3.94	22.29	9.46	-9.87	-6.03	-9.92	-1.63	-9.30	0.38	0.43

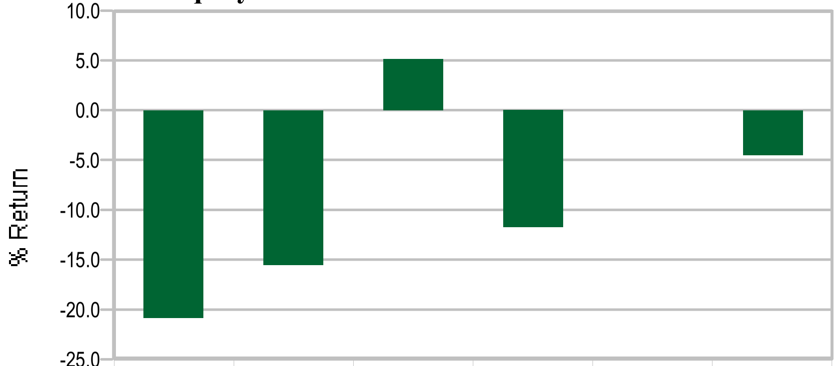
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-0.65	-0.87	-1.77	-0.35	-5.51	-2.11	-0.29	-1.62	-0.34	-0.46	-1.20	-3.02
3Y Relative	-	-	-	-	-	-	-3.62	-4.02	-3.91	-4.66	-4.68	-5.97

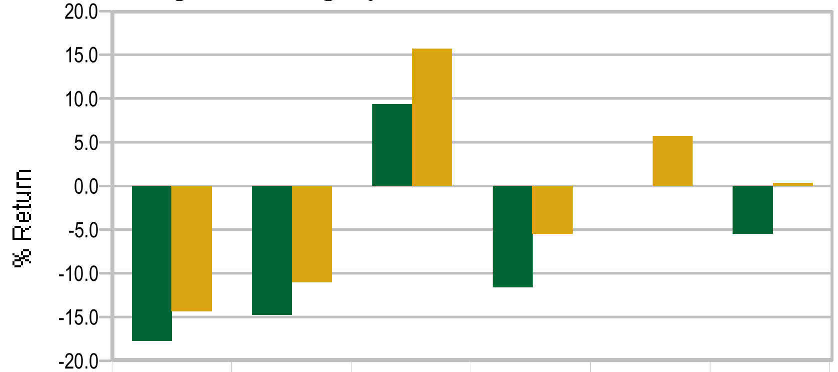
Alliance Bernstein

UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-20.84	-15.52	5.11	-11.73	-	-4.51

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-17.73	-14.78	9.37	-11.59	-	-5.46
B'Mark	-14.32	-10.99	15.71	-5.45	5.70	0.38

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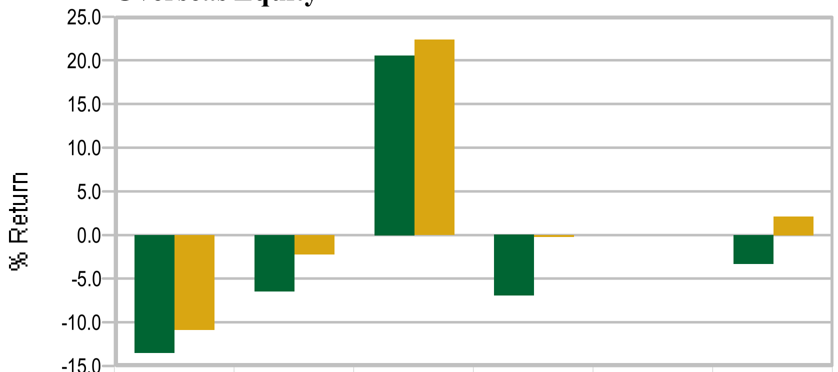
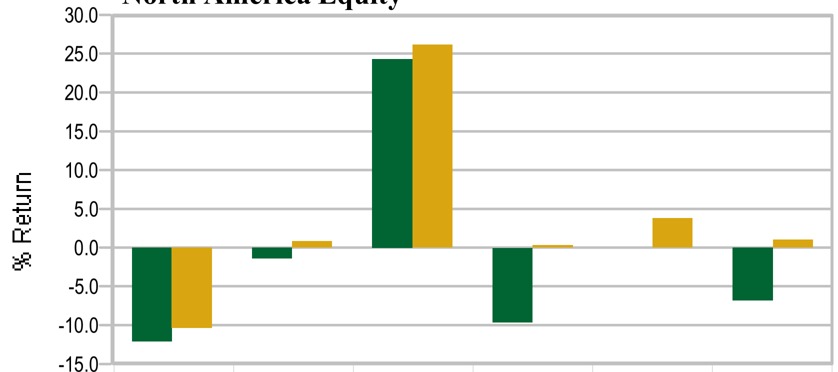
Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-13.50	-6.48	20.58	-6.93	-	-3.31
B'Mark	-10.88	-2.21	22.36	-0.20	-	2.12

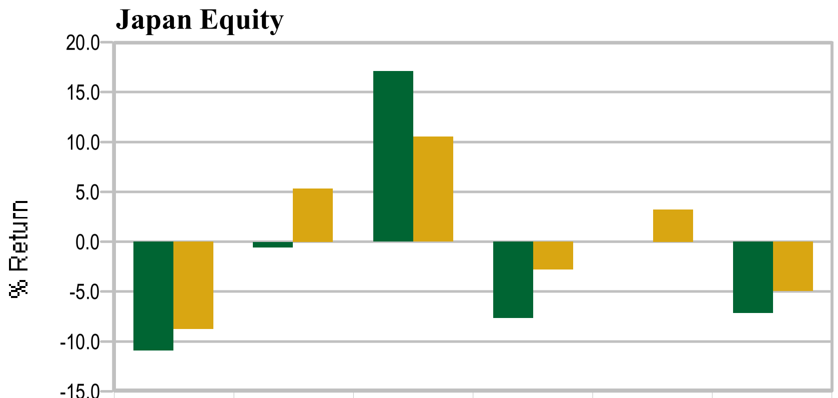
North America Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.06	-1.41	24.30	-9.60		-6.82
B'Mark	-10.33	0.84	26.11	0.28	3.79	0.98

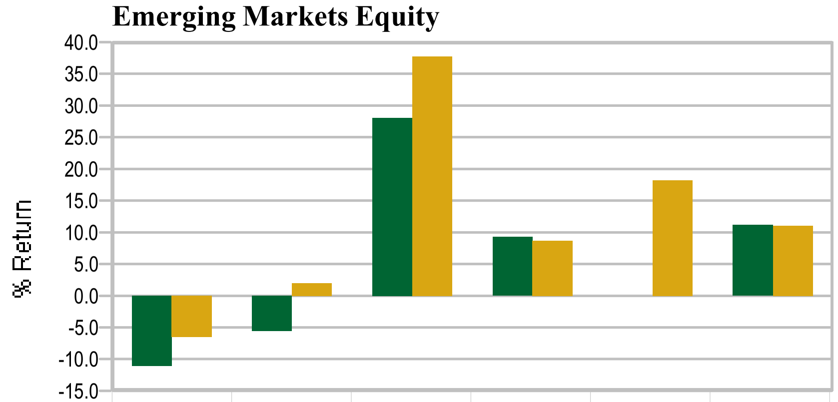
Alliance Bernstein

Japan Equity



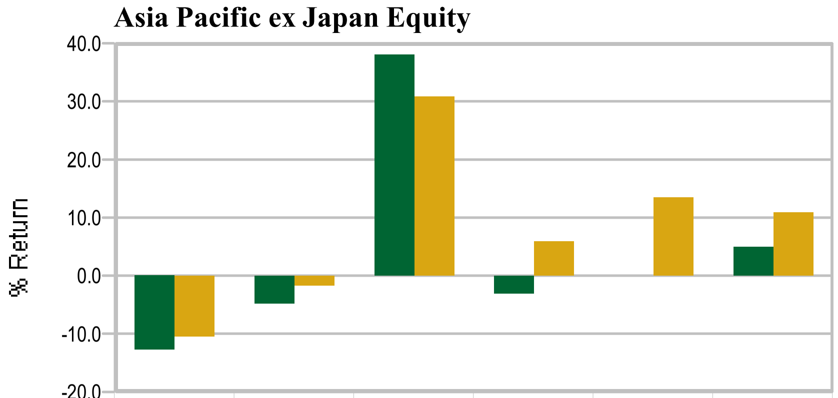
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-10.90	-0.53	17.07	-7.65	-	-7.17
B'Mark	-8.73	5.35	10.52	-2.78	3.25	-4.96

Emerging Markets Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.09	-5.60	28.06	9.23	-	11.19
B'Mark	-6.51	2.00	37.74	8.69	18.28	11.04

Asia Pacific ex Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.71	-4.78	37.99	-3.04	-	4.97
B'Mark	-10.45	-1.65	30.80	5.95	13.47	10.89

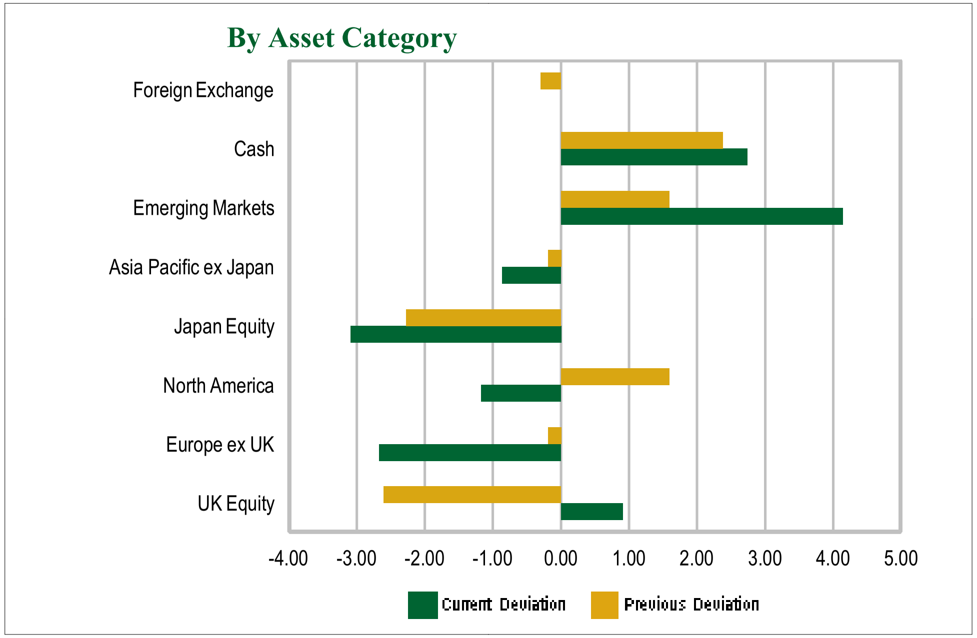
Alliance Bernstein

Relative Contribution - Three Months

Relative Contribution - One Year

Due to the large restructure and benchmark changes in this account Attribution for this quarter is unavaliable.

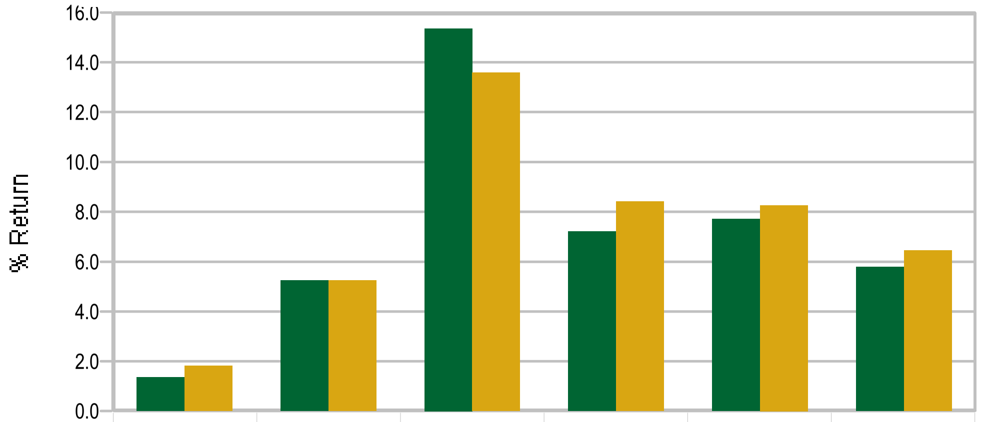
Alliance Bernstein



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	0.91	47.40		0.91	50.00	-2.60
Europe ex UK	27.33	14.81	30.00	-2.67	15.00	-0.19
North America	33.83	19.09	35.00	-1.17	17.50	1.59
Japan Equity	11.91	5.23	15.00	-3.09	7.50	-2.27
Asia Pacific ex Japan	9.14	4.81	10.00	-0.86	5.00	-0.19
Emerging Markets	14.14	6.59	10.00	4.14	5.00	1.59
Cash	2.74	2.38		2.74		2.38
Foreign Exchange	-0.00	-0.30		-0.00		-0.30

Goldman Sachs

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.35	5.25	15.37	7.22	7.70	5.78
Benchmark	1.81	5.24	13.59	8.40	8.27	6.45

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	7.22	8.40
Standard Deviation	7.13	6.52
Relative Return	-1.09	
Tracking Error	2.14	
Information Ratio	-0.55	
Beta	1.06	
Alpha	-1.31	
R Squared	0.92	
Sharpe Ratio	0.42	0.64
Percentage of Total Fund	12.9	
Inception Date	Dec-2001	
Opening Market Value (£000)	62,871	
Net Investment £(000)	-332	
Income Received £(000)	74	
Appreciation £(000)	775	
Closing Market Value (£000)	63,388	

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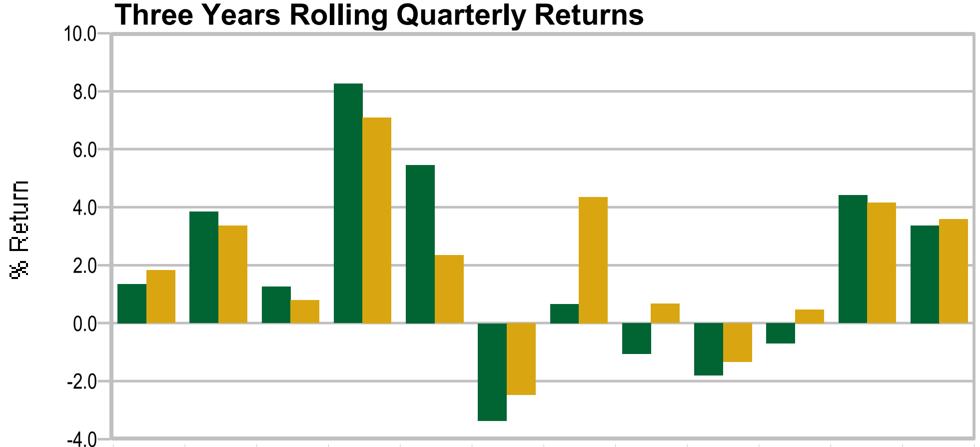
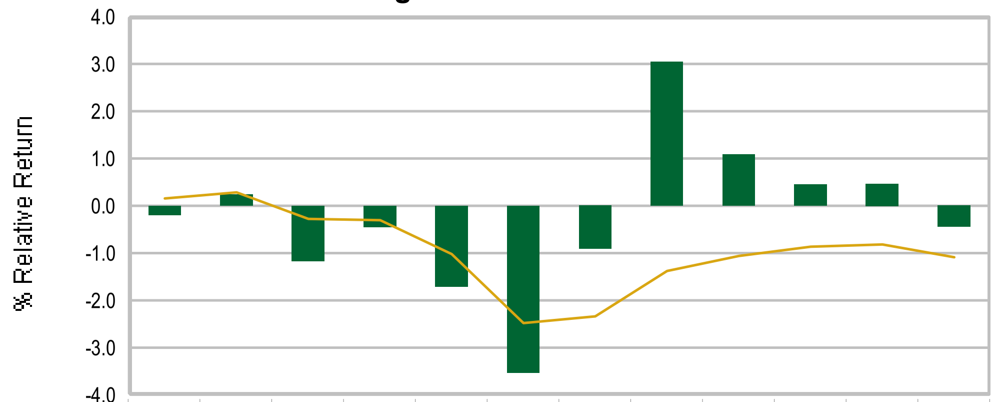
Three Years Rolling Quarterly Returns



	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	1.35	3.84	1.25	8.26	5.46	-3.37	0.67	-1.06	-1.80	-0.70	4.40	3.38
Benchmark	1.81	3.36	0.79	7.09	2.34	-2.48	4.36	0.67	-1.35	0.48	4.15	3.58

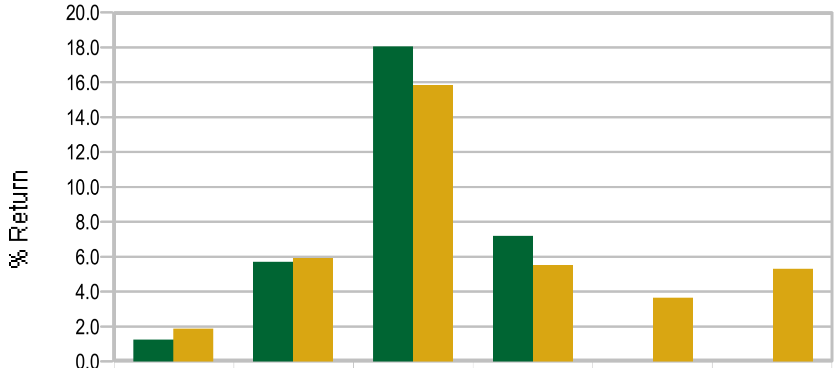
Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-0.20	0.24	-1.17	-0.46	-1.71	-3.54	-0.91	3.05	1.09	0.46	0.46	-0.45
3Y Relative	0.16	0.29	-0.28	-0.31	-1.03	-2.48	-2.34	-1.38	-1.06	-0.87	-0.82	-1.09

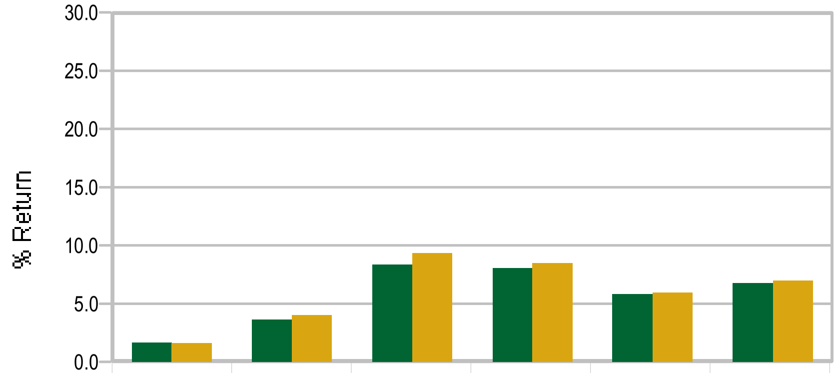
Goldman Sachs

World Fixed Income



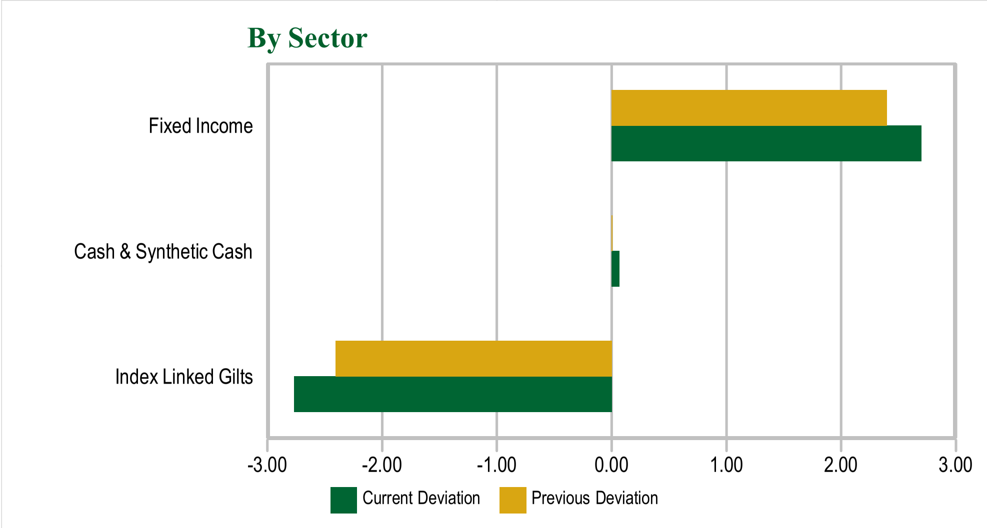
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.25	5.72	18.06	7.21	-	-
B'Mark	1.89	5.91	15.86	5.53	3.64	5.32

Index Linked Gilts



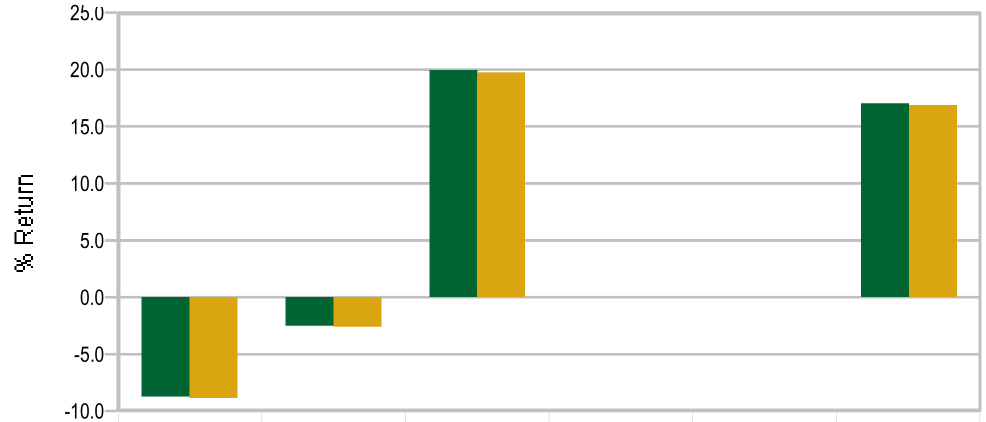
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.62	4.04	9.35	8.50	5.97	6.97
B'Mark	1.64	3.67	8.37	8.07	5.81	6.78

Goldman Sachs



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	72.70	72.40	70.00	2.70	70.00	2.40
Cash & Synthetic Cash	0.07	0.01		0.07		0.01
Index Linked Gilts	27.23	27.59	30.00	-2.77	30.00	-2.41

Historical Plan Performance

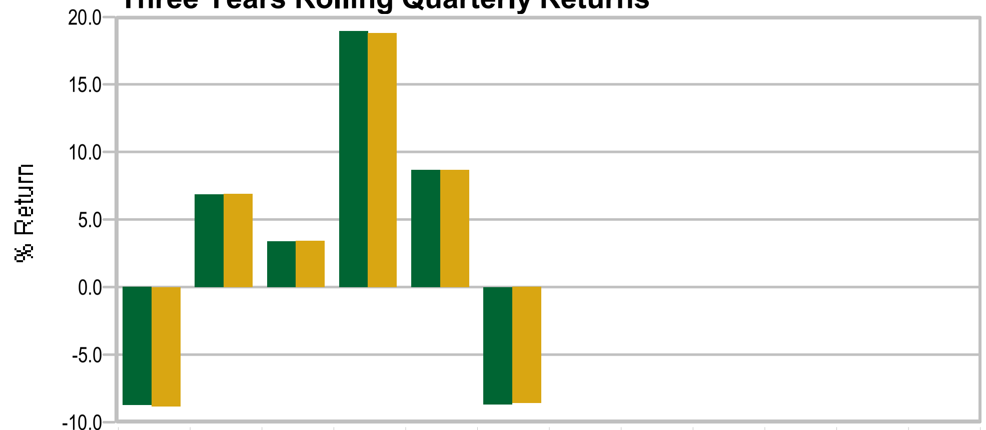


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-8.72	-2.46	19.94	-	-	17.00
Benchmark	-8.82	-2.54	19.71	-	-	16.87

Risk Statistics - 3 years

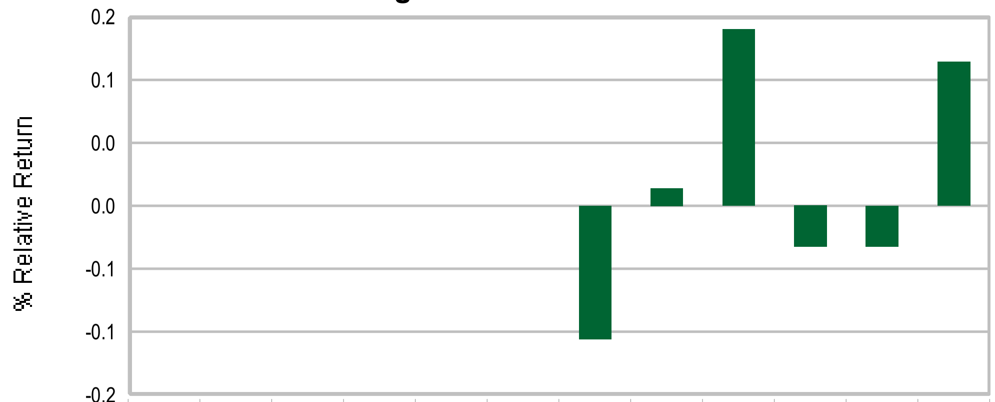
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	19.7	
Inception Date	Nov-2008	
Opening Market Value (£000)	106,415	
Net Investment £(000)	-535	
Income Received £(000)	0	
Appreciation £(000)	-9,267	
Closing Market Value (£000)	96,613	

Three Years Rolling Quarterly Returns



	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	-8.72	6.85	3.38	18.95	8.68	-8.68	-	-	-	-	-	-
Benchmark	-8.82	6.89	3.41	18.78	8.66	-8.59	-	-	-	-	-	-

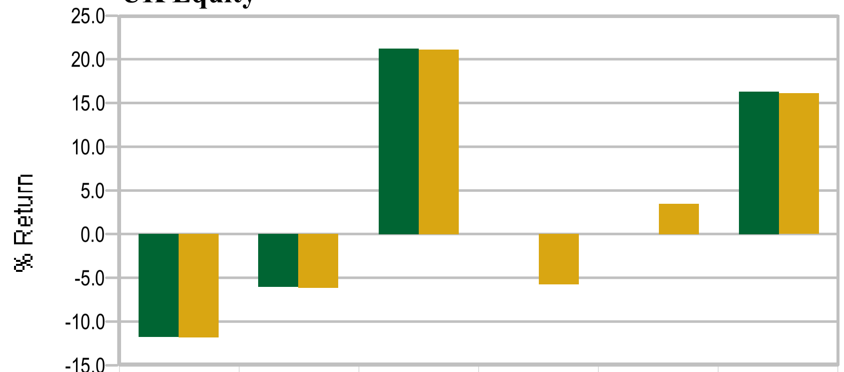
Three Years Rolling Relative Returns



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

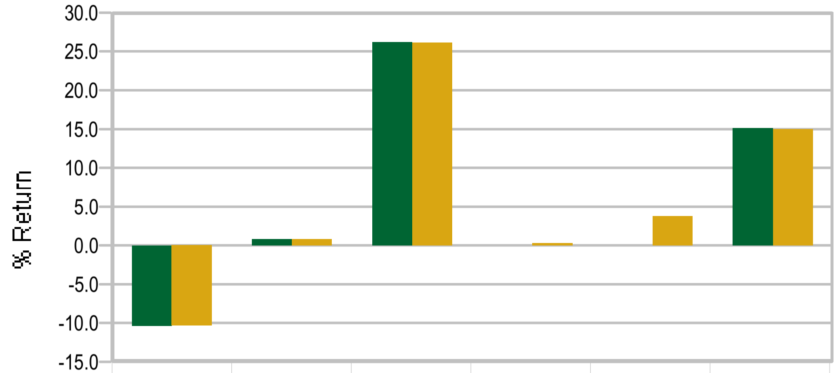
SSGA

UK Equity



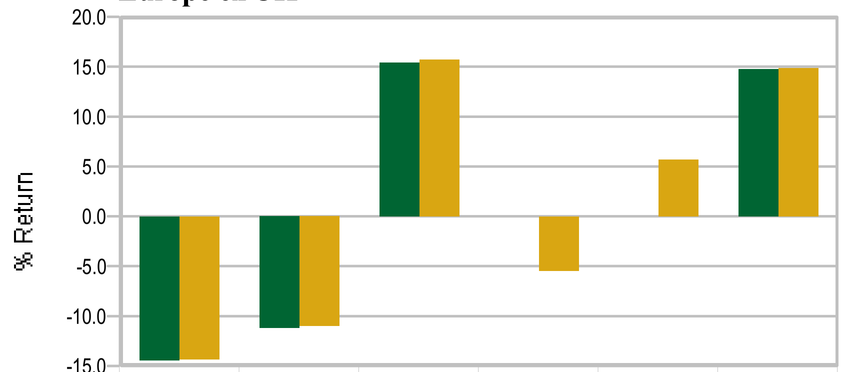
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-11.76	-6.07	21.26	-	-	16.28
B'Mark	-11.80	-6.15	21.14	-5.73	3.48	16.07

North America



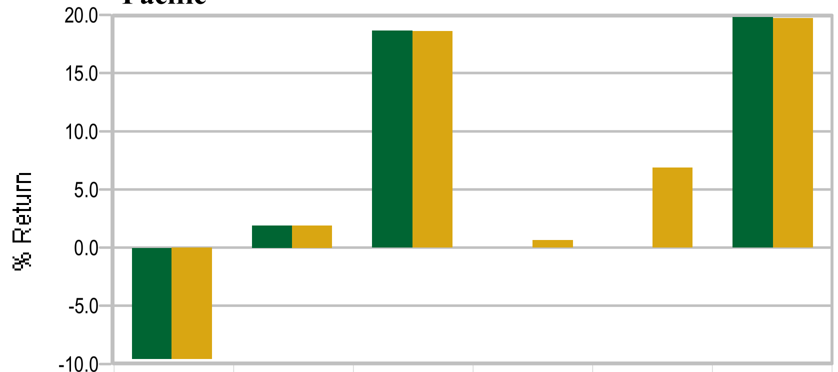
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-10.34	0.83	26.18	-	-	15.16
B'Mark	-10.33	0.84	26.11	0.28	3.79	15.04

Europe ex UK



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.43	-11.20	15.42	-	-	14.78
B'Mark	-14.32	-10.99	15.71	-5.45	5.70	14.88

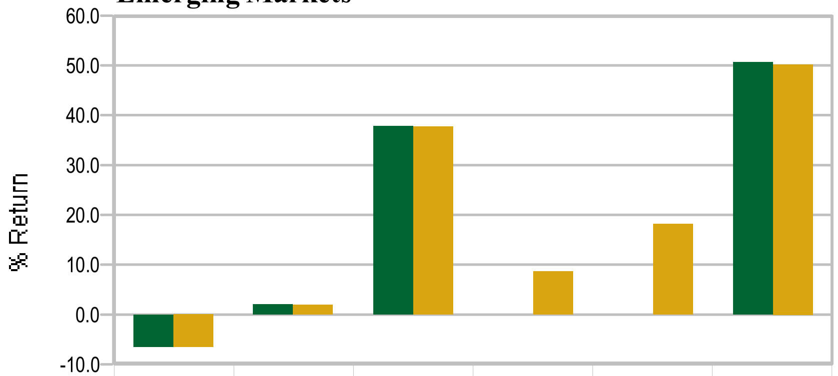
Pacific



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-9.53	1.90	18.62			19.81
B'Mark	-9.55	1.90	18.59	0.63	6.87	19.71

SSGA

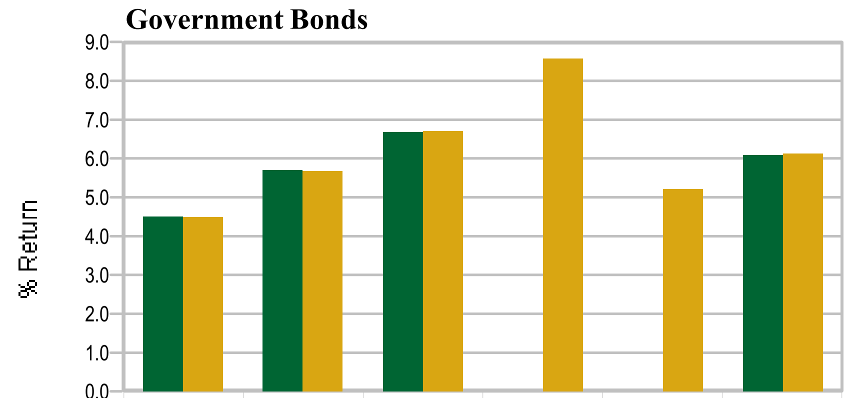
Emerging Markets



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-6.47	2.07	37.86	-	-	50.71
B'Mark	-6.51	2.00	37.74	8.69	18.28	50.21

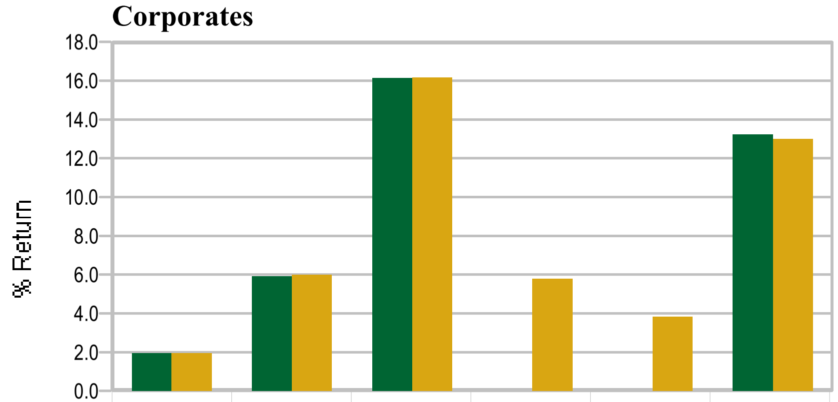
SSGA

Government Bonds



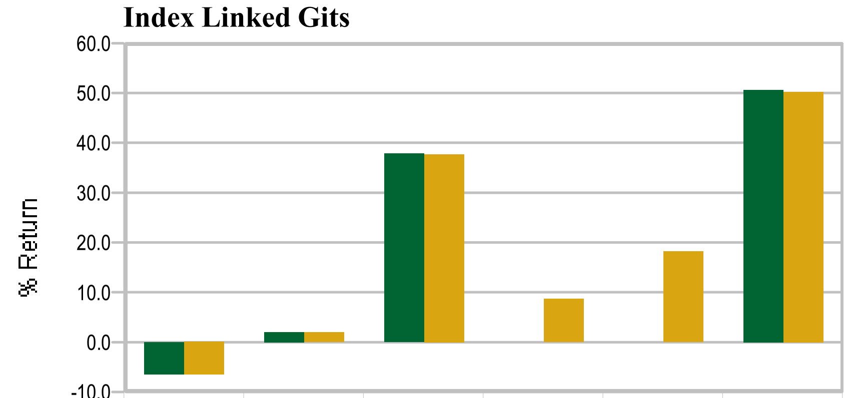
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.51	5.70	6.69	-	-	6.09
B'Mark	4.49	5.68	6.71	8.57	5.21	6.13

Corporates



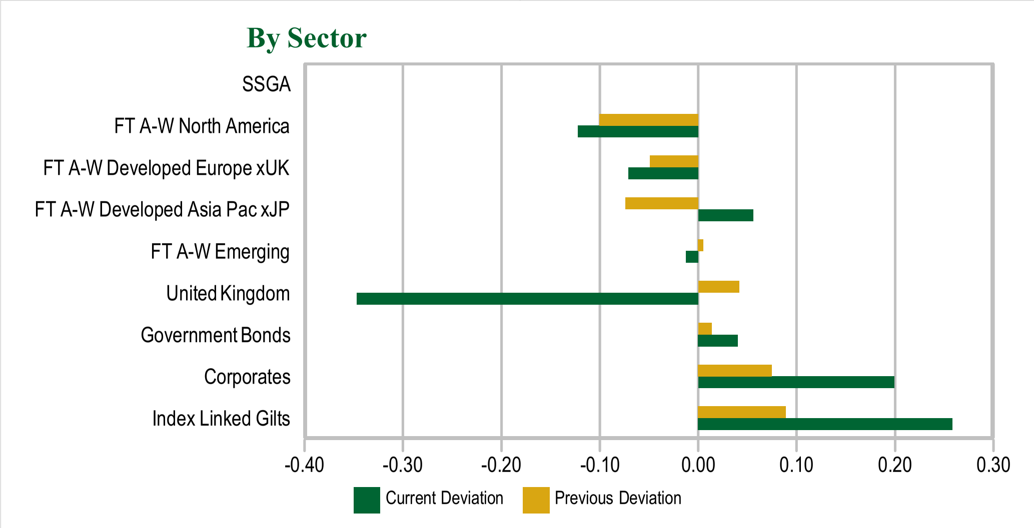
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.96	5.91	16.15	-	-	13.25
B'Mark	1.96	6.00	16.18	5.77	3.84	12.99

Index Linked Gits



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.73	4.00	9.03	-	-	12.70
B'Mark	1.74	3.99	8.99	8.34	6.08	12.69

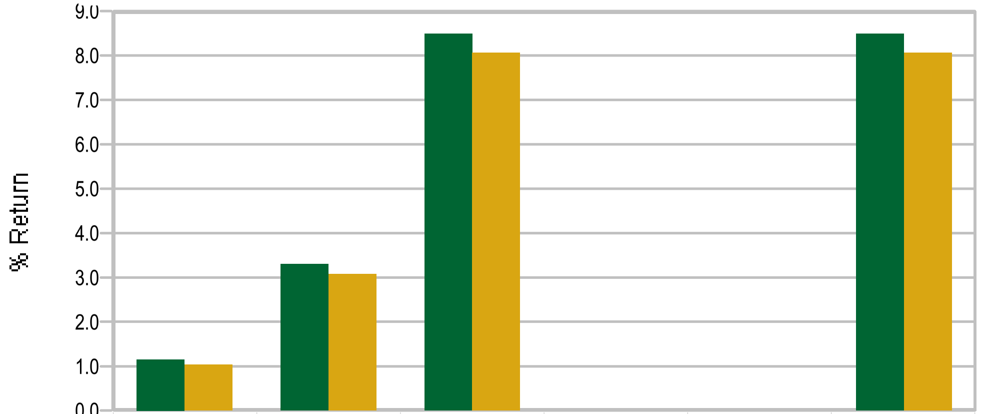
SSGA



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
SSGA	100.00	100.00	100.00		100.00	
Equity	79.50	79.82		79.50		79.82
FT A-W North America	10.88	10.90	11.00	-0.12	11.00	-0.10
FT A-W Developed Europe xUK	10.93	10.95	11.00	-0.07	11.00	-0.05
FT A-W Developed Asia Pac xJP	11.06	10.93	11.00	0.06	11.00	-0.07
FT A-W Emerging	2.99	3.01	3.00	-0.01	3.00	0.01
United Kingdom	43.65	44.04	44.00	-0.35	44.00	0.04
Fixed Income	10.24	10.09		10.24		10.09
Government Bonds	1.54	1.51	1.50	0.04	1.50	0.01
Corporates	8.70	8.57	8.50	0.20	8.50	0.07
Index Linked Gilts	10.26	10.09	10.00	0.26	10.00	0.09

SSGA Drawdown

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.16	3.30	8.48	-	-	8.48
Benchmark	1.03	3.07	8.06	-	-	8.06

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	4.2	
Inception Date	Jun-2009	
Opening Market Value (£000)	21,393	
Net Investment £(000)	-1,029	
Income Received £(000)	0	
Appreciation £(000)	241	
Closing Market Value (£000)	20,605	

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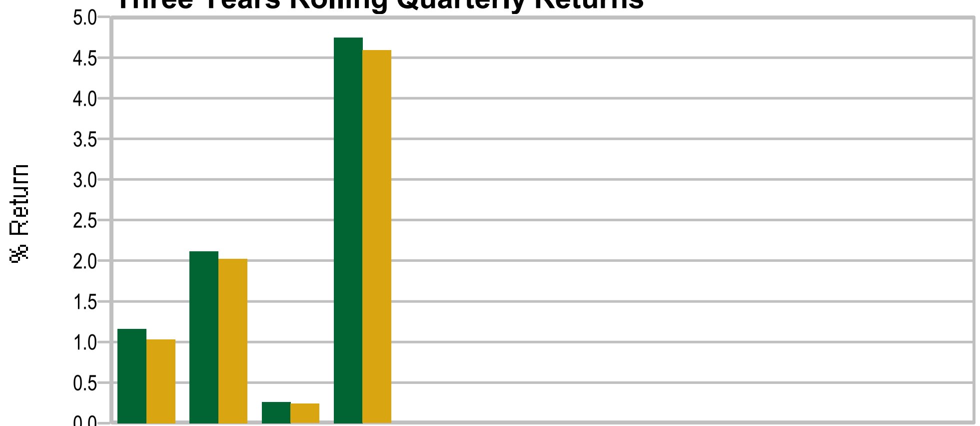
Three Years Rolling Quarterly Returns



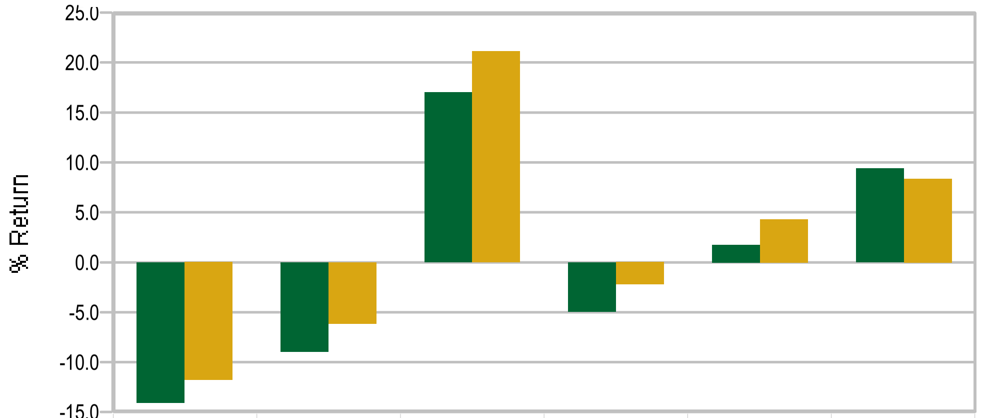
	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	1.16	2.12	0.26	4.75	-	-	-	-	-	-	-	-
Benchmark	1.03	2.02	0.24	4.59	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-	-	-	-	-	-	-	-	0.15	0.02	0.09	0.13
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

UBS

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.05	-8.97	17.01	-4.96	1.75	9.40
Benchmark	-11.80	-6.15	21.14	-2.20	4.32	8.40

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-4.96	-2.20
Standard Deviation	19.85	17.88
Relative Return	-2.82	
Tracking Error	4.43	
Information Ratio	-0.62	
Beta	1.08	
Alpha	-2.07	
R Squared	0.96	
Sharpe Ratio	-0.46	-0.36
Percentage of Total Fund	18.5	
Inception Date	Dec-1988	
Opening Market Value (£000)	105,710	
Net Investment £(000)	-506	
Income Received £(000)	1,156	
Appreciation £(000)	-15,979	
Closing Market Value (£000)	90,380	

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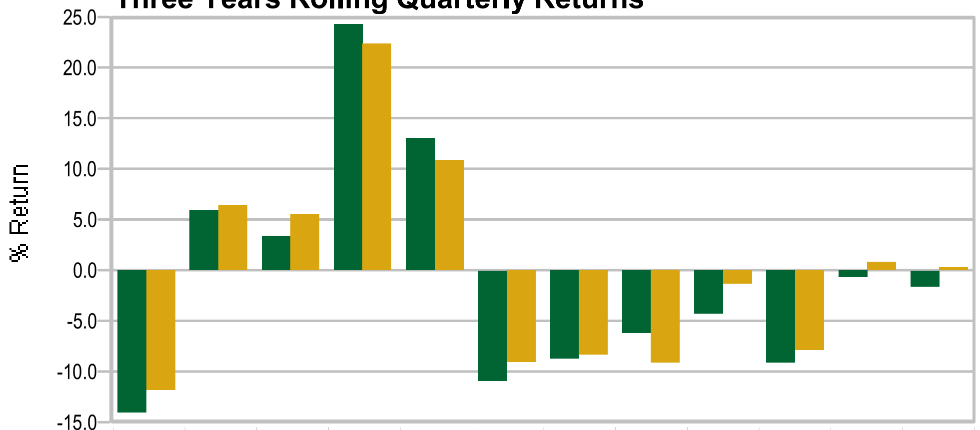
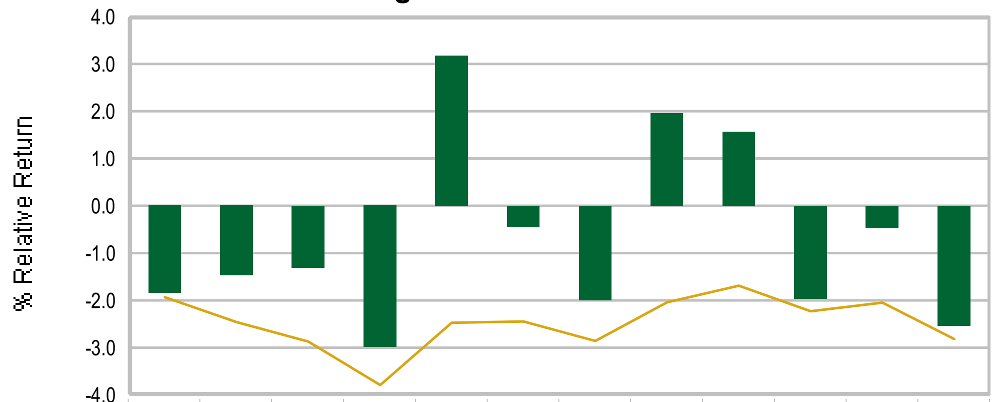
Three Years Rolling Quarterly Returns



	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	-14.05	5.91	3.41	24.30	13.04	-10.90	-8.71	-6.22	-4.28	-9.08	-0.66	-1.59
Benchmark	-11.80	6.42	5.47	22.38	10.88	-9.08	-8.30	-9.11	-1.33	-7.88	0.83	0.26

Three Years Rolling Relative Returns

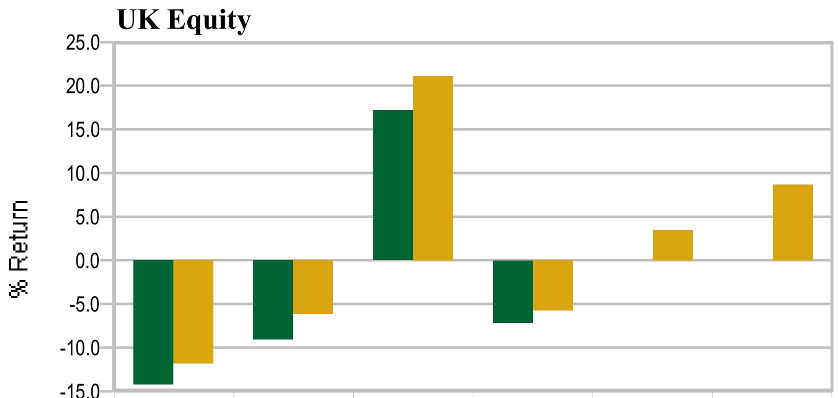


	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-1.85	-1.48	-1.31	-2.99	3.18	-0.45	-1.99	1.95	1.57	-1.96	-0.48	-2.54
3Y Relative	-1.94	-2.46	-2.88	-3.79	-2.48	-2.45	-2.86	-2.04	-1.69	-2.24	-2.05	-2.82

Northern Trust

Prepared by Investment Risk & Analytical Services

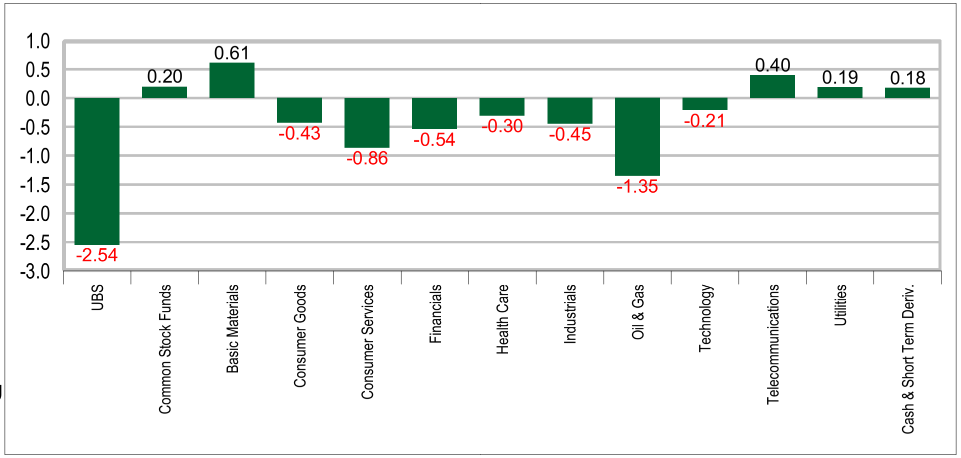
UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-14.21	-9.09	17.20	-7.14	-	-
B'Mark	-11.80	-6.15	21.14	-5.73	3.48	8.71

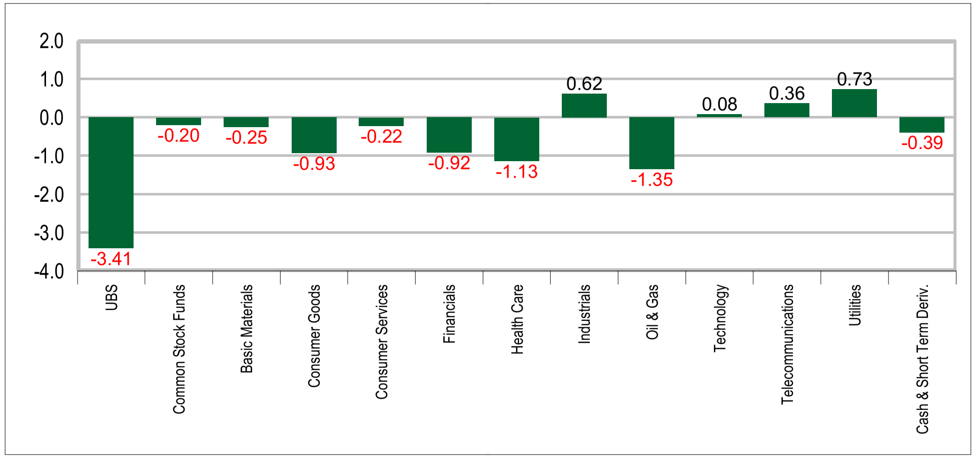
UBS

Relative Contribution - Three Months



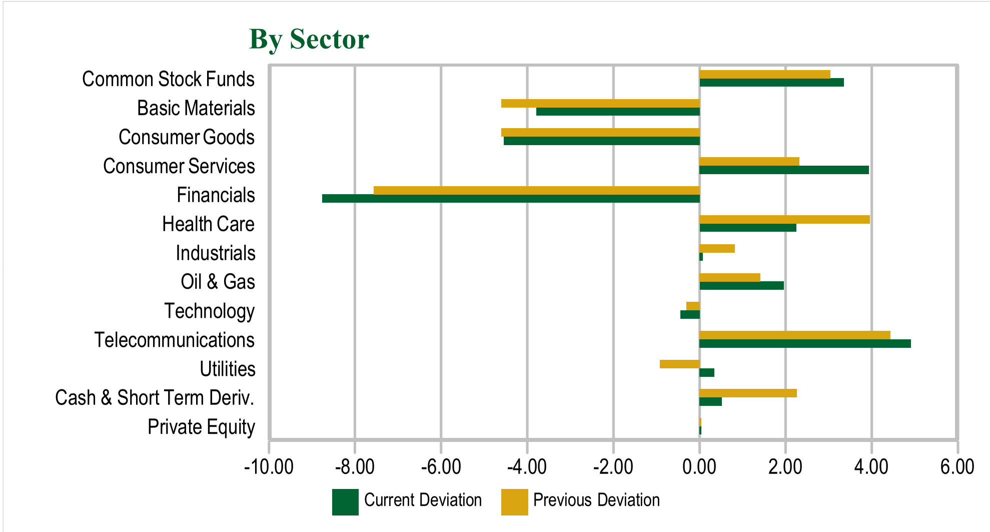
	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
UBS	-14.05	-11.80	-2.54	0.00	-0.00	0.86	-3.40	-2.54
Common Stock Funds	-6.00	-	-6.00	0.00	0.00	0.20	0.00	0.20
Basic Materials	-19.48	-20.96	1.86	0.00	0.00	0.47	0.14	0.61
Consumer Goods	-8.29	-6.43	-1.99	0.00	0.00	-0.26	-0.16	-0.43
Consumer Services	-15.09	-8.41	-7.30	0.00	0.00	0.10	-0.96	-0.86
Financials	-12.57	-10.15	-2.70	0.00	0.00	-0.16	-0.38	-0.54
Health Care	-7.52	-2.29	-5.36	0.00	0.00	0.31	-0.61	-0.30
Industrials	-10.15	-4.36	-6.05	0.00	0.00	0.06	-0.50	-0.45
Oil & Gas	-28.81	-24.82	-5.30	0.00	0.00	-0.42	-0.93	-1.35
Technology	-17.55	-4.33	-13.81	0.00	0.00	-0.03	-0.18	-0.21
Telecommunications	-3.31	-3.35	0.04	0.00	0.00	0.40	-0.00	0.40
Utilities	4.07	-1.49	5.65	0.00	0.00	0.00	0.18	0.19
Cash & Short Term Deriv.	-0.16	-	-0.16	0.00	-0.00	0.18	0.00	0.18

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Hedging Effect	Passive Currency	Asset Allocation	Stock Selection Effect	Relative contribution
UBS	17.01	21.14	-3.41	0.00	-0.00	-1.60	-2.08	-3.41
Common Stock Funds	14.65	-	14.65	0.00	0.00	-0.20	0.00	-0.20
Basic Materials	46.61	39.31	5.25	0.00	0.00	-0.58	0.33	-0.25
Consumer Goods	22.48	31.84	-7.10	0.00	0.00	-0.39	-0.54	-0.93
Consumer Services	21.80	23.99	-1.76	0.00	0.00	0.07	-0.29	-0.22
Financials	13.38	20.81	-6.15	0.00	0.00	0.02	-0.93	-0.92
Health Care	10.97	20.41	-7.84	0.00	0.00	-0.20	-0.93	-1.13
Industrials	45.33	35.03	7.63	0.00	0.00	0.05	0.56	0.62
Oil & Gas	-7.49	-2.29	-5.32	0.00	0.00	-0.41	-0.94	-1.35
Technology	40.09	39.34	0.53	0.00	0.00	-0.05	0.13	0.08
Telecommunications	28.61	26.57	1.61	0.00	0.00	0.20	0.15	0.36
Utilities	40.15	16.82	19.98	0.00	0.00	0.29	0.44	0.73
Cash & Short Term Deriv.	2.88	-	2.88	0.00	-0.00	-0.39	0.00	-0.39

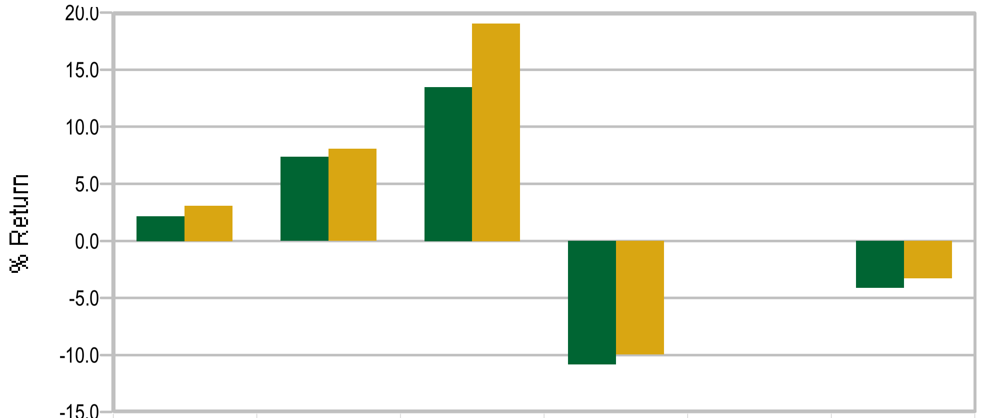
UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Common Stock Funds	3.35	3.05		3.35		3.05
Basic Materials	7.73	8.07	11.53	-3.80	12.67	-4.60
Consumer Goods	7.46	6.67	12.01	-4.55	11.29	-4.61
Consumer Services	14.09	12.19	10.15	3.94	9.88	2.32
Financials	14.62	15.36	23.38	-8.76	22.93	-7.57
Health Care	10.39	11.40	8.15	2.24	7.45	3.96
Industrials	7.75	7.96	7.66	0.08	7.14	0.82
Oil & Gas	17.37	19.41	15.41	1.96	17.99	1.42
Technology	1.27	1.25	1.72	-0.45	1.56	-0.31
Telecommunications	11.03	10.19	6.11	4.91	5.76	4.43
Utilities	4.21	2.40	3.86	0.34	3.33	-0.92
Cash & Short Term Deriv.	0.51	2.26		0.51		2.26
Private Equity	0.05	0.04		0.05		0.04

UBS Property

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.20	7.34	13.47	-10.80	-	-4.11
Benchmark	3.10	8.05	19.03	-9.94	-	-3.27

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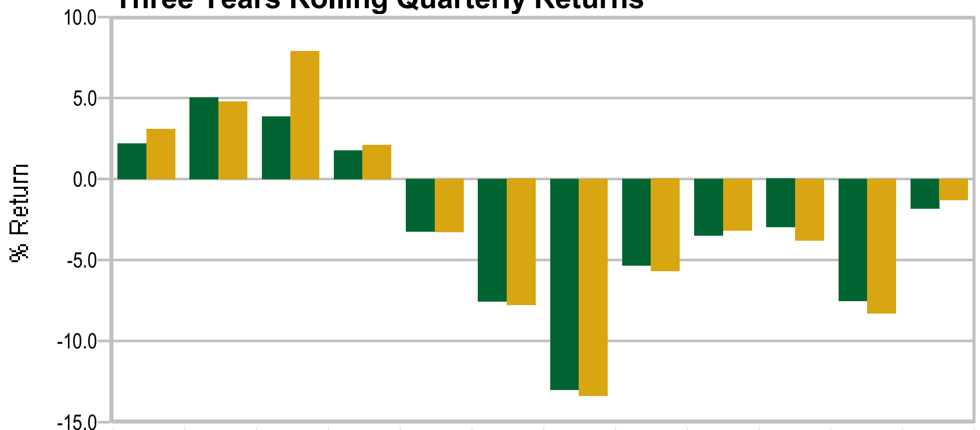
Three Years Rolling Quarterly Returns

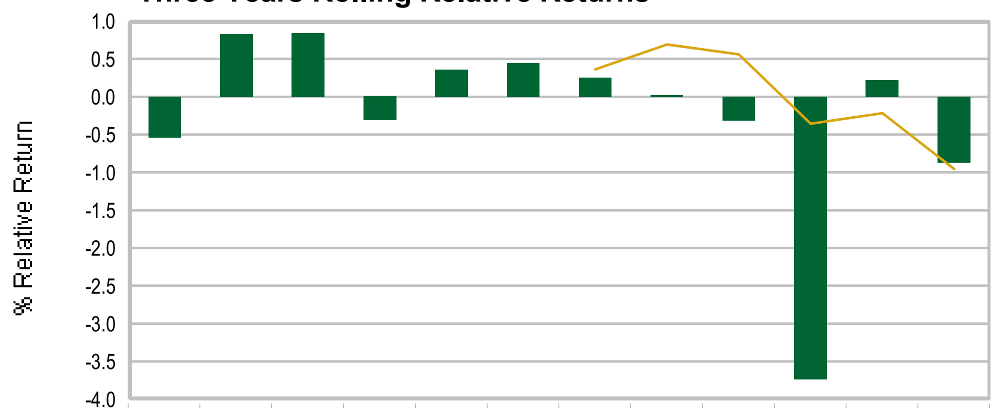


	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
Fund	2.20	5.03	3.86	1.77	-3.28	-7.57	-13.01	-5.36	-3.50	-2.99	-7.54	-1.83
Benchmark	3.10	4.80	7.90	2.10	-3.30	-7.80	-13.40	-5.70	-3.20	-3.80	-8.30	-1.30

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-10.80	-9.94
Standard Deviation	6.51	6.90
Relative Return	-0.96	
Tracking Error	2.86	
Information Ratio	-0.30	
Beta	0.88	
Alpha	-2.74	
R Squared	0.86	
Sharpe Ratio	-2.31	-2.06
Percentage of Total Fund	9.0	
Inception Date	Mar-2006	
Opening Market Value (£000)	43,331	
Net Investment £(000)	-230	
Income Received £(000)	464	
Appreciation £(000)	489	
Closing Market Value (£000)	44,054	

Three Years Rolling Relative Returns



	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10
3M Relative	-0.54	0.83	0.85	-0.31	0.36	0.45	0.25	0.03	-0.32	-3.74	0.23	-0.87
3Y Relative	-	-	-	-	-	-	0.36	0.69	0.56	-0.35	-0.22	-0.96

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 FT AW Emerging
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

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

Alliance Bernstein

30.0 FT AW Developed Europe ex UK
35.0 FT AWI North America
15.0 FT AW Japan
10.0 FT AW Developed Asia Pacific ex Japan
10.0 FT AW Emerging

Goldman Sachs

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

UBS

100.0 FTSE All Share

UBS Property

100.0 HSBC All Balanced Funds

Previous Benchmark

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

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

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.

WM LOCAL AUTHORITY

QUARTER 2 2010

The following summary is based on 46 funds with a total Market Value of £66,273m.

Update 1 - 03/08/2010

CATEGORY	ASSET MIX (%) Latest Quarter		RETURNS (%) Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	66.8	64.0	-11.0	-10.7	-3.8	-1.9	22.5	23.8
GLOBAL POOLED INC UK	2.4	2.4	-11.5	-10.7	-	-1.9	-	23.8
UK EQUITIES	28.8	27.4	-12.1	-11.8	-6.3	-6.1	20.4	21.1
OVERSEAS EQUITIES	35.5	34.2	-10.1	-10.5	-1.7	-1.3	24.3	24.1
North America	11.4	10.9	-10.2	-10.3	0.5	0.8	26.0	26.1
Europe	9.4	8.9	-13.4	-14.4	-9.5	-11.0	17.7	15.9
Japan	4.0	3.9	-8.8	-8.7	5.8	5.4	12.9	10.5
Pacific (ex Japan)	4.1	4.0	-8.4	-10.0	-0.3	-2.2	31.4	32.5
Emerging Markets	5.6	5.5	-6.2	-6.5	1.8	2.0	35.2	37.7
Global ex UK	1.0	0.9	-11.4	-10.5	-2.2	-1.3	23.7	24.1
TOTAL BONDS	17.8	18.9	1.9	-	5.4	-	13.8	-
U.K. BONDS	10.8	11.7	2.5	4.5	5.9	5.7	14.5	6.7
OVERSEAS BONDS	1.9	1.6	-0.1	2.8	5.5	8.5	17.1	15.4
INDEX LINKED	4.6	5.0	1.3	1.7	3.7	4.0	9.4	9.0
POOLED BONDS	0.4	0.4	2.0	0.3	6.8	-	19.9	-
TOTAL CASH	3.7	4.0	0.3	0.1	0.3	0.2	1.3	0.4
ALTERNATIVES	5.6	6.1	-0.6	-	3.8	-	8.2	-
Total Private Equity	3.0	3.4	0.2	-	7.1	-	10.0	-
Total Hedge Funds	1.7	1.9	-0.4	-	2.8	-	9.1	-
Other Alternatives	0.8	0.9	-4.0	-	-2.9	-	2.0	-
TOTAL EX-PROPERTY	93.9	93.1	-7.5	-7.7	-1.5	-1.9	18.5	18.7
TOTAL PROPERTY	6.1	6.9	3.4	3.6	8.1	9.6	18.6	23.9
TOTAL ASSETS	100.0	100.0	-6.8	-6.9	-0.9	-1.1	18.6	19.0

WM PERFORMANCE SERVICES
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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 JUNE 2010

LBH PRIVATE EQUITY FUNDS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
LGT CAPITAL PARTNERS	£	%	£	%	£	%		%	%
	000		000		000		000		Jun-10
Crown private Equity European Buyout Opport.	11,062	2.13	7,721	1.49	3,798	0.73	3,923	0.76	6.76
Crown Global Secondaries Plc (US$)	1,991	0.38	1,633	0.31	785	0.15	848	0.16	1.33
Crown Private Equity European Fund	4,049	0.78	2,442	0.47	113	0.02	2,329	0.45	-4.56
Crown Private Equity European Buyout Opport. II	8,098	1.56	2,389	0.46	0	0.00	2,389	0.46	-8.94
Crown Asia-Pacific Private Equity Plc (US$)	1,991	0.38	1,011	0.19	115	0.02	896	0.17	8.95
Crown European Middle Market II plc	3,239	0.62	615	0.12	0	0.00	615	0.12	11.01
Crown Global Secondaries II Plc (US$)	1,460	0.28	182	0.04	0	0.00	182	0.04	N/A
TOTAL(S) LGT CAPITAL PARTNERS	**31,890**	**6.14**	**15,993**	**3.08**	**4,811**	**0.93**	**11,182**	**2.15**	
ADAMS STREET PARTNERS	**£**		**£**						**Mar-10**
Adam Street Partnership Fund - 2005 US Fund	9,290	1.79	6,596	1.27	467	0.09	6,129	1.18	0.38
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,981	0.77	3,068	0.59	389	0.07	2,679	0.52	3.30
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,986	0.58	1,860	0.36	156	0.03	1,704	0.33	-0.05
Adam Street Partnership 2006 Direct Fund	995	0.19	863	0.17	15	0.00	848	0.16	-6.80
Adam Street Partnership Fund - 2006 US Fund, L.P	5,972	1.15	3,571	0.69	156	0.03	3,415	0.66	-2.37
Adams Street Direct Co-Investment Fund, L.P.	1,900	0.37	1,772	0.34	0	0.00	1,772	0.34	N/A
Adams Street Partnership 2007 Direct Fund LP	332	0.06	288	0.06	5	0.00	283	0.05	1.14
Adams Street Partnership - 2007 Non -US Fund	1,161	0.22	436	0.08	0	0.00	436	0.08	-0.44
Adams Street Partnership - 2007 US Fund	1,825	0.35	773	0.15	32	0.01	741	0.14	5.12
Adams Street Partnership - 2009 US Fund	995	0.19	97	0.02	0	0.00	97	0.02	59.51
Adams Street Partnership - 2009 Direct Fund	199	0.04	55	0.01	0	0.00	55	0.01	21.35
Adams Street Direct Co-Investment Fund II.	1,659	0.32	241	0.05	0	0.00	241	0.05	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	199	0.04	12	0.00	0	0.00	12	0.00	22.42
Adams Street Partnership 2009 Non-US Developed Market	597	0.12	15	0.00	0	0.00	15	0.00	18.83
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**32,091**	**6.18**	**19,647**	**3.79**	**1,220**	**0.24**	**18,427**	**3.55**	

FUND VALUE	**519,057**	
COMMITMENT STRATEGY	45,417	8.75%
TO ACHIVE INVESTMENT	25,953	5.00%
CURRENT INVESTMENT BOOK COST	29,609	5.70%
CURRENT INVESTMENT MARKET VALUE	29,402	5.66%

Fund Value as per NT Report (Excluding PE)	489.6
PE Investment (Market Value)	29.4
Total Fund Value	519.0

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London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2010

Industry Update

In recent periods our quarterly letters have discussed the performance recovery across multiple private equity sub-classes. Improved valuations and several successful IPOs and M&A events have benefited the returns of many portfolio companies and funds that we invest in on our clients' behalf. This improved performance continued in the first quarter of 2010. A substantial portion of these positive returns can be attributed to the worldwide economic recovery since the first half of 2009, and its impact on the prices of equities – public and private. Broadly speaking we can see, with a reporting lag, the reflection of public market movements within our portfolio due in part to fair value accounting procedures, which in many cases involve the use of public market comparables. The number of portfolio company sales or IPOs has been low from a historical context, so recent private equity returns have been primarily driven by changes in unrealized valuations and heavily influenced by the performance of public equity market comparables. Beginning in the 2nd quarter of 2010, we have seen a resurgence in global markets volatility primarily triggered by the European debt crisis which has served to remind investors that the health of the economy remains fragile despite its improvements.

Portfolio Statistics as of March 31, 2010

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Private Equity Market	Public Market
Total Hillingdon Portfolio	**02/2005**	**95%**	**59%**	**62%**	**0.92x**	**-0.79%**	**-3.23%**	**-2.30%**
2005 Subscription	02/2005	100%	71%	71%	0.96x	1.30%	-3.23%	-1.47%
2006 Subscription	01/2006	100%	61%	61%	0.87x	-2.51%	-6.37%	-2.76%
2007 Subscription	01/2007	88%	43%	49%	0.96x	2.82%	-3.17%	-1.47%
2009 Subscription	01/2009	26%	8%	32%	1.02x	43.26%	Too early	Too Early
Direct Co-Investment Fund	09/2006	100%	89%	89%	0.80x	-10.09%	-8.10%	-7.06%
Co-Investment Fund II	01/2009	100%	15%	17%	0.98x	15.68%	Too early	Too Early

*Gross of client's management fees paid to Adams Street Partners, LLC. Internal rates of return are not calculated for fund less than one year old; instead the return is the change in value over amount invested.

Note: The Private Equity Market represents the performance of the vintage years, based on data from Venture Economics, that are comparable to those of the ASP vehicle. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI EAFE Index.

Main Drivers of Performance

The 2009 subscription's strong early performance is due to secondary partnerships which we purchased at discounts. For many, the primary reason to add private equity to a diversified portfolio remains the potential for additional return relative to traditional asset classes. Historically, the illiquidity premium required by private equity investors relative to public equity has been 300 to 500 basis points per annum. In recognition of this, we regularly include as a component of our portfolio reviews the performance of each ASP subscription year's investments relative to that of a public market equivalent (PME). The PME is normally either the S&P 500 or MSCI World Equity Indices, but calculated on a cash flow weighted basis. In other words, if one invests $1 into our program, we take the same $1 and create a paper portfolio by investing $1 at the then current price of the corresponding index. If we distribute $1 from the ASP program, then we reflect that in the PME calculation by selling $1 worth of units of the corresponding index at the new current price. This methodology provides a dollar weighted comparison of investing in our partnership program versus investing in a passive public market index. Through December 2009, Adams Street Partners' more mature annual subscriptions from 1996 to 2004 have outperformed their respective PME by 300 to 1100 basis points per annum since inception. While private equity has struggled from an absolute return standpoint in the past decade, our actively managed portfolios have successfully added levels of value relative to the public markets that are consistent with or surpass the risk premiums normally expected of the asset class.

Portfolio Outlook

Private equity performance in general over the last decade has clearly been disappointing. Adams Street's performance during this same period has been somewhat mixed. Our ten year annualized performance for all discretionary partnership investments through December 31, 2009 was 7.7%. This well below our long-term absolute return expectation of 15%, but compared to most public indices this represents out-performance of 700-800 basis points per year. Looking out over the next ten year period, we are optimistic that the ingredients are in place to provide attractive performance on both an absolute and relative basis. In terms of absolute performance, we believe the combination of less capital in the industry and an improving exit environment provides the back drop for better investment performance. Further, we believe the private equity business model, which revolves around backing talented people, finding less efficient markets and strong corporate governance, will continue to outperform public markets by a healthy margin.

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End Q2 2010 portfolio overview

- The portfolio has performed well in the quarter having a TV/PI of 1.08x compared with 1.06x last quarter
- Since the last report, net invested capital has increased by Euro 0.8 million as managers have found attractive investment opportunities
- The portfolio has generated distributions of some Euro 0.2 million since March
- NAV has risen by Euro 1.3 million, the Euro 0.5 million net increase in performance reflecting a general rise in equity valuations across the board
- The USD strengthened by 9.3% against the Euro in the period and this contributed to the positive performance (it has since retraced some 7% to circa 1.31)
- Managers are generally optimistic about the environment but are investing selectively
- A number of positive portfolio events have been announced by underlying managers which, all things being equal, are expected to support further valuation increases and distributions in the second half of the year

Q2 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	16.3	-4.8	11.4	12.7	1.3	0.30	1.08	50%	35%
Euro equivalent Dollar Exposure @ 1.2257 USD / Euro		6.7	3.5	-1.1	2.4	2.8	0.4	0.32	1.12	52%	35%
Total Exposure (in Euro millions)		39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q1 figures as of 30th June 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: Q2, 2010

Market Summary

The second quarter of 2010 was characterised by weak returns from real assets (Figure 1). The primary catalyst was a severe deepening of the economic and fiscal crisis in Europe. This brought the return of systemic risk and this is never good for investments that depend on a normal, functioning economy and financial system. No surprise then that government backed securities and the $ - the classic defensive currency – saw strong gains. Property prices tend to exhibit a lag on events and the rise in Q2 should be seen in that context. Most impressively, corporate credit delivered positive returns as investors continue to crave secure yield bearing investments.

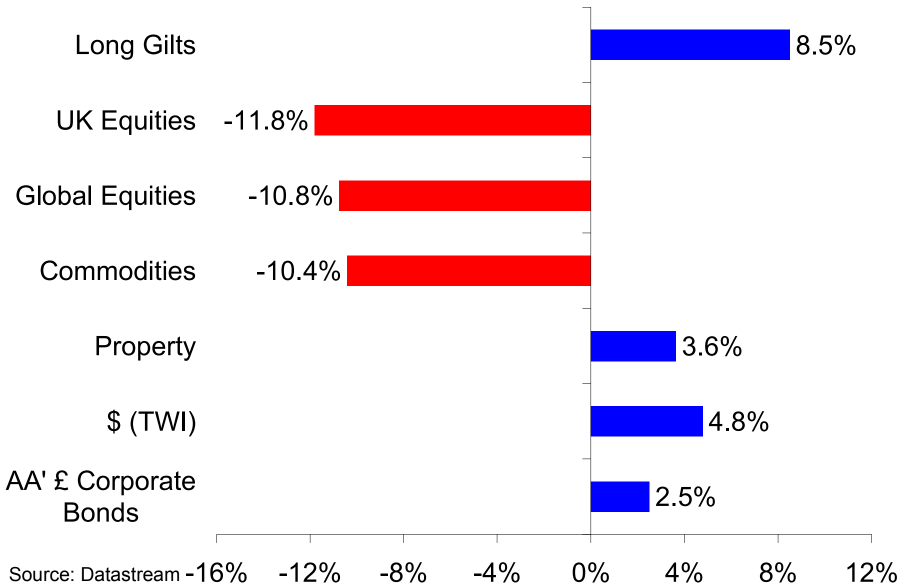

Figure 1: Market Performance – Q2, 2010 (total return)

Since the end of Q2, the picture has changed (Figure 2) albeit at the time of writing risk markets have started to settle back. Stability in Europe – delivered largely by an immense support package by the ECB, EU and IMF, saw concerns over a generalised implosion ebb away. In their place we have seen issues, of a more cyclical nature, arise involving the US. The economic recovery of 2009/10 appears to be faltering.

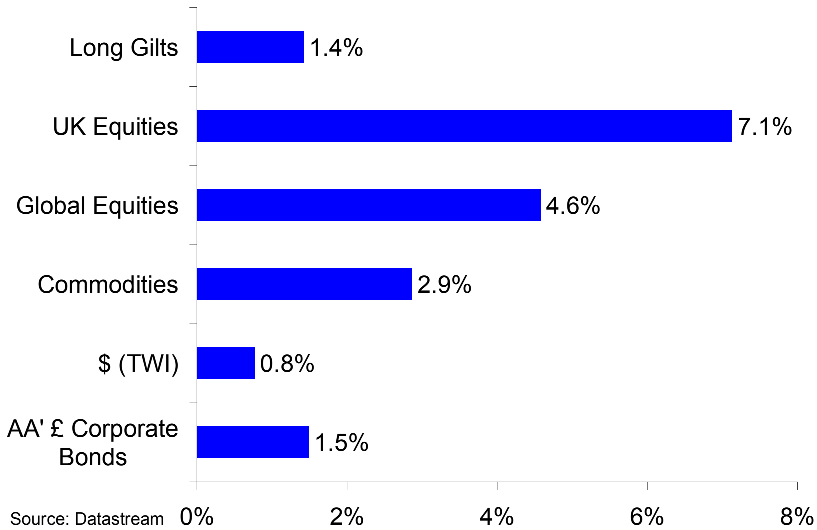

Figure 2: Market Performance – end June to 13th August

Market Observations

We remain in an economic and market environment for which there is scarce precedent in living memory. The journey back to normal conditions remains challenging.

Figure 3 once again highlights that slope of the US yield curve (a proxy for all others) is incredibly steep but has started to exhibit 'natural' flattening. The current steep slope usually portends of economic strength and developing pressure on inflation which encourages central banks to respond by raising official interest rates. Yet policy rates, across the major economies, remain at emergency levels – with no immediate sign of changing. Flattening of the yield curve without any move higher in official rates will be very bad news for pension schemes as liability values increase sharply without a corresponding improvement in economic conditions.

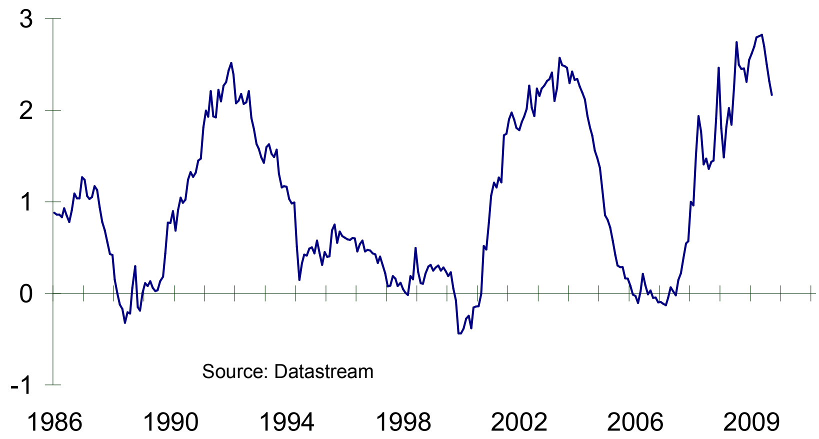

Figure 3: US yield curve (ten-year yields less two-year yields, %)

Once again, asset markets are seeing investment performance polarise – all risk assets rising together or falling together; this is one reason offered why the performance of hedge funds has been disappointing recently. The 'safety vale' in such situations is often found in the foreign currency exchanges. Figure 4 highlights this effect; currencies are exhibiting, by their standards, large swings. These oscillations in relative competitiveness are partly the response of policy direction – currency debasement being an explicit objective – and are never constructive for industry – no one likes instability.

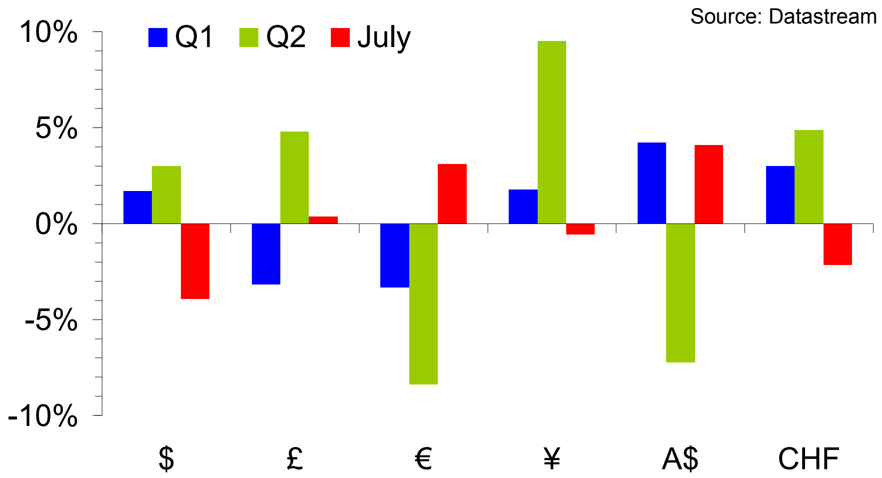

Figure 4: Change in selected trade weighted currency indices

If yield curves continue to flatten as described then stresses and strains within the financial economy are set to continue; wild currency swings will persist.

Commentary

One of the many intriguing features of the current market environment is that equity risk premiums (ERPs) remain very elevated. UK ERP is where it was last August and US ERP where it was in April 2009. The market is struggling to come to terms with an environment where it is possible that risk premiums remain elevated, at least compared to the norm of the last two decades or more.

One factor driving this may be the ongoing involvement of the government, broadly defined, in financial markets: $15 trillion of money printing, Government spending and guaranteeing that has been thrown at the financial crisis and its aftermath. Indeed, one reason for the recent decline in bond yields is a widespread view that the next stage in the battle is for "QE2" to be unveiled by the Fed – see insert. QE is sparking a vigorous debate about whether it will lead to inflation or will be powerless to stop deflation. Both inflation (persistently above 4% or so), and deflation are very bad for asset prices. If the market is convinced that QE will produce only one of those two outcomes then it could be raising risk premiums even as asset prices rise.

Other government interventions are likely to be unwelcome. During the time of the Asian financial crisis, Malaysia went down the route of capital controls. By some measures, the policy worked. Malaysia had a relatively shallow recession and it was one of the first Asian economies to emerge from the crisis. There has to be some concern that if there is further turbulence in markets, that some form of protectionist response, perhaps impeding the free movement of capital, is possible. There have already been several random rule changes imposed on markets at various points in the last two years, the latest of which was the ban on naked short selling by Germany at the height of the sovereign crisis in May.

The market is aware that the banking industry, broadly defined, is under threat from increased regulation. The US Congress has passed a Finance Bill that overhauls regulation of Wall Street. Basel 3 waits in the wings and the "one-off" bonus tax in the UK looks like becoming a semi-permanent feature of the tax base.

We are a long way from the one-way trade from the early 1980s onward where de-regulation and liberalisation were the desired policies of governments around the world. It would seem likely that the shift back toward more regulation and less liberalisation could also be a multi-year process. The hangover from the Great Recession therefore retains considerable policy uncertainty.

The other "secular" feature is the increased recognition that emerging markets have an increasingly important role to play in the global economy; note the move from the G7 being the primary discussion forum for global policy makers to the G20. This has implications for setting asset prices. It used to be the case that the US economy was a proxy for the world. With well over a hundred years of uninterrupted data, it was relatively straightforward to develop a reaction function to US dataflow and policy that was rooted in what had worked in past cycles.

This is the first cycle being driven by more than just what is going on in the US. Emerging equities have been outperforming the developed world since November 2008. It may well be that given the relative growth profile and the relative health of the banking systems in the two complexes, 'emerging' should trade on a par with 'developed' but, by definition, emerging markets do not have rich histories of data. They are not markets where policy makers have decades of experience of transparent policymaking. Many of them have an attitude to the rule of law that is less than robust. And most of them have dataflow that leaves much to be desired. The ability of the Chinese to produce a GDP growth rate for Q2 two weeks ahead of the US, and to never have to revise that growth rate, being but one example of the opaque nature of emerging market data.

For the above reasons at least one of the hangovers from the Great Recession and financial crisis is therefore likely to be elevated risk premiums. That could be an ongoing depressant for markets even without the much feared double-dip recession.

Insert: QE2

Quantitative easing has become a natural part of the investment lexicon during this financial crisis. Hitherto the object of ridicule in western economies, it has been fully embraced by even the most conservative of central bankers. That said, all those active have put their programmes on pause in recent months. The rapid turnaround in asset markets since March 2009 had encouraged the view that quantitative easing would not return. However, investors have begun to fixate on the likelihood and implications of any resumption of quantitative easing (generally referred to as QE2). As arguably the most dramatic form of monetary policy imaginable, it should be taken seriously.

A policy of deliberately seeking to enlarge the quantity of money in the system - quantitative easing or QE represents the attempt to, quite literally, lead investors to buy assets other than bonds. Central banks achieve this through buying bonds in the open market. When short-term interest rates are zero, the cash received from the bond sales, needs to find a home elsewhere; few investors can hold a yield-less asset for long.

QE broadly has the following aims:

1. to elevate asset prices – it should be noted that the Deputy Governor of the Bank of England specifically highlighted, in 2009, this as a key rationale behind the QE programme operated in the UK;
2. to induce a positive wealth effect on both companies and individuals
3. by capping real bond yields and narrowing credit spreads which helps to improve housing affordability
4. to make it easier for governments to borrow to expand fiscal policy – acting as a buyer of last-resort, the central bank stops private sector investors demanding higher yields in a manner that might lead to a premature tightening of fiscal policy;
5. to lower the value of the currency – leading to improved external competitiveness and encourage exports.

The overtly stimulative nature of QE would naturally, and normally quickly, generate profound inflationary pressures if implemented in a properly functioning economy. The advent of QE is an admission that conventional policy efforts either have been exhausted or have much diminished effectiveness. Without question it reflects a situation where the risks associated with genuine price declines or deflation are significant.

One of the weaknesses of QE is that central banks cannot rely on the sellers of bonds to go ahead and purchase other assets; in the first instance, they are more likely to go and buy more bonds, safe in the knowledge that there is a buyer willing to pay an even higher price. Therefore, it can take some time for the cash to filter into other assets. Given the potential for leakage, quantitative easing has to be administered in huge quantities – it is widely accepted that, should the US proceed with a full resumption of QE, then the authorities will need to purchase $1 trillion of bonds.

The sheer scale of these numbers stretches the minds of many and makes any reversal highly problematic. For example, the US government already owns (or under-writes) 70% of US mortgages. If it were to turn a seller of such securities, potential buyers would evaporate and the market distortions would be immense.

Against this backdrop, and with the UK, US and others having already applied QE1, investors will likely see any resumption as proof that the underlying health of the associated economy is much worse than even the bears fear. At this time, you would get short odds on QE returning in the UK, US, Japan and Europe; its one thing fearing the worst, its quite another to learn that things are worse than you feared.

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 had 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. Alleviated only by a huge emergency support package, investors have enjoyed a reprieve. However, as recent weakness in the US has shown, job creation is extremely weak in the developed economies. The replacement of systemic issues (Europe) by cyclical issues (US) is not without severe risks. A renewed US downturn would inevitably generate a negative feedback onto Europe that would limit the ability of Germany in particular to be strong enough to support the beleaguered southern European states.
2. As highlighted earlier, 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$ but it too is not without its challenges. Fiscal retrenchment will limit the ability of £ to move higher but £ remains a more attractive currency than the €. The recommendation to hedge out € exposure remains in force (ideally into $s)
3. Risk mitigation strategies will likely prove crucial in the months ahead, as we are not yet "out of the woods". The investors remain poorly positioned to absorb any fresh decline in assets markets; a sharp rise in liability values is however the more immediate threat. A severe (25+%) sell-off in financial markets is unlikely but the consequences will be more severe simply because of the poverty of remedial policy options. Government bonds are becoming too expensive to hold on any grounds other than risk mitigation; there are better ways off defending portfolios.
4. 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 opportunities. Option strategies may prove an effective means of acquiring protection.
5. 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.
    - 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, indeed as the insert discusses, the problems are likely to be compounded.
6. 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.
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.
8. The Panel should not underestimate the scope for extreme currency volatility in the extended period ahead. These moves represent both risk and opportunity to the pension fund; risk should be avoided and opportunities harvested. Re-specification of the Fund's approach to currency risk is essential.

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Investment Report for the Quarter ended 30th June 2010

Market Commentary

The course of equities during the quarter proved to be highly volatile as markets both in the UK and globally were pushed hither and thither by a combination of rapidly moving and often highly conflicting influences. By the end of the quarter the especially adverse headwinds overwhelmed the fewer positive tailwinds and, as the return table below clearly shows, all the principal equity markets suffered without exception. By contrast, it was heartening that fixed interest returns were broadly positive as investors sort the haven of less risky assets which provided a measure of succour to the battered portfolios both of institutions and private shareholders.

Index returns expressed in sterling

	Indices	Quarter ended 30th June 2010
		%
Equities		
Emerging Markets	MSCI Emerging Markets Free	-7.0
Japan	FTSE Developed Japan	-8.7
North America	FTSE North America	-10.3
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	-10.4
UK	FTSE All Share	-11.8
Europe	FTSE Developed Europe (ex UK)	-14.3
Fixed Interest		
UK Gilts	FTSE British Government All Stocks	4.5
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.0
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	1.6
Property	IPD	4.8*
Cash	Merrill Lynch LIBOR 3 Month	0.1

* Return for 3 months to 31st May 2010 (latest available)

Currency Movements for quarter ended 30th June 2010

Currency	31st March 2010	30th June 2010	Change %
USD/GBP	1.517	1.496	-1.4
EUR/GBP	1.121	1.221	9.0
USD/EUR	1.353	1.225	-9.5
Yen/USD	93.440	88.490	-5.3

Within the return table it is scarcely surprising that Europe (-14.3%) was the obvious laggard, principally due to concerns over the very future of the Eurozone and the much publicised fiscal deficits of some of the smaller European countries, especially Greece. UK (-11.8%) continued to be bedevilled by debt problems at all levels. Political worries also abounded in the run up to the General Election. Asia/Pacific (-10.4%) was troubled by the possibility that the pivotal economy of China might be slowing down at last. Japan (-8.7%) continued to be worried about the ability of its new Democratic Party to take sufficiently imaginative steps to begin to solve the long term deflation situation which has almost become an endemic condition in Japan. Even the return for Emerging Markets fell 7.0%, but that was really because they were infected by the thought that even their robustly growing economies would be affected by a lower global demand for their exports on which they are still quite reliant.

Overall returns in the Fixed Interest sub sectors were helped by their presumed attraction as a form of insurance and sanctuary in the most turbulent and volatile background that affected other asset classes. Property continued to recover from its pronounced down cycle, especially in the UK. Advantage began to be taken of increasingly attractive prime quality valuations.

Within the currency world it was the strength of sterling against the Euro (+9.0%) that was so marked and also the recovery of the US dollar (+9.5%) against the Euro. Movements directly attributable to the Eurozone's well publicised fiscal deficit and economic woes.

This was a particularly eventful quarter when equities and other asset classes had to contend with a combination of especially adverse factors. The principal negative factors which continued to inflict damage on the markets were those that have existed for some time namely:-

- Not a day went by without further detracting news and adverse comment regarding the most worrisome fiscal indebtedness of the Eurozone nations together with their respective financial structures. The worst situations were clearly in the south of the Eurozone namely in Greece, Portugal and Spain who all suffered from weak GDP growth and high rates of unemployment. The better placed Eurozone members continued to be France, Germany and the Nordic region.

- Within the UK, the event of greatest influence was of course the General Election on 6th May and the run up period to that day. A real political fever prevailed with the media taking full advantage and predicting a wide spectrum of likely outcomes. In the event, the return of a coalition government has proved to be a calming influence. So far, the early honeymoon period of the coalition has gone surprisingly well with no apparent major disagreements.

- In the period leading up the UK's general election it was a well known fact that the country's fiscal deficit was proportionally the second highest in the European Union. At one time it was estimated to be a staggering £168B. All parties, of whichever political hue, acknowledged this fact and that, post the election, this appalling deficit could only be reduced by a programme of tax increases and most severe cutbacks in public expenditure. In reality the time for this emergency process is now and already the new coalition government has unveiled its plans in that regard. One thing is an absolute certainty and that is no person or household will be unscathed by this process as the harsh remedial medicine contained in the Emergency Budget takes grip. The bottom line is quite clear. It will take at least a three year grind to meaningfully reduce the deficit. It will indeed be a period of great collective austerity to pay for the past years of profligacy.

- The apprehension that the weaker economies with high fiscal deficits would suffer a double dip recession.

- External market influences included the intransigent situation in Afghanistan, the seemingly never ending Israeli/Palestinian deadlock and the worrisome regime in Iran with its nuclear threat Although most of these confrontational factors have over time, become discounted in the market place, they are capable of flaring up at any time and therefore have to be most carefully watched.

- It is an undeniable fact that governments and central bankers of the most indebted nations, particularly in the Western Hemisphere, are constantly wrestling with their respective debt problems. However, the proverbial silver cloud against this worrying background has undoubtedly been the continuing low level of interest rates which it has become vital to maintain in order not to snuff out fragile rates of economic growth as nations continue to struggle to recover from the malign effect of the sub prime disaster which plumbed its depth in the 2007/2008 era. It is worth recording just how low interest rate levels still are, vide:-

	%
Bank of England	0.5
European Central Bank	1.0
Switzerland	Zero to 0.75
Federal Reserve Board	Zero to 0.25
Japan	0.10

  The maintenance of such low interest rates should help both consumers and corporations.

- The BP oil spill saga will most likely run and run just as the Exxon Valdez incident did back in 1989. Certainly the aggressive rhetoric of President Obama and Congress has not helped. It seems clear that they are both politicking ahead of the mid term elections in November. Of immediate impact is the suspension by BP of its dividend for 2010 and the $20B subscription to a fund specifically to pay for the spillage and all the litigious claims which will inevitably come. The dividend suspension will have a marked effect as it is generally estimated that the BP dividend accounts for some one sixth of the UK's total dividend income. It therefore follows that both private and institutional investors will be severely disadvantaged, particularly pension funds.

  - Despite the world's financial problems it is encouraging that the Organisation for Economic Co-operation and Development (OECD) has lifted its estimate of global growth for 2010 to 4.6% from 3.4% and for 2011 to 4.5% from 3.7%. A major contribution to this of course comes from the stronger growing economies of the Eastern Hemisphere. The OECD sounds a warning that growing deflation provides a risk.

  - Stock markets are anxiously waiting to see how the world banking system is to be reorganised in order to protect nations from the financial mayhem of the last three years. Apart from special taxes on banks it does seem likely that, over time, banking activities may be split between investment banking and retail banking, similar to the laws that used to prevail in the USA under the Glass Stiegel Act. Certainly the activities of banks are going to be most stringently monitored and regulated from hereon. Stress testing is just a start. It is encouraging that, within the UK, responsibility for the banking system is now entirely that of the Bank of England. That is how it should be. Thus avoiding the tripartite system (Treasury, Government and Bank of England) that proved so slow and inept at the time of the financial crisis. The changes will take time to unfold, but the result will surely be a more highly regulated, transparent and safer financial system with much lower levels of leverage and also improved liquidity.

UK

Positive Influences

- The mood from the factory floor and the manufacturing industry is, on the whole, more optimistic than the seemingly constant economists' gloom.

- There is to be a new budgeting watchdog called the Office for Budget Responsibility "to provide independent economic and borrowing forecasts for the Government".

- On 19th May the Bank of England held interest rates.

- In the quarter to 30th April 2010, 31,038 new houses were registered, a substantial 74.0% increase on a year ago.

- New car registrations were 11.5% p.a. higher in April.

- Unemployment fell by 34,000 to 2.47M people in the quarter to 31st May. For the month of May the unemployment rate inched lower to 7.8% from 7.9% in April.

- There is no shortage of international companies wishing to get close to the embattled BP, not the least of which is Petro China, that country's largest oil and gas producer.

- Within the Emergency Budget of 22nd June, the Office for Budget Responsibility forecast that GDP would grow 1.2% in 2010, 2.3% in 2011, 2.8% in 2012 and 2.9% in 2013. The Budget also estimated that CPI would fall to 2.7% by the end of 2010. Additionally, it forecast that the percentage of unemployed people would fall from 8.0% in 2010 to 6.1% in 2015/16. It was also announced that there would be a levy on bank balance sheets by January 2011, that corporation tax would be cut by 1% over the next 4 years taking it down to 24% by 2014/15, that VAT would increase to 20% from the current 17 ½% from 4th January 2011 and that the rate of CGT would rise from 18% to 28%.

- The Office for National Savings reported that public sector net borrowing was £16.0B in May versus consensus estimates of £18B.

- The Chancellor George Osborne announced that the FSA would be abolished with a commensurably sweeping increase in the powers of the Bank of England. The principal new remit for the Bank of England is to prevent a build up of risk in the financial system in addition to the Bank's monetary policy roll.

- Retail sales in June advanced by a resilient 1.0%, the strongest increase for a year.

Negative Influences

- The British Bankers' Association said that lending to financial companies in April fell by £1.1B.

- The fiscal budget now stands at a mammoth £156B.

- On 1st June such was the concern over the leakage from BP's Macendo deep water oil well in the Gulf of Mexico and its damage to the eco system that the company's shares traded 13% lower on the day. It was feared that BP might default on its debts. Additionally, the Obama administration was pressurising BP not to pay shareholders a dividend before the total cost of the oil spill clean up could be estimated.

- On 10th June the Bank of England left interest rates unchanged.

- Whilst the purchasing managers index increased fractionally in May to 55.4 from the 55.3 level of April, this was a lesser figure than the market had been expecting.

- In the first quarter of 2010 the deficit in goods and services reached £9.7B from the £8.7B in the previous quarter. The principal excuse for this deterioration was the weakness in demand from the Eurozone, the UK's biggest trading partner.

- CPI inflation in June was 3.2%. This compares with the government's target of 2.0%. Inflation was affected both by the high price of oil and also January's VAT rise from 15% to 17.5%. A year ago Mervyn King (the Governor of the Bank of England) had been forecasting inflation of only +0.7%!

- In the first quarter of 2010 there were a record 35,680 insolvencies.

- The overly aggressive rhetoric being used against BP by President Obama is no doubt spurred by November's mid term elections. His recent hostile attitude is scarcely likely to improve Anglo American relationships at this critical time. Perhaps Obama should recall that the sub prime and consequent financial banking disaster was spawned in the USA. Two can play the international blame game!

- The International Monetary Fund estimates that the UK GDP growth rate will be 1.2% in 2010 and 2.1% in 2011 versus the government's estimate of 2.3%.

- The National Institute of Economic and Social Research estimates that GDP grew by 0.7% in the second quarter of the year.

- The new Office for Budget Responsibility (OBR) forecasts that the overall fiscal deficit for 2010/11 will be £155B down from original estimates of £163B.

- The Fitch rating authority reduced its BP credit rating from AA to BBB.

- BP announced, in the aftermath of the oil spill and pressure from the US government, that it would suspend its dividend this year and pay $20B into a ring fenced account to be phased over 4 years specifically to clean up the damage as a result of the spill.

- Industrial production receded 0.4% in May against estimates of +0.4%.

- The Government decision to switch from using RPI to CPI when updating the value of private pension payments has caused a stir in the fixed interest markets where the prices of index linked bonds fell.

North America

Positive Influences

- Construction spending grew by 2.7% in April.

- On 1st June the Bank of Canada raised interest rates by a ¼% to ½%, the first rate increase since July 2007.

- The Commerce Department reported that retail sales advanced by 0.4% in April. This was twice the economists' consensus estimate.

- The unemployment rate for June eased back to 9.5% from May's 9.7%.

- Headline inflation decreased to 3.2% p.a. in June (May 3.4%).

- On 23rd June the Federal Reserve Board (FED) kept interest rates unchanged.

Negative Influences

- The trade deficit in May was $40B, little changed from April and March.

- President Obama ordered all 33 deep water oil rigs in the Gulf of Mexico to halt drilling. Indeed, he proposed a 6 month moratorium on offshore drilling. This will certainly impact both economic growth and also job creation. Ready access to energy has always been so vital to the US economy and has been considered somewhat of a divine right by the population.

- The Commerce Department revised the first quarter 2010 GDP growth rate from 3.2% to 3.0%. This compares with economists' estimates of 3.4%.

- Existing home sales dropped by 2.2% in May whilst new home sales fell by 32.7%, the lowest level since records started in 1963.

- The FED reduced its estimate of GDP growth in 2010 to 3.0 – 3.5% from its previous April estimate of 3.2 – 3.7%.

- June retail sales fell a further 0.5% from May's slide of 1.1%. This was worse than forecast.

- The Institute of Supply Management's index of non manufacturing business decreased to 53.8 in June (May 55.4).

- The Conference Board's confidence index fell dramatically to 52.9 in June from 62.7 in May. This was a much steeper fall than expected due to the state of the economy and the labour market.

- The National Association of Realtors announced that pending house sales collapsed by 30.0% in May against economists' estimates of a 12.5% fall.

- The Institute of Supply Management's manufacturing index declined to 56.2 in June against May's 59.7, a much larger drop than expected.

- The US labour force shrank by 652,000 in June, the second largest monthly fall since 1995.

- Durable goods sales fell by 1.1% in May.

- Housing starts fell by 5.0% in June.

Europe

Positive Influences

- On 10th May the European Union and the International Monetary Fund announced a €750B rescue plan to help the most indebted nations within the Eurozone.
- On 13th May Portugal introduced an emergency tax on wages and profits to help tackle the nation's budget problem.
- On 27th May the Spanish parliament passed an austerity package. Not before time.
- On 10th June the European Central Bank (ECB) left interest rates unchanged. The ECB's governor announced unlimited 3 month loans to last to the end of 2010 in an attempt to encourage banks to meet their customer financing needs.
- On the whole, corporations in Sweden, Finland and Norway have exhibited robust earnings growth, outperforming most other European countries.
- Several Eurozone countries have now imposed a ban on short selling programmes. These bans were initiated by Germany, especially in regard to Eurozone government bonds.
- There are now, at last, some signs that Portugal and Spain are introducing emergency measures to improve their finances.
- In a great austerity drive Spain cut civil service pay by 5% to help reduce the country's budget deficit.
- China's State Administration for Foreign Exchange, which manages the country's currency reserves, stated "Europe has been, and will be, one of the major markets for investing China's exchange reserves". Similar backing for the Euro was also stated by the Kuwait Investment Authority and South Korea.
- The Eurozone is conducting stringent stress tests on 91 banks focusing upon balance sheet strength.
- Trichet, head of the ECB, stated "a double dip recession is not at all what we are observing".
- Angela Merkel, the German Chancellor, announced an additional €80B of public spending cuts.
- German industrial production increased by 2.6% in May in part due to strong demand from China.
- German exports expanded by a marked 9.2% in May.
- German engineering orders in May advanced by a prodigious 61.0%.
- At the EU Summit meeting on 17th June there was a call to impose a general levy on European banks to ensure that they contribute to the cost of overcoming the financial crisis.

- Spain is to reform its rigid labour market and is to publish stress test results on its banks. At last a step in the right direction.
- France is to increase its retirement age from 60 to 62.

Negative Influences

- Hungary's economic condition became increasingly weak with the previous government having manipulated the official macro economic data. Rather like the Greek government.
- The Cajasur savings bank failed and its control was passed to the Bank of Spain. There are 45 such banks most of which are involved in Spain's ailing property market.
- Eurozone banks have become increasingly reluctant to lend to each other for fear of the counter party risk. As a result there has been a relentless rise in 3 month EURIBOR, the rate at which European banks charge each other for lending in Euros.
- France's purchasing managers' index for May eased back to 55.8 against 56.6 for April.
- On 31st May the ECB stated the Eurozone financial sector and economy are facing "hazardous contagion" from the region's debt crisis and forecast €195B in bank write downs this year and next.
- The Fitch rating agency down graded Spanish debt from AAA to AA+.
- Germany's ZEW index of investor confidence slumped to 45.8 in May (April 53.0).
- To underline the seriousness of the Eurozone situation the German Chancellor, Angela Merkel, said "what is at stake is no more and no less than the future of Europe, and with it the future of Germany in Europe". This statement was made in the Bundestag regarding support for Greece's drastic 3 year austerity programme.
- There are clear signs that the German Chancellor Angela Merkel's coalition government is showing further weakness.
- On 26th May a German 5 year bond auction failed, clearly demonstrating investor apprehension.
- German industrial orders in May fell by 0.5%, in marked contrast to the rise of 3.2% in April.
- German unemployment rose to 7.7% in June from 7.5% a year earlier.
- Eurozone unemployment fell by 6,000 in April, the first drop for 2 years.
- Angela Merkel, Nicolas Sarkozy and Silvio Berlusconi find themselves in an increasingly parlous state with their respective electorates. This is partly due to the harsh measures they have been enacting to bolster their economies.

Japan

Positive Influences

- The annualised rate of GDP growth for the first quarter of 2010 was revised up to 5.0% p.a. from 4.9% p.a.
- On 4th June Naoto Kan was elected the new leader of the Democratic Party after the resignation of Yukio Hatoyama as prime minister who had failed to live up to the electorate's high hopes for him. Mr Kan's leadership style is allegedly more dynamic than his predecessor. It is to be hoped that he and his party will be able to enact the essential strong measures which are so urgently needed to address Japan's economic woes.
- On 16th July the Yen surged to its highest level of the year against the US dollar.
- Exports fell by 1.2% in May (April +2.3%)

Asia/Pacific

Positive Influences

- The Chinese government hinted that, through its State council, property taxes would be reformed in order to cool down the developing property bubble.
- China has agreed to spend £16B building oil refineries and other petroleum related infra structure in Nigeria in order to boost its reserves of crude oil.
- China's exports at +48.5% in May were much higher than estimated.
- China's trade surplus in May was $19.5B compared with only $1.7B in April
- On 19th June China announced it planned to introduce more flexibility into its exchange rate. It therefore seems likely that the currency peg between the renminbi and the US dollar will be broken. This announcement was cleverly timed, a week ahead of the G20 summit meeting.
- Singapore's first half 2010 GDP growth rate was a stupendous 18.1% p.a.
- The Australian economy added 45,900 jobs in June well ahead of estimates of 15,000.
- On 11th June the New Zealand central bank raised interest rates by ¼% to 2 ¾%.
- On 27th June the Reserve Bank of India raised interest rates by ¼% to counter rising inflation (10.2% in May).
- In the first quarter of 2010 India's GDP grew by 8.6%.

Negative Influences

- Australia announced plans to impose a 40% tax on the profits of resource companies. Subsequently this proved to be a contributing factor in the replacement of the hitherto popular prime minister, Mr. Rudd.
- In China the purchasing managers' index of the Chinese Federation of Logistics and Purchasing fell to 53.9 in May from 55.7 in April, reflecting lacklustre demand from domestic and foreign markets.
- China's rate of GDP for the second quarter of 2010 fell to +10.3% (first quarter +11.9%).
- China's industrial production in June was 13.7% p.a. down from 16.5% p.a. in May.
- The purchasing managers' index in Korea for June decreased to 53.3 (May 54.6) whilst that of India receded to 57.3 in June from 59.0 in May. China's purchasing managers' index for June fell to 52.1, down from 53.9 in May.
- India's industrial output in May increased by 11.5% p.a. compared with the April rise of 16.5% p.a.
- Tensions between North and South Korea were further inflamed when the North Korean navy torpedoed a South Korean ship.

Conclusion

To an extent the dismal returns of the reported quarter to 30th June 2010 go some way to discounting all the many uncertainties which currently prevail in the market place, and it goes without saying that it is investor uncertainty, both institutional and private, that is continuing to negatively influence most asset classes. So when will the clouds of gloom part to produce a better market background in which equities, in particular, can recover their losses and once again make worthwhile advances? The answer appears relatively simple. That is to say the following will need to happen:-

- Banks to be restored to a measure of health with genuine stress tested stronger balance sheets. No more debt ridden skeletons should fall out of financial cupboards. This will be especially pertinent within the weaker Eurozone countries like Greece, Spain, Portugal and Ireland.
- Corporate earnings statements will need to reassure shareholders that their respective dividend streams will be maintained and preferably increased. They will also need to reassure that earnings will not be too badly impacted by the current recessionary background and that dividend levels can be maintained or even increased.
- It will be important for governments and central banks to demonstrate that they are enacting the remedial medicine so badly needed, in the Western Hemisphere especially, to resuscitate economic growth and to thereby improve the morale of banks, industrial companies and consumers. Most vitally, it will be essential for banks to be more prepared to lend to those companies and individuals whose spending is an essential stimulus to national economic growth.

- That governments are seen to take proactive measures both to stimulate current levels of economic growth and, at the same time, to ensure that inflation rates will be kept under control. This will be a difficult tight rope walking test which will probably result in pre-emptive increases in interest rates from the present record low historic levels. Such interest rate increases are likely to be incremental and modest.

- The most critical ingredient of all will be that it can be clearly seen that at last the current horrendous levels of fiscal deficits are being meaningfully reduced by timely actions by respective governments and central banks.

- It will be necessary for sufficient liquidity to continue to be injected into the financial system to provide the essential life blood on which consumers, economies, corporations and most asset classes are so reliant.

- And finally, that the threat of a double dip recession in the principal industrial economies can be removed to the relief and comfort of all investors. Rather than a double dip, it seems more likely that economic growth in the Western Hemisphere will be positive, but somewhat anaemic. On the other hand the economies of the Eastern Hemisphere should continue to demonstrate strong growth, but at a lesser pace than in 2009.

If sufficient progress can be made to achieve the above supportive conditions then, and only then, will equity markets breathe a collective sigh of relief and start to make up for so much lost ground. Fixed Interest markets will, as they usually do, continue to focus manically on the rates of national inflation, central bank action and other macro economic data. For this reason, fixed interest returns between now and the year end could be somewhat lacklustre, despite the attraction of this investment class as a safe haven. In general, central bank interest rates are likely to remain very low especially in the UK and USA. Only in the Asia/Pacific region could they increase to any extent. It therefore follows that returns on deposit cash will likely continue to be miserably low.

With regard to other asset classes; Hedge Fund of Funds, Global Tactical Asset Allocation and Currencies are likely to continue to struggle due to the common problem that there is still too much correlation amongst most asset classes. Therefore there are less anomalies of which to take advantage. However, opportunities exist within private equities as liquidity improves and the secondary markets appear increasingly attractive. Infrastructure also benefits from better liquidity and growing demand for its wide spread of underlying sectors such as:- road and bridge tolls, airports, utilities (especially water management), airports, prisons, hospitals and oil terminals. Opportunities also exist within commodities, but because this is a relatively volatile asset class a longer term view is necessary. It is worth re-emphasising that, in the longer term, alternative asset classes have a real role to play in a pension fund and an amalgam of these classes should serve to reduce the portfolio's long term risk. The caveat is that their performance attribution has to be most carefully monitored. Certainly to a much greater degree than the classic asset classes of equities, fixed interest and property.

In sum, despite the current collective gloom, it seems reasonable to suggest that for 2010 as a whole equity returns could be in the high single digit area. If that is achieved it would come as a relief to many and a distinct surprise to some of the current doomsayers and overly pessimistic media and financial journalists.

Valentine Furniss
25th July 2010

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EXTERNAL AUDITOR REPORT on the PENSION FUND ANNUAL REPORT and ACCOUNTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	None

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2009/10 Pension Fund Annual Report and Accounts. The report is in draft pending the conclusion of the audit. It is expected the audit will be largely complete by the time the committee meets and a verbal update of the final outcome will be given at the meeting.

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

RECOMMENDATIONS

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

BACKGROUND

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

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

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2010.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report was also taken to Audit Committee on 21 September 2010.

International Standard on Auditing Report 260 (ISA 260)

5. The ISA 260 requires that auditors should communicate to elected members matters of governance that arise from the audit of the financial statements. These cover:

- Key audit risks
- Accounting and internal control systems

6. In addition, the Auditor requires a "Representation Letter" to be signed by management and the Committee. The contents of this letter are set out at Appendix 3. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

7. There were no audit adjustments to report.

Accounting and internal control systems

8. During the audit, Deloitte identified two areas of improvement in relation to the internal control system, relevant to the pension fund accounts. Management has agreed with the recommendations which are discussed in Section 2 of the report.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

Deloitte.

London Borough of Hillingdon Pension Scheme

Report to the Audit Committee and Pension Committee

Contents

Executive summary

We have pleasure in setting out in this document our report to the Audit Committee and Pension Committee for the year ended 31 March 2010 for discussion at the meeting scheduled on 22 September 2010. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2010.

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

Key findings on audit risks and other matters	In our audit plan we identified three key audit risks in relation to: • calculation of contributions in light of there being more than one admitted body; • the calculation of benefits given the complexities of calculating retirement, ill health and death benefits as a result of changes introduced in 2008; and • the valuation of private equity. We carried out testing in line with our approach set out in our Audit Plan and there were no exceptions to report to you.
Audit status	The audit is substantially complete, and subject to the finalisation of the following: • completion of internal review processes; • review of final draft of financial statements; • representation letter (Appendix 3); and • update of post balance sheet event review. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.
Identified misstatements and disclosure deficiencies	Audit materiality has increased to £7.1m from £6m (2009 £6.4m) as set out in our Audit Plan. This is to reflect the final outturn for the year ended 31 March 2010 as opposed to the materiality determination forecasted result. There were no uncorrected misstatements or disclosure deficiencies.
Accounting and internal control systems	During our audit we observed two areas of improvements in relation to the internal control system. The following have been discussed in detail in section 2: • Control process for authorising the posting of journals; and • Regular review of Fund Managers internal control reports.

1. Key audit risks

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

Contributions	
Risk	Contributions are a material income stream for the Scheme and in view of the complexity introduced by the participation of more than one employer, together with changes made to the Local Government Pension Scheme in April 2008 which mean that members pay different rates on the basis of their pensionable pay, we have identified this as a specific risk.
Response	We have performed the following testing to address the specific risk: • design and implementation of key controls were tested by discussing with the pensions team the controls around contributions and testing and that they were in force during the year. No issues were noted; • detailed testing, by selecting a sample of employees and recalculating the employee and employer contributions to ensure these are in accordance with the contribution rates in force during the year. • analytical review was performed to get assurance over the completeness of contributions. We built an expectation for the employer and employee contributions based on the 2009 contributions and adjusted for pay rises, change in member numbers and contribution rates. The difference between our expectation and the actual contributions fell within our tolerance level. Our testing proved satisfactory.

1. Key audit risks (continued)

Benefits	
Risk	Changes were made to the Local Government Pension Scheme from April 2008 which introduced complexities into the calculation of retirement, ill health and death benefits. In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum. In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some administrators may not have retained all the necessary records.
Response	The following tests were performed to address the specific risk around contributions: - testing of design and implementation of key controls over benefits. This involved identifying key controls in place to ensure the accuracy, completeness and validity of benefits through discussion with the pension administration team and testing to ensure in force during the year. No issues were noted; - analytical review was performed over pensions payments by building an expectation for 2009 based on the 2008 pension paid and adjusting for pension increases and change in membership numbers. This was compared to the actual pension paid in the year and the difference between the two was within our tolerance level; and - for a sample of pension and other benefit payments, we performed detailed substantive tests on their benefit calculations and compared these calculations to the Scheme rules. Member files were reviewed to verify the necessary documentation for the sample chosen. No exceptions were noted in the sample tested. Our testing proved satisfactory.

1. Key audit risks (continued)

Private Equity	
Risk	The Pension Fund makes some use of investments in unquoted investment vehicles. A number of such investment vehicles have suffered significant losses over the last two years. Private Equity (PE) funds are complex to value and given the lack of marketability and externally available information to value them their valuation includes an element of judgement on the part of the fund manager. These investments form a material balance within the Pension Scheme accounts and therefore the valuation of PE funds is regarded as a risk area.
Response	Our key audit procedure for testing PE funds was to request direct confirmations from all fund managers and custodians and to obtain and review AAF reports relating to internal controls in place at fund managers and custodians. We also performed the following detailed procedures: ▯ understood the pricing methods adopted for the PE investments and assessed whether these were appropriate; ▯ obtained the fund manager's audited financial statements at 31 December 2009 and statements as at 31 March 2010 and understood the movements between the two dates; ▯ values as at 31 December 2009 and 31 March 2009 were compared to custodian valuations to gain further assurance over the valuation; and ▯ year end investments are in line with the Statement of Investment Principles. As a result of our testing we have concluded that the PE valuations included in the financial statements are not materially misstated.

2. Accounting and Internal Control Systems

Journal Authorisation	**Issue:** During our audit we noted that there is no formal process for reviewing or authorising journals before they are posted and where such reviews do take place, there is no evidence of review. This increases the risk that unauthorised or incorrect journal may be processed and these will not be detected in a timely manner. **Recommendation:** Although there are mitigating controls in place we recommend that management introduce a formal process in the reviewing and authorisation of journals. We recommend having authorisation limits for various personnel depending on the value of journals. **Management response:** We are developing a system where journal entries will be automatically sent to managers for authorisation. Therefore this control will be implemented going forward.

2. Accounting and Internal Control Systems (continued)

Review of Fund Managers' internal control reports	**Issue:** From our review of the fund managers' internal control reports, we noted some managers had a high level of control deficiencies. For each deficiency, a response has been obtained from management setting out the reason for the failure in the control and the remedial action taken to address the matter. Based on our discussions with management, it does not appear that the Pensions Committee has assessed the impact, if any, that the breakdowns in these controls may have on investments held by Hillingdon Pension Scheme. **Recommendation:** Demonstrating strong governance is an increasing area of focus by Audit Committees. We recommend that the Pension Committee perform due diligence on the investment manager internal control reports and request that the fund managers report back to the Committee on the impact that the deficiencies noted had on the Scheme. The Pension Committee may wish to supplement these reviews with visits to each of the key investments managers, such as SsgA and UBS. **Management response:** We agree with this recommendation and will add to the Pension Committee workplan.

3. Other matters for communication

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

Independence	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	We refer you to our report on London Borough of Hillingdon where we have provided further information about our non-audit services to the Borough. An analysis of Pension Scheme fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 is included in Appendix 2. We have not received any non-audit fees.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Liaison with internal audit	The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result of the findings of internal audit.
Written representations	A copy of the representation letter to be signed on behalf of the Committee has been attached to this document. Non-standard representations have been highlighted.

4. Responsibility statement

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

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

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

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

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

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

Deloitte LLP

Chartered Accountants

Birmingham

September 2010

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 are as follows:

	2009/10 £
Fees payable to the company's auditors for the audit of London Borough of Hillingdon Pension Scheme accounts	38,000

Appendix 2: Representation letter

(Client's Letterhead)

Deloitte LLP

4 Brindley Place

Birmingham B1 2HZ

Our Ref: ***GM/HP/GK/2010*** ***Date:***

Dear Sirs

London Borough of Hillingdon Pension Scheme (the "Scheme")

This representation letter is provided in connection with your audit of the financial statements of the scheme for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether the financial statements are true and fair, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 in respect of the financial transactions of the Pension Scheme during the year ended 31 March 2010, and the amount and disposition of the scheme's asset and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

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

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

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

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

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

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

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

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.

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

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

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

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

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

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

15. There have been no events subsequent to 31 March 2010 which require adjustment of or disclosure in the financial statements or notes thereto.

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

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

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

19. The Scheme has satisfactory title to all assets.

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

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

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

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

24. We confirm that the information that is contained within the Pension Scheme Annual Report and Accounts for the year to 31 March 2010 is complete, accurate and consistent with the information that is contained within the Accounts.

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

Yours faithfully

Signed on behalf of the London Borough of Hillingdon

Appendix 3: Draft Opinion

Independent auditor's report to the Members of London Borough of Hillingdon

We have audited the pension scheme accounting statements for the year ended 31 March 2010. The pension scheme accounting statements comprise the Scheme Account, the Net Assets Statement and the related notes 1 to 17. The pension scheme accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance & Resources and auditor

The Director of Finance & Resources is responsible for preparing the pension scheme accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension scheme accounting statements, the Director of Finance & Resources is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension scheme accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension scheme accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension scheme during the year and the amount and disposition of the scheme's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Scheme Annual Report, is consistent with the pension scheme accounting statements. That information comprises the Management Report for the year ended 31 March 2010.

We review whether the governance compliance statement published in the Pension Scheme Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension scheme accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension scheme accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension scheme accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension scheme accounting statements and related notes.

Opinion

In our opinion:

- the pension scheme accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Scheme during the year ended 31 March 2010, and the amount and disposition of the scheme's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Scheme Annual Report is consistent with the pension scheme accounting statements.

Gus Miah (Engagement Lead)
For and on behalf of Deloitte LLP

Appointed Auditor

Birmingham, UK

Date

PENSION FUND BUDGET 2010 - 2011

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	None

SUMMARY

At Committee in March 2010, Committee approved the budget for 2010 – 2011. This report provides an update at the end of quarter 1 against that budget.

RECOMMENDATION

1. **It is recommended that committee note the budget position as at 30 June 2010.**

PENSION FUND BUDGET 2010- 2011

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. Budget monitoring is therefore based on Surplus/Deficit from Operations" however it should be noted certain items within this section can also be difficult to predict and are therefore subject to large variances.

At this early stage of the year, it would not be appropriate to include a forecast year end position as retirement experience is not constant throughout the year and so a period of 3 months is insufficient to predict experience for the rest of the year. Also at this stage it is unclear how the council's cost saving measures may impact on the pension fund. A year end forecast will be worked up for the half year position as at the end of September.

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. 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

There are no legal implications in this report.

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London Borough of Hillingdon
Pension Fund Budget 2010 - 11

	2009-010 Actual	2010-11 M3 Actual	2010-11 Budget
Member Income			
Employers Contributions	21,448	5,400	21,558
Employees Contributions	8,310	2,004	8,253
Transfer Values Receivable	4,057	807	3,906
Net Member Income	**33,815**	**8,211**	**33,718**
Member Expenditure			
Pension Payments	(22,025)	(5,711)	(22,115)
Lump Sum Retirement Benefits	(4,602)	(2,122)	(4,526)
Lump Sum Death Benefits	(503)	(426)	(639)
Refunds of Contributions	(7)	(3)	(8)
State Scheme Premiums	(2)	0	(3)
Transfer Values Payable	(4,557)	(1,347)	(5,547)
Net Member Expenditure	**(31,696)**	**(9,609)**	**(32,838)**
Net Member Surplus	**2,119**	**(1,398)**	**880**
Administration Expenditure			
Pensions Administration	(402)	(128)	(538)
Miscellaneous Costs	(126)	(1)	(55)
Investment Administration	(171)	(47)	(172)
Net Administration Expenditure	**(699)**	**(176)**	**(765)**
Surplus/Deficit from Operations	**1,420**	**(1,574)**	**115**
Returns on Investments			
Investment Income	11,066	2,235	10,549
Change in Market Value of Investments	136,635	(48,630)	0
Management Fees	(2,090)	(31)	(1,989)
Irrecoverable Withholding Tax	(171)	(76)	(221)
Net Returns on Investments	**145,440**	**(46,502)**	**8,339**
Net Surplus in Period	**146,860**	**(48,076)**	**8,453**
Fund Value B/fwd	417,430	564,290	564,290
Fund Value	**564,290**	**516,214**	**572,743**

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Retirement Performance Statistics and Cost of Early Retirements Monitor

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

SUMMARY

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

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

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

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

Number of Cases in the first quarter of 2010/11

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
Current year				
Quarter 1	2	0	2	12

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 service is awarded up to age 65
- The employee cannot obtain gainful employment* within a reasonable period** of leaving local government employment***, it is likely that they will be able to obtain gainful employment* before their normal retirement age (age 65). In these cases 25% of their potential service to age 65 is awarded.
- The employee may be capable of obtaining gainful employment* within a reasonable period** of leaving local government employment***. In these cases no additional award of service is applied. The benefits payable are subject to the individual undergoing a medical review after 18 months to ascertain whether the medical condition is such that the employee is still unable to perform the duties of their previous employment. The maximum period that a third tier pension may be paid is 3 years. When the 3 year period has expired the pension will cease. Upon the employee attaining the age of 65, the pension is brought back into payment.

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

The Local Government Pension Scheme Regulations 2008 introduced a protection for employees aged 45 and over who were members of the LGPS as at 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
Quarter 1 2010/11	19,224	120,655,000	0.02

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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Pensions Administration Performance

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

SUMMARY

This report summarises the key work areas of the pensions administration section. The targets shown are within the nationally agreed targets for England and Wales. Full year performance data is included in the Annual Report for the fund. All data shown is extracted from the Pensions Administration System and monitored on a monthly basis.

RECOMMENDATIONS

That the contents of the report be noted.

KEY PERFORMANCE INDICATORS – quarter 1 - 2010/2011

Area of Work	Target (Days)	Number processed within target	Percentage within Target	Total Cases
Transfer in quote	5	5	50.00	10
Transfer in Actual	5	29	87.88	33
Transfer Out Actual	9	21	100.00	21
Transfer Out Quote	5	21	72.41	29
Refund	5	14	87.50	16
Estimate of Retirement Benefits	10	153	93.29	164
Actual Retirement Benefits	5	73	83.91	87
Condolence Letter	2	27	96.42	28
Letter Notifying Dependants Benefits	5	9	100	9
Deferred Benefits	10	102	99.02	103
Answer General Enquiry Letter	7	162	100	162
Benefit Statement Enquiry	10	1	100	1
Admit new entrant	20	253	98.83	256
Additional Service Purchase	10			0
Total		870	94.67	919

FINANCIAL IMPLICATIONS

The costs to the pension fund of all early retirements are monitored. Early retirements at the Council's discretion are reported to Committee on a quarterly basis. As part of the valuation, all employers within the fund have a notional budget built in to their employers contribution rate to fund ill health retirements.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

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GOVERNANCE ISSUES

Contact Officers	Nancy Leroux
Papers with this report	None

SUMMARY

This report is to provide an update on Pension Fund Governance issues and is mainly for information.

RECOMMENDATION

1. That the contents of the report are noted
2. That Committee discuss whether to progress the request by Stockley Academy to be represented on Committee.
3. That Committee approve the extension to the existing pensions administration system contract for a further two year period.

INFORMATION ITEMS

1. Scheme Consultations

Public Sector Pensions and the Local Government Pension Scheme are currently subject to an independent review by Lord Hutton. The independent Public Service Pensions Commission will undertake a fundamental structural review of public service pension provision and is due to issue its final report prior to the 2011 Budget. The commission is due to produce an interim report in September 2010 ahead of the Spending Review. At the time of writing this report the details of this interim report are not yet available. It is envisaged that major revisions to the LGPS will be one of the outcomes of this review.

2. Valuation Update

Officers had an initial meeting with the fund actuary on 8 September to discuss the initial findings of the 2010 triennial valuation exercise. Based on the current scheme, the initial results indicate a funding level considerably lower than in 2007. Discussions are ongoing in agreeing the assumptions to be used in the valuation and so the final results will not be completed for several months. Indeed, dependent on the timing of the Hutton Review, the final results could be substantially different from the initial results. In addition the change from RPI to CPI for the basis for future public sector pensions' increases could have a sizeable impact.

3. Request from Stockley Academy for Representation on Committee

Officers have received a request from Stockley Academy to be permitted to have a representative on Pensions Committee. They have made the request to enable them to have better accountability for their funding.

4. System Contract Extension

The contract for the pensions administration system (AXIS*e*) is due to expire on 31 December 2010. However, due to the impending outcome of the Hutton Review and the potential resulting regulatory changes, it is difficult to go to tender when the system requirements are unknown. Therefore, on the advice of the Head of Procurement, officers have been requested to seek approval from Committee to extend the current contract for a further two year period.

Following a review of the contract, the Head of Procurement advised that Clause 14 of the contract was effectively an "evergreen" clause that allows the license to continue as long as the agreement has not been terminated. Therefore, there is no duration to this agreement. Should we wish to end it we either use the provisions of termination related within the contract or give 12 months notice.

5. Future Member Training and Development Events

The following training events are available for members to attend

DATE	***EVENT***	***LOCATION***	***RSVP By***
October and November	*Employers Organisation - Fundamentals*	*Central London*	*ASAP*
7 October	*UBS First Steps*	*21 Lombard Street London*	*ASAP*
15 October	*M&G UK Company Financing Fund AGM*	*London – venue tbc*	*ASAP*
21 October	*UBS Second Steps*	*21 Lombard Street London*	*ASAP*
4 November	*CIPFA Pension Network Annual Conference*	*Gt Russell Street London*	*14 October*
10 November	*Northern Trust UK Pension Fund Forum*	*Ave Maria Lane London*	*21 October*
11 November	*UBS Third Steps*	*21 Lombard Street London*	*22 October*

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

Agenda Item 11

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of the Local Government (Access to Information) Act 1985 as amended.

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