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Pensions Committee

Date: **TUESDAY, 29 MARCH 2011**

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)
David Simmonds
Janet Duncan
Richard Lewis

Advisory Members

John Holroyd
Andrew Scott

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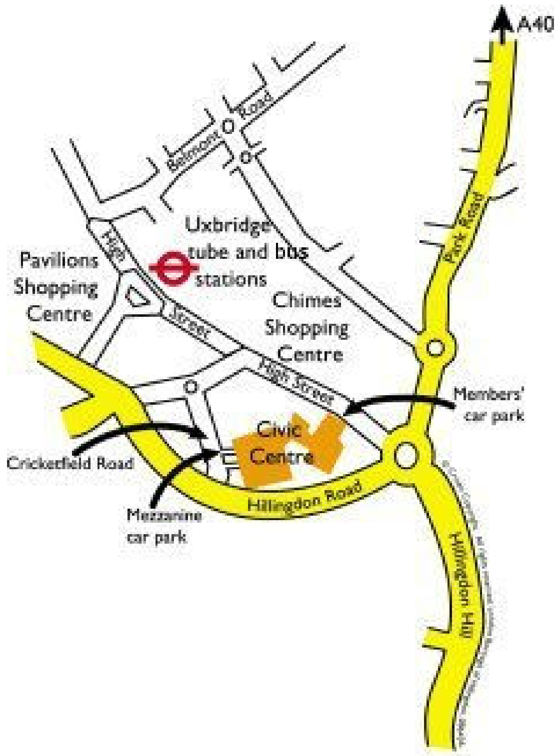
Useful information



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Agenda

Minutes

PENSIONS COMMITTEE

14 December 2010

Meeting held at Committee Room 6 - Civic Centre, High Street, Uxbridge UB8 1UW

	Committee Members Present: Councillors Phlip Corthorne, Michael Markham, Paul Harmsworth, Neil Fyfe, Janet Duncan and Richard Lewis **Advisory Members /Co-optee Members Present**: John Holroyd and Andrew Scott **LBH Officers Present:** Tunde Adekoya, James Lake, Nancy LeRoux, Ken Chisholm and Nav Johal **Also Present:** Valentine Furniss and John Hastings	
16.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Councillor David Simmonds; Councillor Neil Fyfe was in attendance as a substitute, and from Scott Jamieson.	**Action by**
17.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Corthorne, Duncan, Harmsworth and Lewis, and advisory members Andrew Scott and John Holroyd, 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.	**Action by**
18.	**MINUTES OF THE MEETING - 22 SEPTEMBER 2010** *(Agenda Item 3)* **RESOLVED: That the minutes of the Pensions Committee meeting on 22 September 2010 be agreed as a correct record.**	**Action by**
19.	**TO CONFIRM THAT THE ITEMS OF BUSINESS MARKED PART 1 WILL BE CONSIDERED IN PUBLIC AND THAT THE ITEMS MARKED PART 2 WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* **RESOLVED: That:** **1. Agenda Items 1 to 9 be considered in public; and**	**Action by**

	2. Agenda Items 10 to 13 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.	
20.	**REVIEW OF PERFORMANCE MEASUREMENT OF THE FUND** *(Agenda Item 5)* The Chairman introduced the report which reviewed the fund management performance of the London Borough of Hillingdon Pension Fund for the quarter to 30 September 2010. Members noted that the last quarter saw an improvement in performance but still marked a further period of underperformance against the benchmark. At the last Investment Strategy Sub-Committee meeting there was a discussion regarding the presentation of this report. It was agreed that the report should include more background information on each mandate relating to market conditions which could have impacted on performance. Members noted that for the quarter ending 30 September 2010, Hillingdon returned 8.01%, underperformance against the WM average by 0.19%. Members also noted that Alliance Bernstein had underperformed by 0.17%. **RESOLVED: That the content of the report and the performance of the Fund Managers be noted.**	**Action by**
21.	**BUDGET MONITOR** *(Agenda Item 6)* The Chairman introduced the report which provided Members with an update at the end of quarter 2 against the budget. It was noted that member's expenditure was projected to be 13% higher than last year. This was mainly due to the cost of lump sum retirement grants as a large volume of people retiring were taking the maximum lump sum. There had also been death cases in the last 6 months which resulted in large payouts. As a result the figures in the report appeared distorted. Officers commented on the level of budget savings required to be made by the council could result in early retirement redundancies which could have an impact on the fund both in the current financial year and the next. Members noted that the vast majority of the figures on the spreadsheet were beyond their control. **RESOLVED: That the Committee noted the forecast budget outturn position at 30 September 2010.**	**Action by**

22.	**EARLY RETIREMENT MONITOR** *(Agenda Item 7)* The Chairman introduced the report which summarised the number of early retirements in the first quarter. The report also gave an update on the current situation on the cost to the fund of early retirements. **RESOLVED: That the content of the report be noted.**	**Action by**
23.	**ADMINISTRATION PERFORMANCE REPORT** *(Agenda Item 8)* The Chairman introduced the report which summarised the key work areas of the pensions administration section. The report highlighted nationally agreed targets. It was noted that the full year performance data was included in the Annual report for the fund. Members asked officers why the percentage within target of refunds was 60%. Officers explained that the figure was partially skewed due to the low number processed and also that the refund amounts were relatively small. It was also noted that the number benefit statement enquires that had been recorded was zero. **RESOLVED: That the content of the report be noted.**	**Action by**
24.	**REPORT ON GOVERNANCE** *(Agenda Item 9)* The Chairman introduced the report which provided an update on the Pension Fund Governance issues. This included recommended revisions to the Statement of Investment Principles to include details of the new Fund Managers and to comply with the Financial Reporting Councils Stewardship Code. A self assessment was carried out and an analysis was done. In response to financial crisis an outcome was to seek to improve the extent and effectiveness of shareholder engagement with companies. Officers explained that Hillingdon had requested responses from its managers with equity holdings and reviewed their statements regarding the adoption of the code. A further piece of work was to be done which would look at Hillingdon. An action plan was required for CIPFA Principles of Investment Decision Making and Disclosure. How the effectiveness of the Committee was engaged was important, and this was a factor in why the Investment Strategy Sub-Committee was set up. The Committee had previously agreed to participate in the knowledge and skills framework administered by The Chartered Institute of Public Finance and Accountancy. CIPFA in partnership with Hymans Robertson had developed a website for training and information for the	**Action by**

	Local Government Pensions Scheme, and Members and Officers. Members and Officers had been issued log ins and passwords, and this would take them to different areas of the site. There was an area specifically for Officers and another for Members. This website could assist in identifying areas for training and increase Members knowledge. Officers had asked Hyman's Robertson to include a power bar so the individual using it could see what had been looked at. A record of what had been viewed could be recorded. Members felt that they should use the website and decide individually how it could suit them, and use it as an self-assessment. Officers reminded Members that in a previous Committee meeting that they had agreed to a total of 3 days of training on Pensions per year. This training could be various things, from fund managers meetings, workshops, reading, etc. Members discussed the review of public sector pensions. Officers would prepare a report for the next Pensions Committee in March 2011 when further developments are announced. **RESOLVED:** **1. That the Committee agreed to approved the revised Statement of Investment Principles.** **2. That Committee discussed their approach to the roll out and use of the Training and Skills Framework. It was agreed that Members would look at the Framework and use it in a way that suited them individually.** **3. That Committee noted the contents of the report.**	
25.	**REPORT FROM INVESTMENT SUB COMMITTEE** *(Agenda Item 10)* *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**
26.	**RISK MANAGEMENT REPORT** *(Agenda Item 11)* *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*	**Action by**

	schedule to the Act).	
27.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** *(Agenda Item 12)* *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**
28.	**INVESTMENT ADVICE DISCUSSION (COMMITTEE ONLY)** *(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**
	The meeting, which commenced at 5.30 pm, closed at 6.32 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nav Johal on 01895 250692. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	James Lake, 01895 277562
Papers with this report	Northern Trust Executive Report WM Local Authority Quarter Reports Private Equity Listing Private Equity 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 period ending 31 December 2010. The value of the fund as at the 31 December was £588.7m.

RECOMMENDATION

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

INFORMATION

1. The performance of the whole Fund for the quarter to 31 December 2010 showed an underperformance of 0.95% with a positive return of 5.13%, compared to the benchmark 6.08%. The Fund's underweight position in equities compared to its benchmark was the main reason for the deficit. One year figures show returns of 10.82% but behind the benchmark by 3.43%.

Performance Attribution Relative to Benchmark

	Q4 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Goldman Sachs	0.14	0.47	(1.03)	(0.74)	(0.59)
UBS	0.17	(2.22)	(1.42)	(2.08)	1.05
Alliance Bernstein	(0.13)	(5.00)	(5.69)	-	(3.88)
UBS Property	(0.54)	(1.14)	(1.11)	-	(0.83)
SSgA	0.00	0.02	-	-	0.06
SSgA Drawdown	(0.17)	0.41	-	-	0.40
Ruffer	5.59	-	-	-	6.07
Marathon	(1.38)	-	-	-	3.23
Fauchier	0.66	-	-	-	(1.99)
Total Fund	**(0.95)**	**(3.43)**	**(3.08)**	**(2.46)**	**(0.51)**

Market Commentary

2. Equity markets continued to gain through the quarter with good returns from most regions. Overall developed markets outperformed emerging markets. The momentum was fuelled by the expectation that the US Federal Reserve would resume its quantitative easing programme and this drove prices through October. Confirmation of this was received in November and was in line with market expectations. November also saw prices ease as anxiety over weaker European nations emerged. Concerns over Ireland finally lead to the Irish government accepting support from the European Union. In December equities rallied following the decision by the US policy makers to continue with existing tax incentives, providing a boost to the economy and leading to improved expectations for US growth.

3. Bond yields rose during the quarter over expectations of rising inflation and the resumption of US quantitative easing. Yields also rose in the Eurozone periphery with concerns over Ireland, Portugal and Spain. Conversely inflation fears helped index linked bonds provide positive returns. Improving risk appetite led to a contracting of spreads within corporate bonds.

4. The UK commercial property had a strong finish to the year. This trend looks to continue, albeit at lower levels, with the forward looking real estate derivative market indicating gains for 2011.

MANAGER PERFORMANCE

5. **Manager: ALLIANCE BERNSTEIN**
   Performance Objective: To achieve 2% above index returns over a full market cycle.
   Approach: Alliance Bernstein is a bottom up stock picker relying on research based company fundamentals. They aim to perform well when the market discriminates between stocks and company fundamentals matter to investors.

   Performance

	Q4 2010 %	1 Year %	3 Years %	Since Inception %
Performance	9.06	7.41	(3.58)	0.28
Benchmark	9.19	12.41	2.11	4.16
Excess Return	(0.12)	(4.45)	(5.57)	(3.73)

   Alliance Bernstein claim that in general over the last three years there has been a flight to safety and that many equity movements have been driven by index trades rather than specific stock selection. As such the markets have not distinguished between stocks and Alliance Bernstein has been unable to add value. During 2009 fundamentals returned to an extent and the overseas element of the portfolio did contribute, however Alliance Bernstein was unable to capture gains in the UK and their underperformance in this region more than offset any overseas gains. Throughout 2010 global markets had rises and falls which were mainly driven by short term macroeconomic factors. Differences between companies were generally ignored with stock prices tending to move together. Again because of this lack of stock discrimination, and despite the change in mandate which removed the UK aspect of the portfolio, performance remained behind the benchmark in 2010. Alliance Bernstein have consistently maintained their philosophy as they hold a firm conviction that ultimately company fundamentals are the only thing that should count and as macroeconomic conditions improve investors should start to differentiate between stocks.

6. **Manager: FAUCHIER**

Performance Objective: The investment objective of the company is to achieve an absolute return.

Approach: The aim of the portfolio is to be diversified across 10-12 strategies and allocate to those strategies according to perception of the potential which exists to generate returns in any given strategy over a period of time.

Performance: To incorporate an element of risk adjusted return the benchmark has been set to include outperformance of an absolute benchmark, in this case cash, by a further 5%. In relation to this benchmark Fauchier have underperformed since inception (June 2010) albeit with outperformance in the last quarter. However since their appointment Fauchier have delivered a positive return of 0.86%, and as such have met in part their investment objective by delivering an overall absolute return.
Further analysis shows there was a mix of performance in the underlying funds with Short Bias and Fixed Income struggling against the headwind of the equity rally. Conversely the rally benefited Equity Hedged Managers and concerns over inflation helped the Multiple Strategy funds make gains. Whilst the diversification of strategies helped provide an absolute return, market conditions meant those strategies also gave contrasting performance against the benchmark.

7. **Manager: GSAM**

Performance Objective: To outperform their benchmark indices by 0.75% per annum.

Approach: The corporate credit research process is grounded upon an analysis of the macro environment, commonly referred to as top-down analysis, along with a detailed understanding of the characteristics pertaining to each corporate entity, commonly referred to as bottom-up analysis. Multiple ideas resulting from this analysis are brought together and a balanced portfolio is constructed.

Performance:

	Q4 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	(1.18)	9.08	5.78	5.81	5.87
Benchmark	(1.32)	8.61	6.81	6.55	6.46
Excess Return	0.14	0.47	(1.03)	(0.74)	(0.59)

In 2008, the portfolio returned (3.46%), while the benchmark returned 4.14%. This underperformance can be attributed to the top-down cross sector strategy, the bottom-up security selection of mortgage backed securities (MBS) and corporate securities. The year saw turmoil in the US housing markets and the financial crisis, spreads widened and the overweight position in corporates, was a strong detractor from relative performance.

During 2009, however, the portfolio returned 12.74% relative to benchmark performance of 7.73%, for an outperformance of 5.01%. Bouncing back from 2008, in 2009, the portfolio's overweight to corporates and non-agency MBS within the cross-sector strategy, were strong contributors to performance. Corporate, government agency and collateralised security selection also contributed to the outperformance.

In 2010, the prospect of further accommodative monetary policy supported demand for riskier asset classes and growth trends started to look more positive around the world. The cross-sector and corporate selection strategies contributed positively to the portfolio's outperformance versus the benchmark.

In general there is a tendency for bond managers to perform in harmony and to either outperform or underperform their benchmarks at the same time. If GSAM's broad performance is compared with a selection of its peers, it shows three year returns behind the average. However the trend changes over the one year and in the current quarter with GSAM results ahead of the average.

8. **Manager: MARATHON**

Performance Objective: To achieve a return in excess of their benchmark index over a rolling five year period.

Approach: Marathon's investment philosophy is based on the capital cycle and the idea that high returns will attract excessive capital and hence competition, and vice versa. Given the contrarian and long-term nature of the capital cycle, Marathon's approach results in strong views against the market and long holding periods by industry standards (5 years plus). Marathon believe "out of favour" industries and companies, highlighted by the capital cycle, are characterised by lack of interest and research coverage. Moreover, long-term price anomalies arise because business valuations and investment returns are not normally distributed due to the short-term focus of the investment industry. With a long-term view and fundamental valuation work, Marathon believes it can identify the intrinsic worth of a business. The process is by its very nature bottom-up with individual stock selection expected to drive investment performance

Performance: Since inception in June 2010 Marathon has outperformed against their benchmark of 14.63% by returning 17.86%. Given Marathon's philosophy, research and focus on stock picking, it is perhaps not surprising that stock selection added most value over the six month period and two examples of this include Cablevision and Liberty Media. Both companies participated in the consolidation of the cable industry following the bursting of the TMT (Technology Media and Telecommunications) bubble and are now benefiting from their dominant positions in regional cable assets.

However whilst the mandate benchmark is based on developed markets, Marathon has the ability to also invest in emerging markets. As such any positive or negative returns from emerging market investments can unduly influence relative performance. A proxy to the mandate benchmark is the MSCI All Countries index which includes both developed and emerging markets. For the six month period this index has returned 18.80%, which is more comparable, if albeit slightly better, with Marathon's returns.

9. **Manager: RUFFER**

Performance Objective: The overall objective is firstly to preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank.

Approach: Ruffer applies active asset allocation that is unconstrained, enabling them to manage market risk and volatility. The asset allocation balances investments in fear, which should appreciate in the event of a market correction and protect the portfolio value, with investments in greed, assets that capture growth when conditions are favourable. There are two tenets that Ruffer believe are central to absolute return investing which are to be agnostic about market direction and also to remove market timing from the portfolio.

Performance: Since their inception six months ago Ruffer has returned 6.50% and met their brief by preserving capital and growing the portfolio. Equities make up almost half of the portfolio and so outperformance and the increase in asset value was aided considerably by an overall appreciation within this asset class. Protective elements of the fund including gold and index linked bonds helped reduce volatility and the increase in gold prices also complemented performance.

An alternative approach to measuring against the absolute benchmark of cash is to construct a benchmark which better reflects the make up of the portfolio. In the case of Ruffer if the benchmark is split to show returns weighted at 45% equities, 40% index linked bonds and 15% cash, the performance for the six month period since inception is 10.43%. With equities being the largest contributor over the period, the mandate returns show that not all the gains were captured in this class. This was evident in the "put option" which was in place in order to add some protection against the market reversing recent gains.

10. **Manager: SSgA**

Performance Objective: To replicate their benchmark indices

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

Performance:

	Q4 2010 %	1 Year %	Since Inception %
SSgA Main Account			
Performance	6.36	14.18	21.52
Benchmark	6.36	14.16	21.46
Excess Return	0.00	0.02	0.06
SSgA Draw Down Account			
Performance a/c 2	(1.34)	4.79	6.59
Benchmark a/c 2	(1.17)	4.38	6.49
Excess Return	(0.17)	0.41	0.40

Since its inception in November 2008 the SSgA main portfolio has delivered a return in excess of its benchmark index of 0.06%. The draw down fund which commenced June 2009 has also outperformed its benchmark and has delivered an excess return of 0.40%. In both cases SSgA has delivered against its objective.

Performance is not always flat and quarterly variances should be expected as a result of a number of factors including; cash drag, stock lending cycles and rights Issue opportunities, however over the longer period these are expected to smooth out.

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

Performance:

	Q4 2010 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	7.55	12.29	2.70	3.92	10.23
Benchmark	7.38	14.51	4.12	6.00	9.18
Excess Return	0.17	(2.22)	(1.42)	(2.08)	1.05

Over the last three years performance is behind the benchmark by 1.42%. During 2008 much of the underperformance was attributable to the overweight position in UK banks which suffered considerably in the financial crisis. Following this, the mandate was taken over by Mark Powers and the weighting in financials was reduced. In 2009 market conditions changed and UBS's value approach and defensive position in mega caps paid off allowing the portfolio to outperform by 1.6%. In 2010 performance again fell behind the benchmark with the market environment favouring momentum and growth stocks over value.

To better determine performance and manager skill based on their investment approach, it is possible to measure against an alternative index. The above performance is benchmarked against the FTSE All Share, which includes all UK stocks regardless of the style of investing. UBS are a value based manager and will only hold stocks which represent their value style. If performance is measured against the FTSE UK Value index, which only includes value stocks, UBS have outperformed by 6.0% for one year and 2.1% for three years. These figures show that although over three years the manager is behind the mandate benchmark, they have added value and outperformed against their style. In addition comparisons between the two indices show that the value style has been out of favour when compared to growth and momentum styles.

12. **Manager: UBS Property**
Performance Objective: To seek to outperform their benchmark index by 0.75% per annum over rolling three year periods.
Approach: UBS take a top down and bottom up approach to investing in property funds. Initially the top down approach allocates sector and fund type based on the benchmark. The bottom up approach then seeks to identify a range funds which are expected to outperform the benchmark.

Performance:

	Q4 2010 %	1 Year %	3 Years %	Since Inception %
Performance	1.36	11.05	(6.83)	(2.99)
Benchmark	1.90	12.19	(5.72)	(2.16)
Excess Return	(0.54)	(1.14)	(1.11)	(0.83)

As the fund is based on the benchmark, normally performance should also reflect the benchmark, albeit with a margin of outperformance. However the initial fund set up and the subsequent part dissolution and reinvestment have resulted in transaction costs, which detract from performance. The timing of the part redemption was positive however, as the cash balance helped protect some absolute value when property prices fell in 2008/09. Since inception many of the underlying funds have outperformed, but not by a margin large enough to outweigh the fund set up costs. As the portfolio diversifies further out of Triton, transaction costs will continue to challenge the outperformance of the underlying funds.

Absolute Returns for the quarter

	Opening Balance £000's	Appreciation £000's	Income Received £000's	Net Investment	Closing Balance £000's	Active Management Contribution £000's
Alliance Bernstein	56,621	4,928	201	(6)	61,744	(85)
Fauchier	24,504	509	-	-	25,013	161
GSAM	66,483	(863)	75	-	65,695	84

Marathon	53,155	4,401	-	-	57,556	(765)
Ruffer	50,653	2,762	159	-	53,574	2,831
SSgA	127,519	6,479	-	(2,143)	131,855	(37)
UBS	103,659	7,067	717	(658)	110,785	232
UBS Property	44,963	180	430	-	45,573	(245)

13. The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks. The outperformance of Fauchier, GSAM, Ruffer, and UBS had a positive impact on the appreciation of holdings contributing £3,308k in total. Underperformance from Alliance Bernstein, Marathon, SSgA and UBS Property reduced appreciation by £1,132k.

M&G Update

14. M&G have made two further investments during December and issued their first distribution.

Macquarie Update

15. Since the last quarter two new transactions have been completed increasing the total number of assets in the fund. Macquarie is currently pursuing several other opportunities in sectors such as power, roads, ports and logistics. It is expected that one or more of these transactions will be closed in the next three to six months.

Other Items

16. At the end of December 2010, £31.5m (book cost) had been invested in private equity, which equates to 5.34% of the fund against the target investment of 5.00%. However this level still remains within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £1.314k and distributed £513k whilst LGT called £857k and distributed £270k.

17. The securities lending programme for the quarter resulted in income of £19.2k. Offset against this was £6.7k of expenses leaving a net figure earned of £12.5k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 December 2010 the assets on loan totalled £26.8m representing approximately 12.1% of this total.

18. For the quarter ending 31 December 2010, Hillingdon returned 5.13%, underperforming against the WM average by 0.57%. The one year figure shows an underperformance of 2.58% against and average return of 13.40%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

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London Borough of Hillingdon

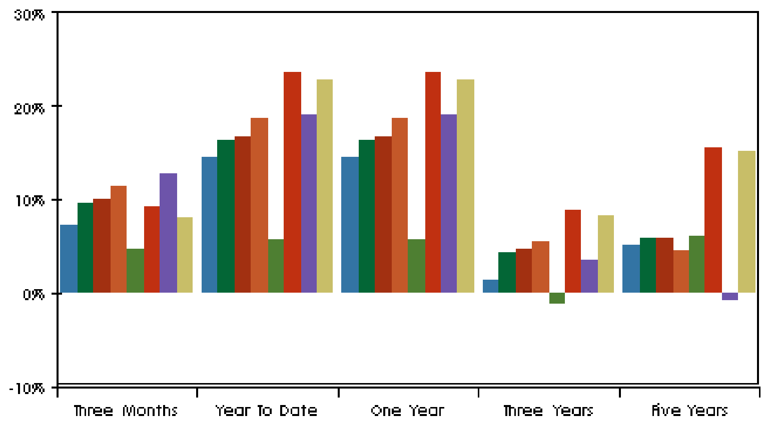
4th Quarter, 2010

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	7.4	14.5	14.5	1.4	5.1
FT: World	9.7	16.3	16.3	4.4	5.8
FT: Worldex UK	10.0	16.7	16.7	4.8	5.9
FT AW: United States	11.5	18.8	18.8	5.6	4.5
FT: Developed Europe ex UK	4.7	5.7	5.7	-1.1	6.1
FT AW: Japan	12.8	19.0	19.0	3.5	-0.8
FT: Developed Asia Pac x Jp	9.3	23.7	23.7	8.9	15.7
MSCI Emerging Markets GD	8.1	22.9	22.9	8.3	15.2

All index returns are in GBP terms unless stated otherwise.

2010 finished on a strong quarter and although all equity indexes remain firmly in the black the year was not as strong as 2009. Fortunately, fears of a double-dip recession proved unfounded with global growth of 3.9% for 2010. One must look to the three year returns to find equity market losses; here the echoes of 2008 continue to haunt balance sheets. The global economy remains divided; in the developed world sovereign debt, damaged banking systems and fiscal austerity make recovery uncertain. 2010 Industrial Economies GDP came in at 2.4%. In the emerging markets; can wage and price inflation be managed? Asian and South American markets are booming, providing the demand the global economy needs. 2010 Emerging Markets GDP came in at 7%. Despite the divide global stocks are hitting their best levels in more than 2 years. The latest global growth estimate from the World Bank is 3.3% for 2011. Mining and manufacturing stocks produced the strongest gains while defensive companies tended to underperform. Demand from emerging economies and investors seeking an alternative haven for wealth saw gold and copper prices rise by 29% and 31% respectively. The price of crude oil finished Q4 up at $92 per barrel. The FTSE World was up by 9.7% (GBP) over quarter 4 2010 and remains ahead over 1 year, now by 16.3% (GBP).

UK Domestic demand proved stronger than expected over 2010 despite higher taxes as consumers boosted spending. This sentiment faltered towards the end of the year as UK consumer confidence fell to a 20 month low and VAT increased. The jobs market showed signs of recovery with vacancies rising, that statistic lives in the shadow of half a million public sector jobs due to be cut over four years and the same predicted for the private sector. Despite the proposed cuts the government is planning to lend £7bn to the Irish Republic due to its importance to the UK economy. GDP increased by 0.7% in the third quarter of 2010 in a downward revision but that remains 2.7% higher than the third quarter of 2009. House prices unexpectedly posted their first small gain in 7 months. Oil & Gas and Basic Materials continued to outstrip all other sectors over Q4 with Telecoms just behind. Financials and Health Care suffered weaker quarters. CPI finished the year at 3.7% on an upward trend. The FTSE All Share was up 7.4% (GBP) over the fourth quarter and by 14.5% (GBP) over the year.

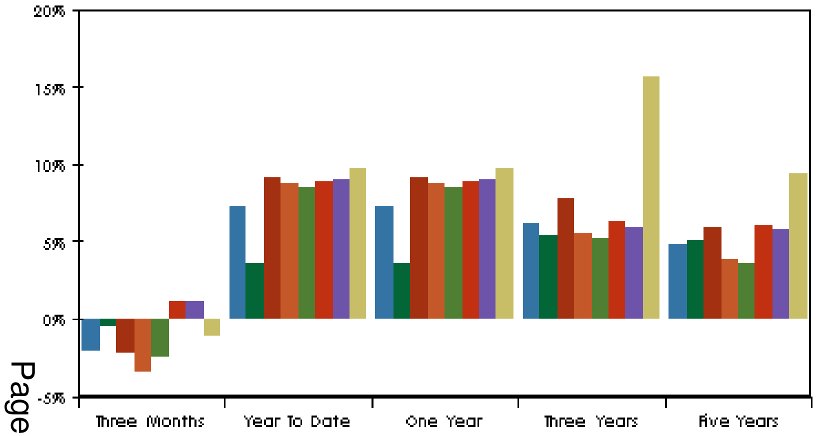
The German economy expanded by its greatest rate (+3.6%) since the 1990 reunification. Increased domestic demand on the high street and in investments is encouraging but has only partly reversed the contraction of 2009. The German policy of keeping the Eurozone afloat while minimising the exposure of German taxpayers looks set to continue. Emergency financing will still be an option for deficit countries but they will face high interest rates and be forced into rapid and brutal adjustments. Ireland and Greece remain mired in recession following their respective bail outs while Portugal and Belgium slipped in the same direction. Q3 Eurozone GDP was revised down from 0.4% to 0.3% and inflation surpassed the 2% threshold for the first time in more than 2 years at 2.2%. Defensive stocks finished the year on stronger notes while Financials and Telecoms struggled to the end of 2010. Unemployment increased slightly to 10.1%. The ECB has left its main rate unchanged at 1% since May 2009. The FTSE Europe ex UK index returned 4.6% (GBP) over quarter four and 5.8% (GBP) over the year 2010.

The S&P 500 run continued from Q3 to complete a solid six months to the end of 2010 but the US economy remains under pressure. US economic indicators have failed to convince all year; the unemployment rate fell but that was largely due to a decline in participation. Many commentators are predicting a double-dip downturn in the housing market as millions of homes stand empty; mortgage applications are down despite a decline in prices. The second wave of quantitative easing is due to be completed in June 2011. Better news sees US corporations posting record 4th quarter results as Apple Inc. and companies across sectors benefit from increased demand. All equity sectors gained; the largest increases coming in Materials, Oil & Gas and Industrials. Financials faired better than they did in Q3 while Utilities lagged behind. Third quarter GDP came in at 2.6% and the Federal Funds target rate has been maintained at its all time low of 0-0.25%. The FTSE North America index was up 11.6% (GBP) over the fourth quarter and by 19.1% (GBP) for 2010.

Japanese equity markets enjoyed a much stronger quarter and look set to benefit further as carmakers look forward to recovering demand in the US for their products. Third quarter GDP was up from Q2 at 1.1%. The FTSE Japan returned 12.8% (GBP) for Q4; the FTSE Asia Pacific ex Japan returned 10.8% (GBP). Asia Pacific markets were left unfazed by the frenzied threats the Koreas were making. The Brisbane flood waters did not rise to predicted levels although the natural disaster will be felt across Australia. Worryingly for developing nations the US food stocks forecast could presage a food price surge following on from the Russian drought. Mexico and Argentina finished 2010 in particularly strong fashion. Latin American equities remain strong but concern is growing in the region as commodity exports grow at the expense of manufacturing. History tells us that after the boom has moved on a damaged manufacturing sector may no longer be able to provide where it once did. MSCI Emerging Markets index returned 8.1% (GBP) for the fourth 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	-2.1	7.2	7.2	6.1	4.8
FTSE All Stock 0-5 Yr. Gilts	-0.5	3.6	3.6	5.4	5.1
FTSE All Stock 5-15 Yr. Gilts	-2.3	9.1	9.1	7.7	5.9
FTSE All Stock > 15 Yr. Gilts	-3.5	8.8	8.8	5.6	3.9
ML STG N-Gilts All Stocks	-2.4	8.4	8.4	5.1	3.6
FTSE Index Linked	1.1	8.9	8.9	6.3	6.0
FTSE Index Linked 5+ yrs	1.1	9.0	9.0	5.9	5.8
JPM GBI Global	-1.1	9.8	9.8	15.6	9.3

All index returns are in GBP terms unless stated otherwise.

Northern Trust

2010 was a turbulent year for the financial markets with the sovereign debt crisis in Europe, the housing crisis and persistent unemployment in the US, the anticipation and in some cases implementation of QEII and the policy tightening in China. There was a strong correlation and the "risk on / risk off" theme dominated most asset classes. However global economic recovery has taken hold, although there are distinct growth differences between the faster growing emerging economies and the slower growing developed economies. In the emerging markets, upwards pressure from soaring commodity prices is beginning to show in inflation and prices data. The additional stimulus package announced in Q4 by the US Federal Reserve will help with growth, however it remains to be seen if this will be sufficient to reduce the unemployment rate. At the same time concerns are growing over the size of the US balance sheet, at the end of December it reached $2.4trn as the Fed began its second round of bond purchases. In the UK and Eurozone growth in 2011 is expected to be subdued as austerity measures start to take effect.

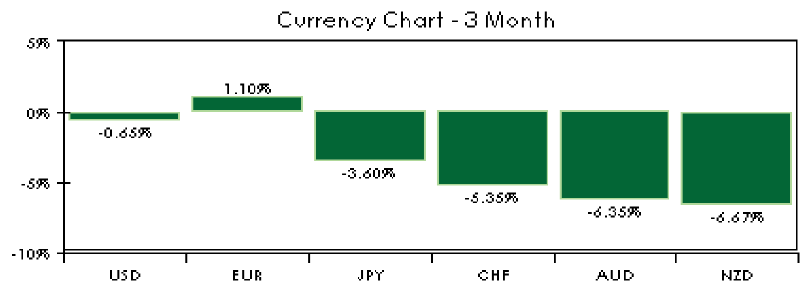
At the beginning of the 4th quarter, discussions concerning a potential return to Quantitative Easing (QE) by the Bank of England (BoE) dominated the market however the surprising strength of preliminary Q3 GDP of 0.8% sharply reduced that probability. Although later revised down to 0.7%, this is still 2.7% higher than the 3rd quarter for 2009. The UK manufacturing purchasing manager survey (PMI) closed 2010 with a 16 year high of 58.3 (53.4 in Sept.) with output growth, export orders and employment rising rapidly for the sector. However input prices are also rising, while rising food prices, petrol and utility price rises saw the CPI rise to 3.7% in the year to December well above the BoE's target level of 2%. The MPC kept the base rate on hold at 0.5% during the quarter, however December's meeting minutes specifically noted the possibility that the CPI could reach 4% by the spring, considering the impact of the rise in the VAT rate to 20% prompting speculation of a rate increase. However the MPC will likely refrain until the effects of the austerity measures both domestically and in the euro zone can be assessed. The extension of the US fiscal stimulus program triggered a broad sell off over the quarter which saw the 10 year UK gilt yields rise from 2.95% at the end of September to close at 3.46%. Despite the sovereign debt concerns, some government bonds were rewarded, with longer term UK Gilts returning over 8% and some index linked returns rising as high as 12% due to uncertainty about inflation. The FTSE All Stock Gilts closed down at -2.1% (GBP) for the quarter, while the ML Sterling Non Gilts lost -2.4% (GBP).

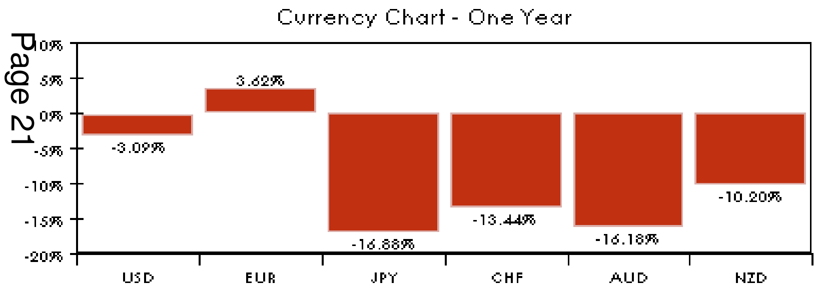
The Euro area economic activity continues to be led by robust expansion in Germany but conditions in the euro area government bond markets remain difficult. The recovery is looking polarised as the ongoing strength of Germany and France is not matched by the periphery. This is highlighted by Spain and Ireland both contracting again, while Italy shows slowing growth. Ten year government bond yield spreads for Greece, Ireland and Spain over German bunds have risen further over the quarter. Ireland in particular, having received an €85bn EU-IMF bailout package in November saw spreads widen from 445bps at the end of September to 689bps in November before falling back as the ECB accelerated the pace of its bond purchases in early December. Major concerns remain over the health of the peripheral economies as a key issue for 2011 is the large funding requirement for euro governments this year – estimated at over €800bn. Europe's economy expanded less that initially estimated in the 3rd quarter, as GDP was revised down to an increase of 0.3% on the 2nd quarter instead of 0.4%. Inflation rose 2.2% year on year in December, exceeding the ECB's target for the first time in two years. The iTraxx Europe 5 yr index, representative of 125 investment grade entities across 6 sectors saw spreads contract from 111.04 at the end of September to 104.955 at the end of December. The JPM European Govt Bond index returned -3.1% (EUR) while the Barclay Capital Global Aggregate Credit index returned -0.01% (EUR) for the 4th quarter.

Following an assessment that progress towards its objectives of price stability and maximum employment has been "disappointingly slow", the US Federal Reserve announced that it would purchase an additional $600bn in longer-term Treasury securities by end of Q2, 2011. December saw agreement between President Obama and Congressional Republicans to extend the Bush-era tax cuts and other measures expected to cost $800bn over the next two years. Yields have increased across the curve over the quarter with the 10 yr US Treasury rising from 2.52% at the end of September, peaking mid December at 3.53% before closing at 3.37%. Data coming in for December indicates the recovery in the US economy is picking up momentum. The ISM manufacturing report for December showed growth expanding for the 17th consecutive month with the index at 57, up from 56.6 in November. Unemployment has fallen to 9.4%, the lowest since May 2009 and down from 9.8% in November. This is tempered however by a drop in the number of workers hired and a large number of people giving up looking for work. For the quarter the JPM US Govt Bond index returned -2.7% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned -1.6% (USD).

Prepared by Investment Risk & Analytical Services

Currency Performance (in GBP)





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Currency Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	-0.65	-3.09	-3.09	-8.00	-1.84
European Union euro	1.10	3.62	3.62	-5.13	-4.41
Japanese yen	-3.60	-16.88	-16.88	-18.66	-9.34
Swiss franc	-5.35	-13.44	-13.44	-14.47	-8.77
Australian dollar	-6.35	-16.18	-16.18	-13.15	-8.53
New Zealand dollar	-6.67	-10.20	-10.20	-8.50	-4.58

All index returns are in GBP terms unless stated otherwise.

The US dollar was a strong performer during Q4 2010 as investors sought a safe haven from the uncertainties caused by the Eurozone crisis in Ireland and Portugal. The Australian Dollar and New Zealand Dollar both strengthened during Q4 2010. As the best performing currency by far in 2010, the Australian dollar has enjoyed an impressive rally on the back of strong economic growth. The Reserve Bank of Australia is the only central bank in the developed world to aggressively hike interest rates. The New Zealand dollar continues to outperform on the back of strong performances of commodities like agriculture and livestock. One of the key currency factors this quarter was the continued bickering between the US and China where the US argued that China was keeping the value of the Yuan low to help its exporters at the expense of overseas competitors. The stronger yen has meant demand for exports has weakened, fuelling concerns for the recovery of the Japanese economy, the world's second largest.

In the UK, The pound came under pressure this quarter as fears over the health of the UK economy resurfaced. Investors questioned the building optimism surrounding sterling as figures showed UK unemployment and inflation were both rising, while consumer confidence was falling sharply. The UK unemployment rate is sitting at 7.9%, and there were 2.5 million unemployed people. Adding to the pressure on the pound was a report from the Bank of England in December, which confirmed the central bank was concerned that the UK financial system was vulnerable to further turmoil in the euro zone. The UK housing market has been a tale of two halves in 2010, with growth in the first half of the year followed by a period of stagnation as concerns over the economic outlook grew. The pound has suffered due to this deterioration of the UK housing market contributing to the fall against the USD. Sterling closed the quarter down against the US Dollar by -0.6% and the Yen by -3.6%, however was up against the Euro by 1.1%.

In the US, America's central bank announced that it would pump an additional $600bn (£372bn) into the ailing US economy over the next eight months in an attempt to accelerate growth and cut unemployment. Expressing concern at the sluggish recovery, the Federal Reserve said it would buy $75bn of long-term Treasury bills each month until the middle of next year. The expansion of the Fed's quantitative easing program was accompanied by a pledge to keep interest rates at ultra-low levels for an extended period. Housing prices and consumer confidence fell by more than expected, emphasising the risk that a weak housing market will harm domestic demand and undermine the US economic recovery. The trade deficit declined by 13.2 per cent to $38.7bn. That was its lowest level since January. The Dollar closed the quarter gaining against the Pound by 0.6% and Euro by 1.7%, however was down against the Yen by 3.0%.

In the Euro area, apart from Ireland, Portugal and Spain, where financial market tensions have risen of late, the economic recovery in the Eurozone remains on track on the back of the continued soft U.S. economic data. Ireland has tested the Eurozone's firefighting capabilities but in macroeconomic terms it is, so far, a small explosion within the Eurozone with no real consequences in the Euro region as a whole. Ireland's credit rating has been downgraded by five notches from Aa2 to Baa1 and put on negative outlook by Moody's. Moody's said the negative outlook reflected concerns that the government's financial position could deteriorate. The jobless rate in the Eurozone reached a record 10.1 per cent. Germany's domestic unemployment indicator dropped to 7.5 per cent, its lowest level in 18 years, highlighting the chasm between Germany's healthy economy and the cloudier picture for Eurozone countries such as Greece and Ireland. Whereas Germany's unemployment rate is down 0.4 per cent in the past 12 months, joblessness has risen 1.7 per cent in Spain, where it stands at 20.7 per cent. The Euro ended the quarter falling against the US Dollar, Sterling and Yen at 1.7%, 1.1% and 4.7% respectively.

Scheme Performance

In the final quarter of the year continued growth in equity markets helped the London Borough of Hillingdon to a 5.13% return, however against the Total Plan benchmark return of 6.08% this equates to a relative underperformance of -0.89%. As with last quarter underweighting equity markets was the main detriment to performance, with the most notable decision in North America (28 of the negative 50 basis points). While in bonds the largest single negative effect was overweighting Corporate Bonds (-29 bps) and while Index Linked instruments did see growth in this quarter, it was not as much as the equity markets so again an overweight position led to -17 basis points. Stock selection on the other hand was mostly positive, with the most significant effect coming from stock-picking in Continental Europe.

This means that the Scheme finishes the year with a healthy 10.82% growth in assets, however on a relative basis it's exactly 3% below the target set by the blended benchmark. Looking at the 2010 results stock selection seems to be the main cause of this underperformance with an effect of -1.74%, the biggest factor in this time period is stock picking in the UK, which has an impact of -1.57%. This picture is repeated in selection effects across all equity segments, accumulating in the Overseas group detracting -0.86%, which is only slightly offset by some good selection of Corporate Bonds producing positive 0.76% effect. Asset Allocation is not affecting the results much with the gains made in equity more than offset by the overweighting of Corporate Bonds and Index linked Gilts. Meanwhile, currency effects also had a negative impact over the year, with the two main factors being within Corporate Bonds (-0.81%) and underweighting one of the strongest currencies in 2010, the Yen (-0.46%).

For longer periods still with just one quarter outperforming in the last three years, the Fund remains below the Total Plan benchmark in all time frames, which means since 4th quarter 1995 the Fund's return of 6.52% is 47 basis points behind the benchmark of 7.03%.

Manager Performance

Alliance Bernstein

During the 4th quarter Alliance Bernstein achieved a 9.06% versus the benchmark of 9.19%, giving a relative return of -12 basis points. Despite some good stock-picking in North America, Asia Pacific and Europe (adding 37, 36 & 23 basis points respectively) this was countered by selection decisions in Emerging Markets and Japan (-59 & -19 basis points). While also contributing to the underperformance was an allocation to cash (-23 bps) and some slightly negative currency effects (totaling -9 basis points). Underperformance is seen in all the longer time periods, with a 2010 calendar year performance of 7.41% against a benchmark of 12.41% while over 3 years the underperformance rises to -5.57% on a relative basis. Since inception (2nd Quarter 2006) the fund is now back in positive territory with a 0.28% return, but this still falls short of the benchmark by -3.73%.

Goldman Sachs

Falling bond markets lead to Goldman Sachs posting a -1.18% return, however this was still 14 basis points ahead of their benchmark return of -1.32%. Now over the last twelve months the fund's return of 9.08% is up 43 basis points on a relative basis; with the fund staying close to it's 70/30 split this outperformance can be attributed to fixed income selection. Despite this now making it 6 positive quarters from the last 7, the underperformance seen prior to 2nd quarter 2009 continues to drag down longer timeframes, with the relative underperformance of -0.97%, -0.69% and -0.55% for the 3 year, 5 year and since inception periods respectively.

SSGA

During the final quarter of 2010 SSGA returned 6.36% exactly the same as the balanced benchmark they are measured against, giving them one year figure of 14.18%, only 2 basis points ahead of the index. Looking within these results shows us the manager maintains a neutral weighting position while matching the regional indices. The same is seen since the inception of the fund, with the return since November 2008 of 21.52% versus the benchmark of 21.46%.

SSGA Drawdown

For the first time the SSGA Drawdown fund fell short of it's benchmark with a -1.34% quarterly return versus -1.17%, -0.17% in relative terms. In spite of this the fund remains ahead of target for 2010 with their 4.79% return outperforming relatively by 39 basis points. A similar story is seen in the inception to date period, with the return of 6.59% being 37 basis points ahead of its benchmark on a relative basis.

Manager Performance

UBS

During the latest quarter UBS again achieved a positive relative return, with a return of 7.55% against the FTSE All Share's 7.38%. Within allocation decisions, again underweighting Basic Materials detracted from performance (-63 bps), but offset by the underweight position in Financials (51 bps). The driver of the good performance this quarter was the stock selection, with the notable sectors being Industrials, Basic Materials and Consumer Goods, adding 51, 36 and 24 basis points respectively, although slightly countered by the Financial stocks held (-60 bps).

However, predominantly due to the 2nd quarter figures they finish 2010 with their 12.29% return being -1.94% down on the index in relative terms. The 1 year result can be mostly explained by stock selection, despite the positive 1.38% coming from Industrials, the sectors Consumer Goods (-1.24%) and Services (-0.65%) were the most significant negative effects, while the most notable asset allocation decision was still underweighting Basic Materials (-0.64%).

In longer time periods the underperformance is still seen in the 3 and 5 year figures, with relative returns of -1.37% and -1.96% respectively. However, the inception to date return of 10.23% outperforms by 0.96%, when compared to the benchmark of 9.18% for the same period.

UBS Property

UBS Property produced 1.36% growth during the 4th quarter, but against the benchmark return of 1.90% means a 53 basis point underperformance. Property markets, like equity, were strong in 2010 and the fund finishes the year with an 11.05% return, however this is still below the IPD benchmark of 12.19%. Over longer time periods it's still the figures seen in the fourth quarter 2009 that drives the underperformance; with a 3 year relative return of -1.17%. Since inception in April 2007 the return from property investments is -2.99% per annum versus -2.16% an underperformance of the benchmark by 85 basis points on a relative basis.

Manager Performance

M&G Investments

Over the last three months M&G Investments achieved a 0.45% return on an absolute basis, while since the end of May 2010, this leads to a 1.8% absolute return.

At present no benchmark has been applied to this mandate.

Ruffer

Ruffer posted a 5.77% return which is a long way above it's proxy benchmark of the LIBOR 3 Month GBP, which returned 0.18%. This now means since May 2010 their 6.5% return is 6.04% ahead of the LIBOR.

Marathon

During the 4th quarter Marathon underperformed relatively by -1.26%, with their figure of 8.28% versus the benchmark of 9.66%. However, since inception in early June 2010, the fund has obtained a 17.86% return against 14.63 for the benchmark resulting in an outperformance of 2.81% in relative terms.

Fauchier

Fauchier returned 2.08% in the latest quarter against the benchmark of 1.42%, a relative return of 65 basis points, however they still underperform since inception in July 2010, with a 0.86% return being -1.94% relative to the benchmark of 2.85%.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 10/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 11/10	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 12/10	Active Contribution 4Q 2010
Alliance Bernstein	2.90	2.03	0.87	0.85	503,647.14	-0.84	-0.18	-0.66	-0.66	-383,583.78	6.88	7.21	-0.33	-0.31	-204,667.83	-84,604.48
Goldman Sachs	-0.62	-0.73	0.11	0.11	71,170.67	-1.32	-1.51	0.19	0.19	122,016.61	0.77	0.93	-0.17	-0.16	-108,694.40	84,492.88
SSGA	1.64	1.64	-0.00	-0.00	-348.36	-1.29	-1.27	-0.02	-0.02	-16,723.08	6.02	6.00	0.02	0.01	17,008.02	-63.42
SSGA Drawdown	-0.21	-0.19	-0.03	-0.03	-5,367.52	-1.34	-0.98	-0.36	-0.36	-73,277.85	0.22	-0.00	0.22	0.22	41,396.87	-37,248.51
UBS	2.62	2.53	0.09	0.08	91,989.88	-2.54	-2.26	-0.28	-0.29	-294,371.84	7.53	7.14	0.39	0.37	434,994.22	232,612.26
UBS Property	0.46	0.65	-0.19	-0.19	-86,351.14	0.93	0.68	0.26	0.25	116,062.11	-0.04	0.56	-0.60	-0.60	-274,759.75	-245,048.77
M&G Investments	0.00	-	-	-	0.00	-0.00	-	-	-	0.00	0.45	-	0.45	-	13,976.54	13,976.54
Ruffer	0.69	0.06	0.63	0.63	317,085.37	1.20	0.06	1.13	1.13	579,107.29	3.80	0.06	3.75	3.74	1,934,347.05	2,830,539.70
Marathon	1.70	2.24	-0.54	-0.52	-291,644.55	0.69	0.45	0.25	0.25	133,831.05	5.74	6.78	-1.04	-0.98	-606,888.07	-764,701.57
Fauchier	1.10	0.47	0.63	0.63	155,775.27	0.78	0.47	0.31	0.31	77,990.64	0.18	0.47	-0.29	-0.29	-72,818.37	160,947.54

Total Fund Market Value at Qtr End: £555.0 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	555.0	100.00	5.13	6.08	-0.94	-0.89	10.82	14.25	-3.43	-3.00	10.82	14.25	-3.43	-3.00

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
Alliance Bernstein	61.7	11.13	9.06	9.19	-0.13	-0.12	7.41	12.41	-5.00	-4.45	7.41	12.41	-5.00	-4.45
Goldman Sachs	65.7	11.84	-1.18	-1.32	0.13	0.14	9.08	8.61	0.47	0.43	9.08	8.61	0.47	0.43
SSGA	113.1	20.38	6.36	6.36	-0.00	-0.00	14.18	14.16	0.02	0.02	14.18	14.16	0.02	0.02
SSGA Drawdown	18.8	3.38	-1.34	-1.17	-0.16	-0.17	4.79	4.38	0.41	0.39	4.79	4.38	0.41	0.39
UBS	110.8	19.96	7.55	7.38	0.17	0.16	12.29	14.51	-2.22	-1.94	12.29	14.51	-2.22	-1.94
UBS Property	45.6	8.21	1.36	1.90	-0.54	-0.53	11.05	12.19	-1.14	-1.02	11.05	12.19	-1.14	-1.02
M&G Investments	3.1	0.56	0.45	-	-	-	-	-	-	-	-	-	-	-
Ruffer	53.6	9.65	5.77	0.18	5.59	5.58	-	-	-	-	-	-	-	-
Marathon	57.6	10.37	8.28	9.66	-1.38	-1.26	-	-	-	-	-	-	-	-
Fauchier	25.0	4.51	2.08	1.42	0.66	0.65	-	-	-	-	-	-	-	-
Nomura	0.1	0.02	18.41	-	-	-	15.05	-	-	-	15.05	-	-	-

Total Fund Market Value at Qtr End: £555.0 M

Scheme Performance

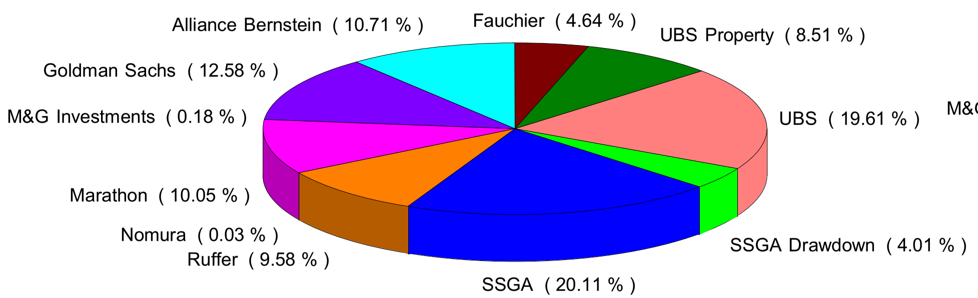
	Three Years				Five Years				Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	-0.15	2.93	-3.08	-2.99	2.92	5.38	-2.46	-2.33	6.52	7.03	-0.51	-0.47

By Manager

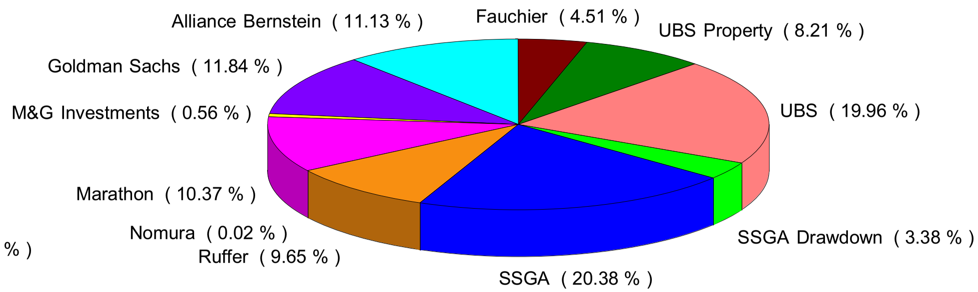
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Alliance Bernstein	-3.58	2.11	-5.69	-5.57	-	-	-	-	31/03/06	0.28	4.16	-3.88	-3.73
Goldman Sachs	5.78	6.81	-1.03	-0.97	5.81	6.55	-0.74	-0.69	31/12/01	5.87	6.46	-0.58	-0.55
SSGA	-	-	-	-	-	-	-	-	30/11/08	21.52	21.46	0.06	0.05
SSGA Drawdown	-	-	-	-	-	-	-	-	30/06/09	6.59	6.19	0.40	0.37
UBS	2.70	4.12	-1.42	-1.37	3.92	6.00	-2.08	-1.96	31/12/88	10.23	9.18	1.05	0.96
UBS Property	-6.83	-5.72	-1.11	-1.17	-	-	-	-	31/03/06	-2.99	-2.16	-0.83	-0.85
M&G Investments	-	-	-	-	-	-	-	-	27/05/10	1.80	-	-	-
Ruffer	-	-	-	-	-	-	-	-	28/05/10	6.50	0.43	6.07	6.04
Marathon	-	-	-	-	-	-	-	-	09/06/10	17.86	14.63	3.23	2.81
Fauchier	-	-	-	-	-	-	-	-	30/06/10	0.86	2.85	-1.99	-1.94
Nomura	-	-	-	-	-	-	-	-	31/07/09	15.79	-	-	-

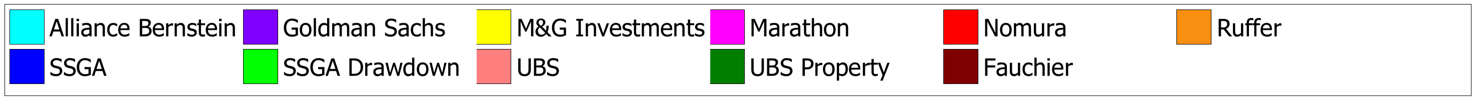
Total Fund Market Value at Qtr End: £555.0 M

Weighting at Beginning of Period



Weighting at End of Period

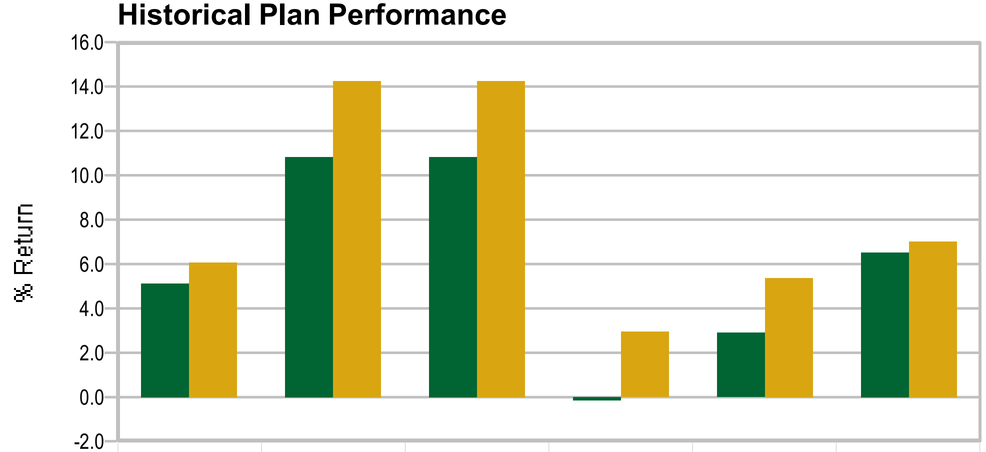




	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	528,641	100.00	-744	25,500	1,596	554,992	100.00
Alliance Bernstein	56,621	10.71	-6	4,928	202	61,744	11.13
Fauchier	24,504	4.64		509		25,013	4.51
Goldman Sachs	66,483	12.58		-863	76	65,695	11.84
M&G Investments	934	0.18	2,143	30		3,107	0.56
Marathon	53,155	10.05		4,401		57,556	10.37
Nomura	151	0.03	-81	8	12	89	0.02
Ruffer	50,653	9.58		2,762	159	53,574	9.65
SSGA	106,334	20.11		6,765		113,099	20.38
SSGA Drawdown	21,185	4.01	-2,143	-286	-0	18,756	3.38
UBS	103,659	19.61	-658	7,067	718	110,785	19.96
UBS Property	44,963	8.51		180	430	45,573	8.21

London Borough of Hillingdon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.13	10.82	10.82	-0.15	2.92	6.52
Benchmark	6.08	14.25	14.25	2.93	5.38	7.03

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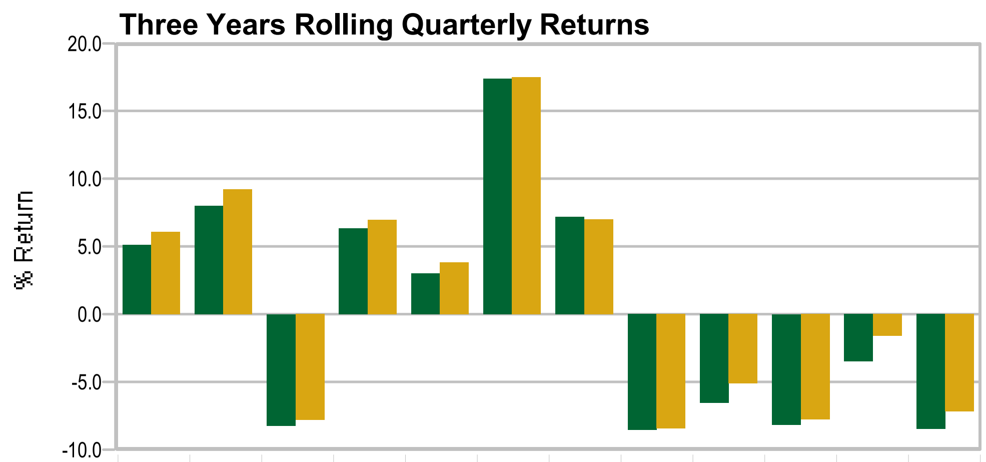
Risk Statistics - 3 years

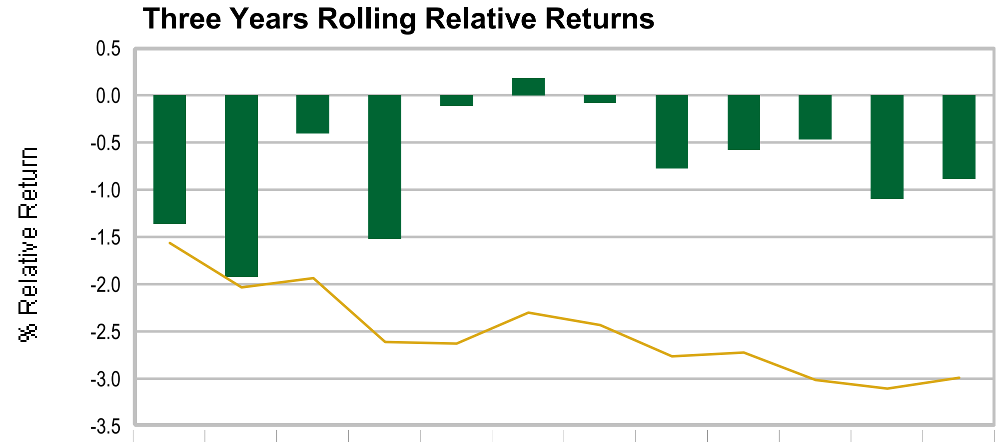
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-0.15	2.93
Standard Deviation	16.23	15.98
Relative Return	-2.99	
Tracking Error	1.44	
Information Ratio	-2.13	
Beta	1.01	
Alpha	-2.96	
R Squared	0.99	
Sharpe Ratio	-0.21	-0.02
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	528,641	
Net Investment £(000)	-744	
Income Received £(000)	1,596	
Appreciation £(000)	25,500	
Closing Market Value (£000)	554,992	

Three Years Rolling Quarterly Returns



	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	5.13	8.01	-8.24	6.35	3.02	17.40	7.21	-8.55	-6.57	-8.18	-3.51	-8.47
Benchmark	6.08	9.21	-7.81	6.97	3.83	17.50	7.02	-8.44	-5.12	-7.80	-1.61	-7.20

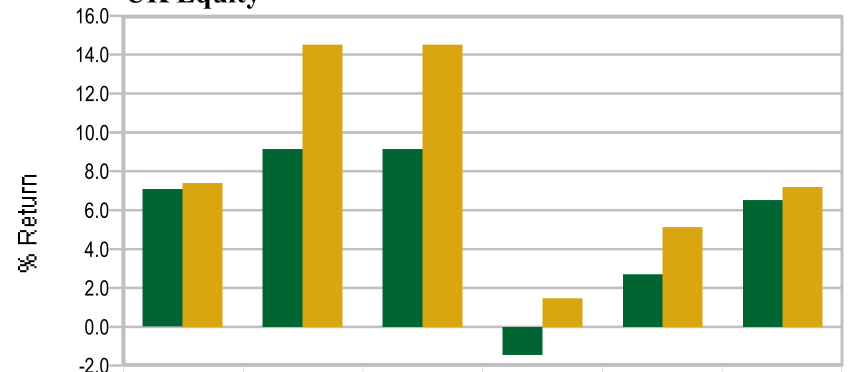
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-1.37	-1.93	-0.41	-1.52	-0.12	0.18	-0.09	-0.78	-0.58	-0.47	-1.10	-0.89
3Y Relative	-1.56	-2.04	-1.94	-2.61	-2.63	-2.30	-2.44	-2.76	-2.72	-3.01	-3.10	-2.99

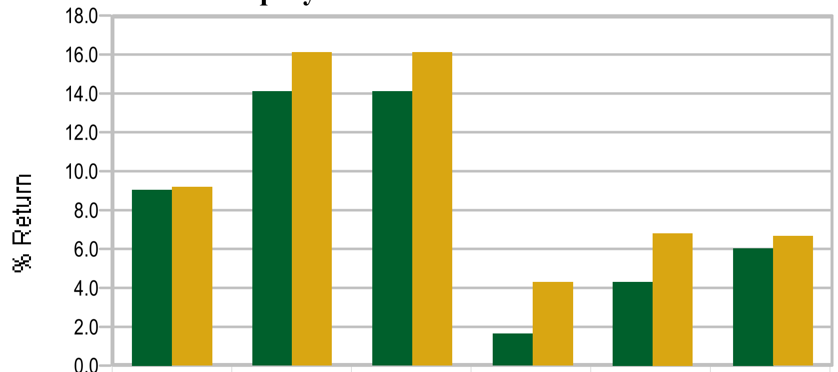
London Borough of Hillingdon

UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.05	9.13	9.13	-1.44	2.68	6.50
B'Mark	7.38	14.51	14.51	1.45	5.12	7.19

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.04	14.12	14.12	1.64	4.31	6.04
B'Mark	9.19	16.12	16.12	4.30	6.82	6.66

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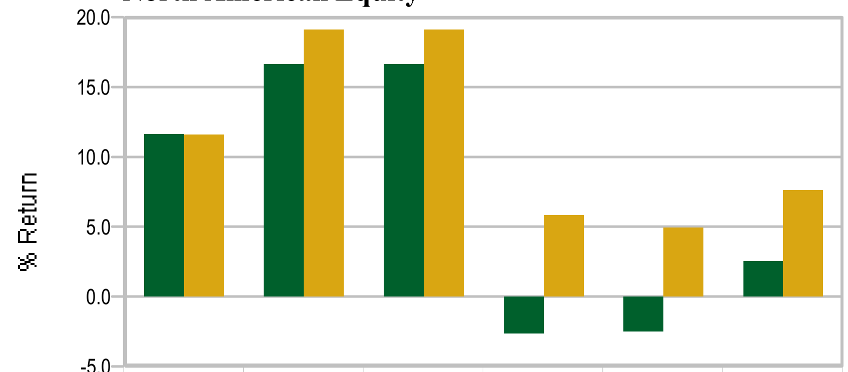
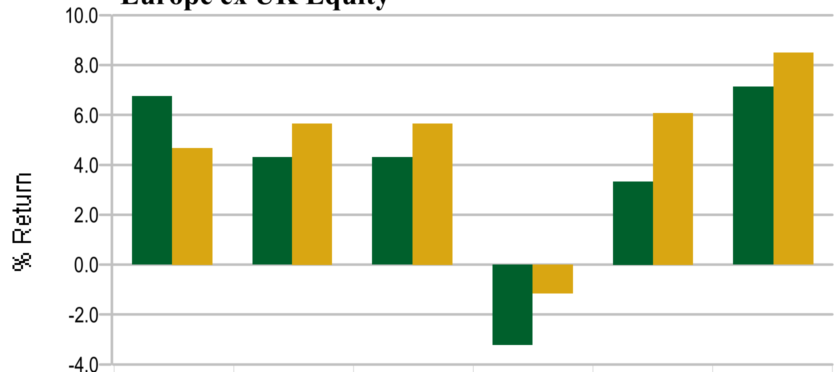
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.60	16.60	16.60	-2.62	-2.50	2.55
B'Mark	11.59	19.07	19.07	5.82	4.95	7.61

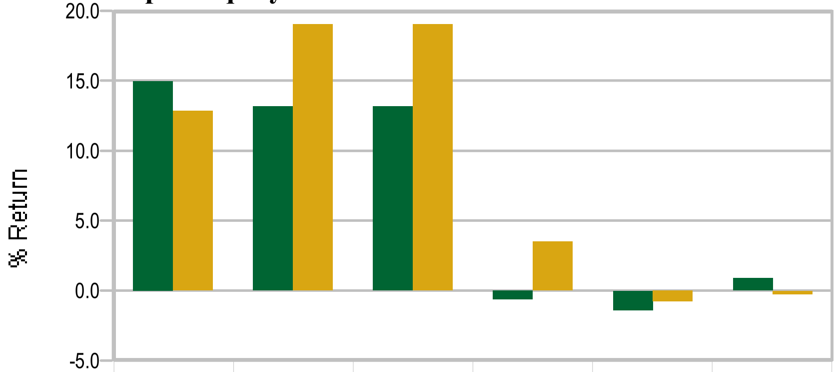
Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.74	4.30	4.30	-3.22	3.32	7.13
B'Mark	4.67	5.66	5.66	-1.15	6.07	8.49

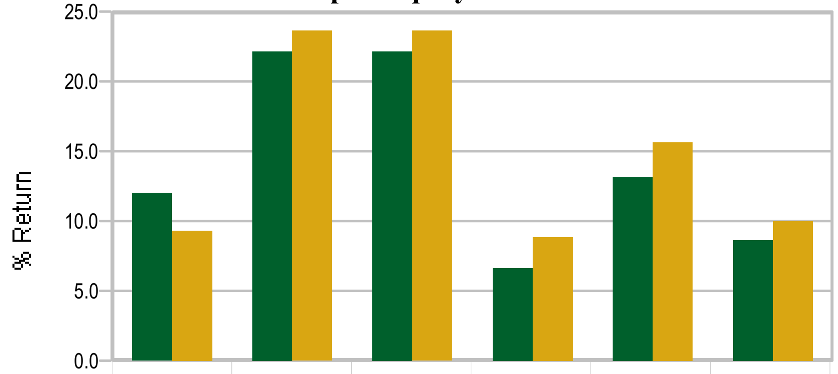
London Borough of Hillingdon

Japan Equity



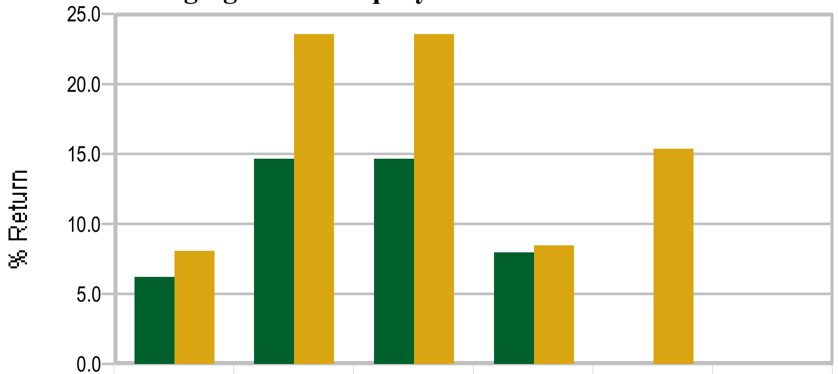
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	14.97	13.16	13.16	-0.61	-1.41	0.89
B'Mark	12.84	19.03	19.03	3.50	-0.78	-0.25

Asia Pacific ex Japan Equity



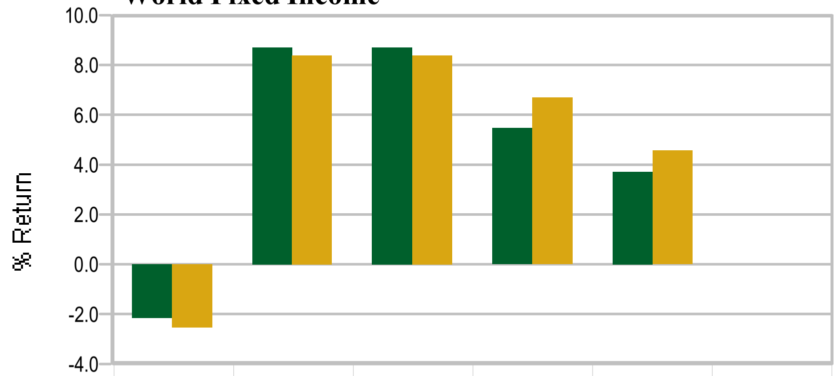
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.03	22.16	22.16	6.63	13.18	8.64
B'Mark	9.32	23.65	23.65	8.86	15.66	9.98

Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.23	14.64	14.64	7.95	-	-
B'Mark	8.07	23.58	23.58	8.49	15.37	-

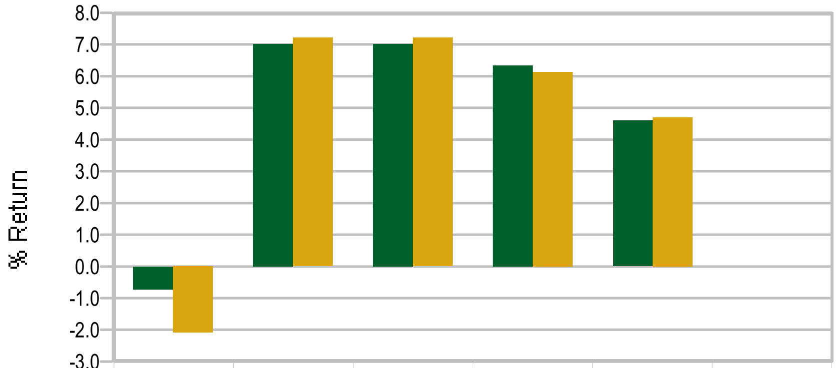
World Fixed Income



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.15	8.71	8.71	5.47	3.70	
B'Mark	-2.53	8.39	8.39	6.69	4.57	

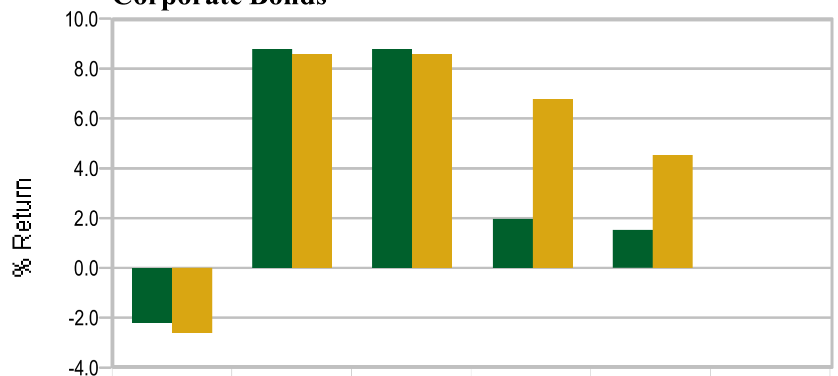
London Borough of Hillingdon

Government Bonds



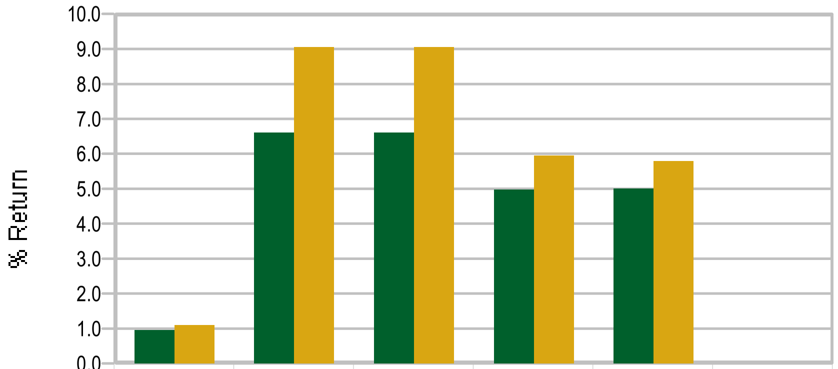
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.72	7.02	7.02	6.34	4.59	-
B'Mark	-2.08	7.20	7.20	6.13	4.71	-

Corporate Bonds



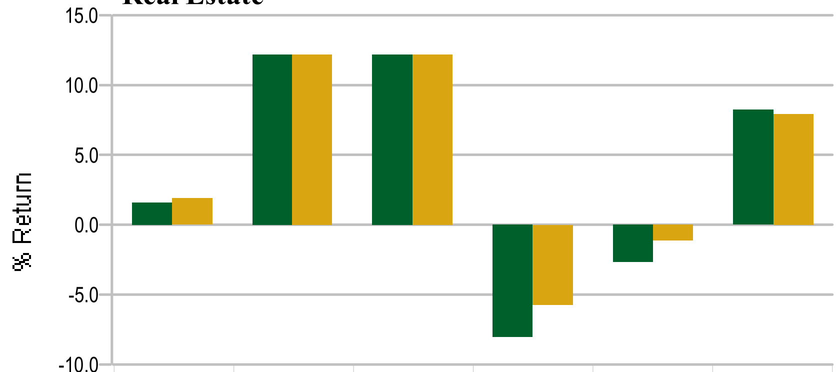
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.21	8.77	8.77	1.98	1.52	-
B'Mark	-2.62	8.59	8.59	6.78	4.54	-

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.96	6.61	6.61	4.98	5.01	-
B'Mark	1.09	9.05	9.05	5.95	5.80	-

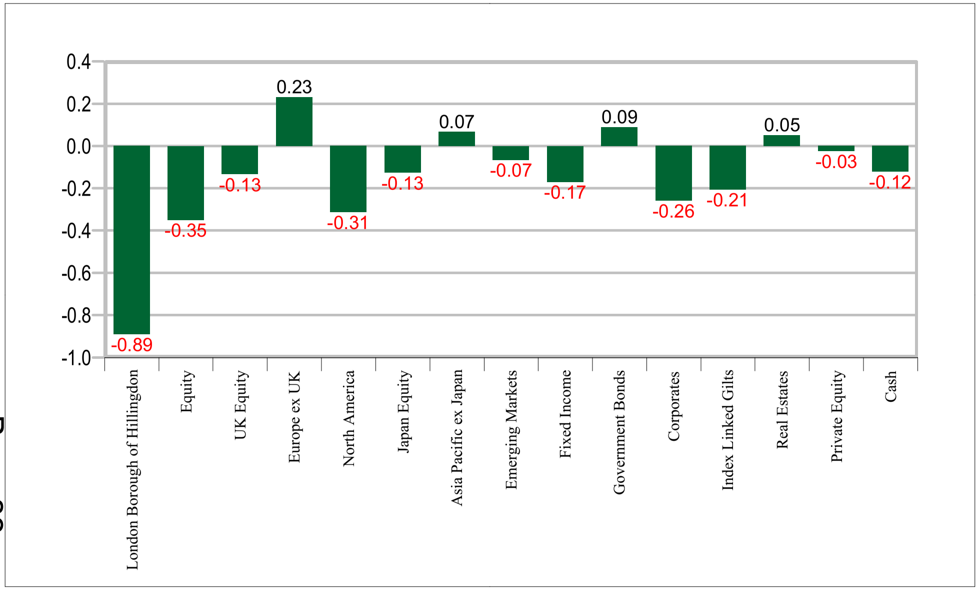
Real Estate



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.59	12.18	12.18	-8.05	-2.68	8.23
B'Mark	1.90	12.19	12.19	-5.72	-1.15	7.93

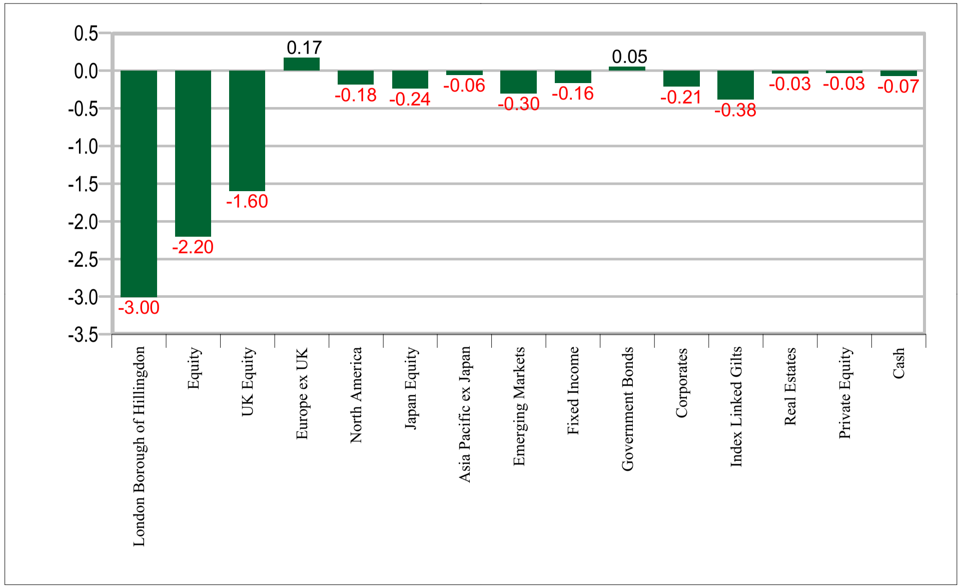
London Borough of Hillingdon

Relative Contribution - Three Months



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	5.13	6.08	-0.89	-0.05	-0.22	-0.96	0.37	-0.89
Equity	7.98	-	7.98	0.00	-0.20	-0.50	0.35	-0.35
UK Equity	7.05	7.38	-0.30	0.00	0.01	-0.03	-0.11	-0.13
Europe ex UK	6.74	4.67	1.98	0.00	-0.15	-0.04	0.43	0.23
North America	11.60	11.59	0.01	0.00	-0.06	-0.28	0.03	-0.31
Japan Equity	14.97	12.84	1.88	0.00	-0.08	-0.09	0.05	-0.13
Asia Pacific ex Japan	12.03	9.32	2.48	0.00	0.04	-0.02	0.04	0.07
Emerging Markets	6.23	8.07	-1.71	0.00	0.05	-0.04	-0.08	-0.07

Relative Contribution - One Year



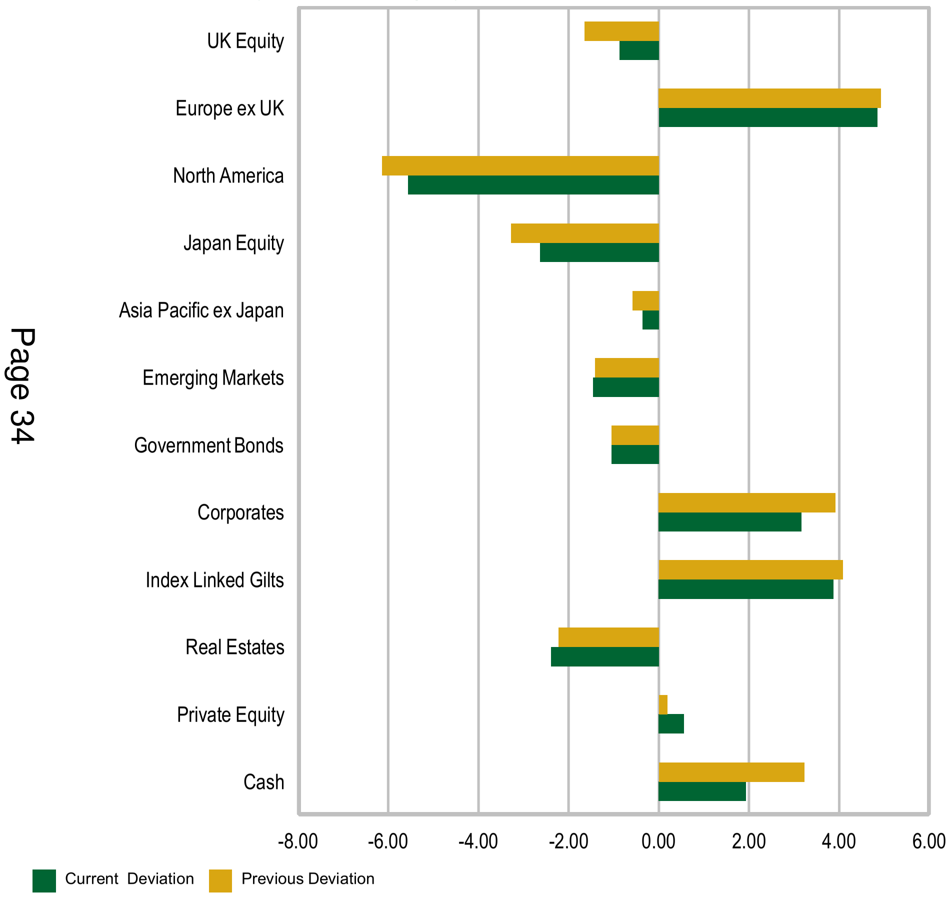
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	10.82	14.25	-3.00	-0.09	-1.01	-0.14	-1.74	-3.00
Equity	11.46	-	11.46	0.00	-0.04	0.26	-2.42	-2.20
UK Equity	9.13	14.51	-4.70	0.00	-0.06	0.03	-1.57	-1.60
Europe ex UK	4.30	5.66	-1.28	0.00	0.24	0.27	-0.34	0.17
North America	16.60	19.07	-2.08	0.00	0.14	-0.28	-0.04	-0.18
Japan Equity	13.16	19.03	-4.93	0.00	-0.46	0.31	-0.08	-0.24
Asia Pacific ex Japan	22.16	23.65	-1.20	0.00	0.02	-0.01	-0.06	-0.06
Emerging Markets	14.64	23.58	-7.24	0.00	0.09	-0.05	-0.34	-0.30

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	-2.15	-2.53	0.40	0.00	-0.01	-0.22	0.06	-0.17
Government Bonds	-0.72	-2.08	1.39	0.00	0.01	0.08	0.01	0.09
Corporates	-2.21	-2.62	0.42	0.00	-0.02	-0.29	0.05	-0.26
Index Linked Gilts	0.96	1.09	-0.14	0.00	-0.01	-0.17	-0.02	-0.21
Real Estates	1.59	1.90	-0.30	0.00	0.01	0.07	-0.02	0.05
Private Equity	1.00	-	1.00	0.00	-0.00	-0.02	0.00	-0.03
Cash	0.29	-	0.29	0.00	-0.01	-0.12	0.00	-0.12

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Fixed Income	8.71	8.39	0.30	0.00	-0.79	-0.12	0.76	-0.16
Government Bonds	7.02	7.20	-0.17	0.00	0.02	0.03	-0.00	0.05
Corporates	8.77	8.59	0.17	0.00	-0.81	-0.16	0.76	-0.21
Index Linked Gilts	6.61	9.05	-2.23	0.00	-0.17	-0.15	-0.06	-0.38
Real Estates	12.18	12.19	-0.01	0.00	0.05	-0.08	-0.00	-0.03
Private Equity	2.29	-	2.29	0.00	-0.00	-0.03	0.00	-0.03
Cash	0.23	-	0.23	0.00	-0.06	-0.01	0.00	-0.07

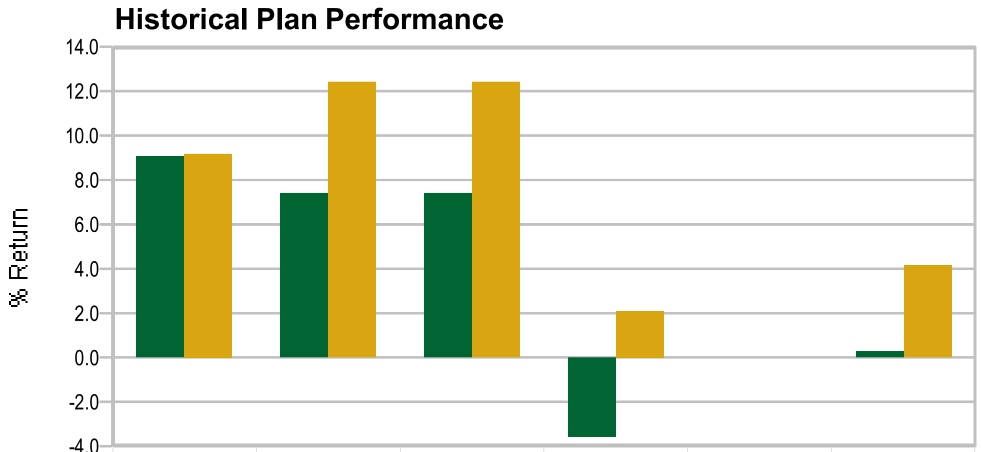
London Borough of Hillingdon

By Asset Category



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	35.97	35.19	36.84	-0.87	36.84	-1.65
Europe ex UK	15.90	15.99	11.06	4.84	11.06	4.93
North America	7.33	6.77	12.90	-5.57	12.90	-6.13
Japan Equity	2.90	2.26	5.53	-2.63	5.53	-3.27
Asia Pacific ex Japan	3.32	3.09	3.68	-0.36	3.68	-0.59
Emerging Markets	2.22	2.27	3.68	-1.46	3.68	-1.41
Government Bonds	0.53	0.54	1.58	-1.05	1.58	-1.04
Corporates	12.10	12.86	8.94	3.16	8.94	3.92
Index Linked Gilts	9.13	9.34	5.26	3.87	5.26	4.08
Real Estates	8.14	8.31	10.53	-2.39	10.53	-2.22
Private Equity	0.56	0.18		0.56		0.18
Cash	1.94	3.22		1.94		3.22

Alliance Bernstein



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.06	7.41	7.41	-3.58	-	0.28
Benchmark	9.19	12.41	12.41	2.11	-	4.16

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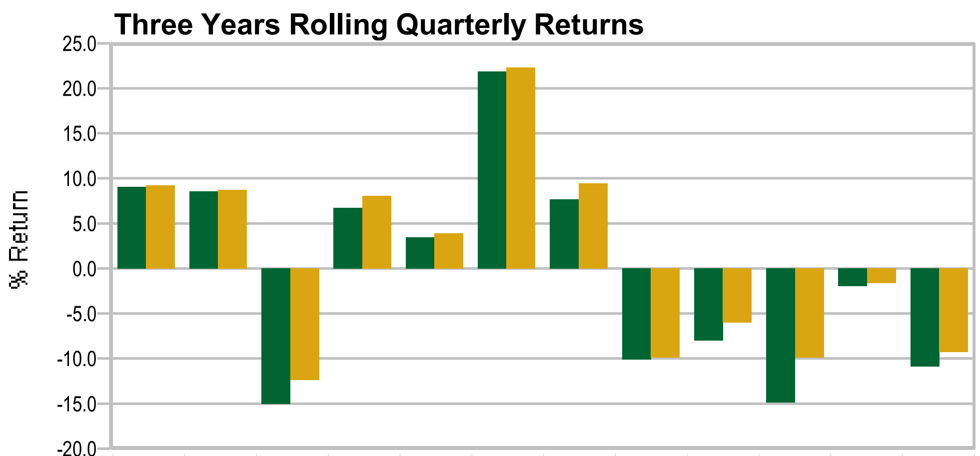
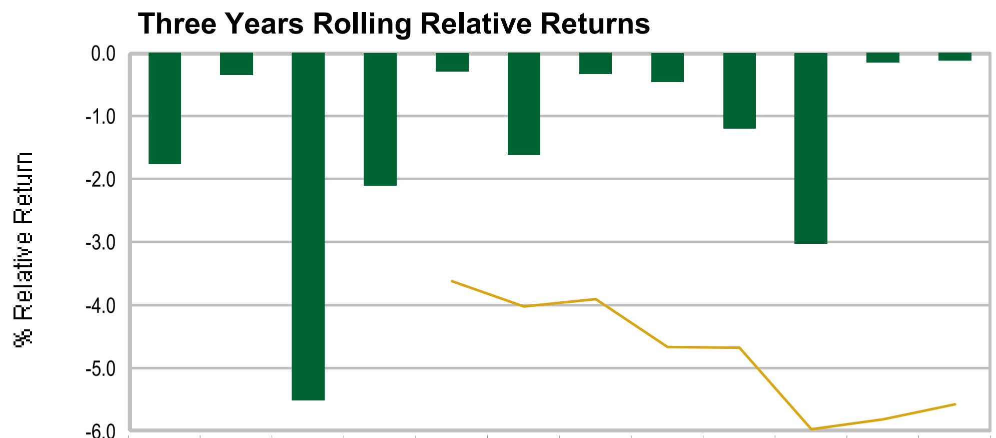
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-3.58	2.11
Standard Deviation	21.81	20.72
Relative Return	-5.57	
Tracking Error	2.24	
Information Ratio	-2.54	
Beta	1.05	
Alpha	-5.39	
R Squared	0.99	
Sharpe Ratio	-0.32	-0.06
Percentage of Total Fund	11.1	
Inception Date	Mar-2006	
Opening Market Value (£000)	56,621	
Net Investment £(000)	-6	
Income Received £(000)	202	
Appreciation £(000)	4,928	
Closing Market Value (£000)	61,744	



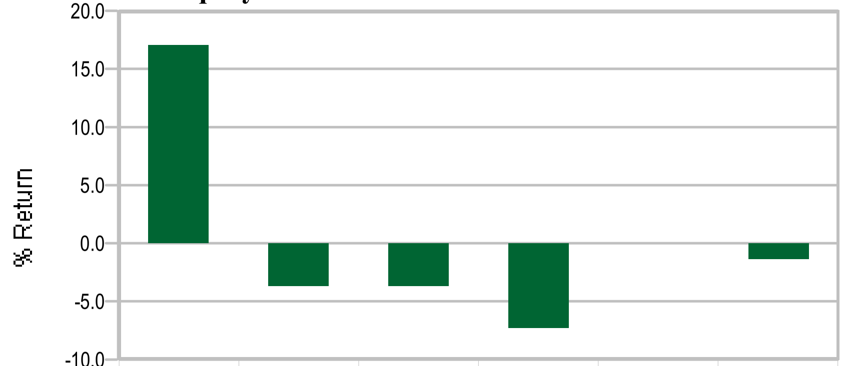
	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	9.06	8.58	-15.05	6.77	3.47	21.87	7.69	-10.14	-8.01	-14.89	-1.97	-10.90
Benchmark	9.19	8.75	-12.40	8.07	3.94	22.29	9.46	-9.87	-6.03	-9.92	-1.63	-9.30



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-1.77	-0.35	-5.51	-2.11	-0.29	-1.62	-0.34	-0.46	-1.20	-3.02	-0.15	-0.12
3Y Relative	-	-	-	-	-3.62	-4.02	-3.91	-4.66	-4.68	-5.97	-5.81	-5.57

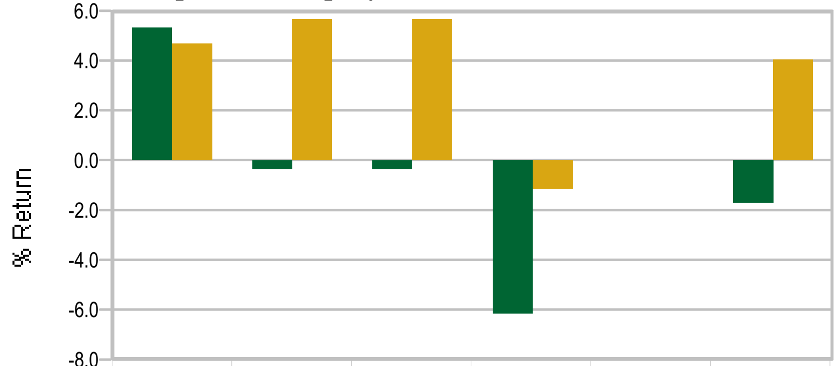
Alliance Bernstein

UK Equity



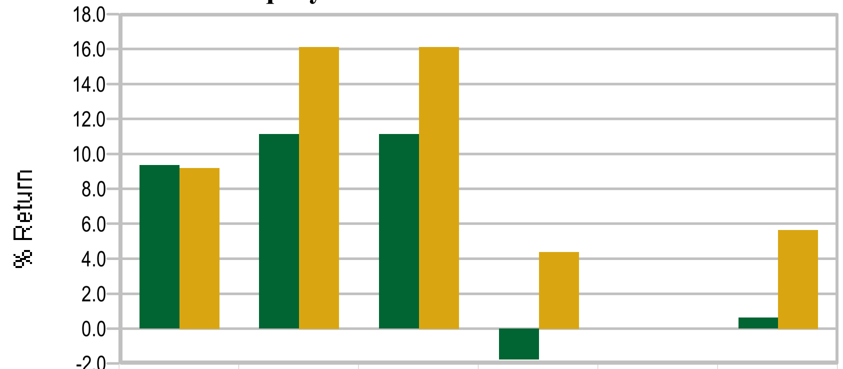
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	17.03	-3.68	-3.68	-7.30	-	-1.36

Europe ex UK Equity



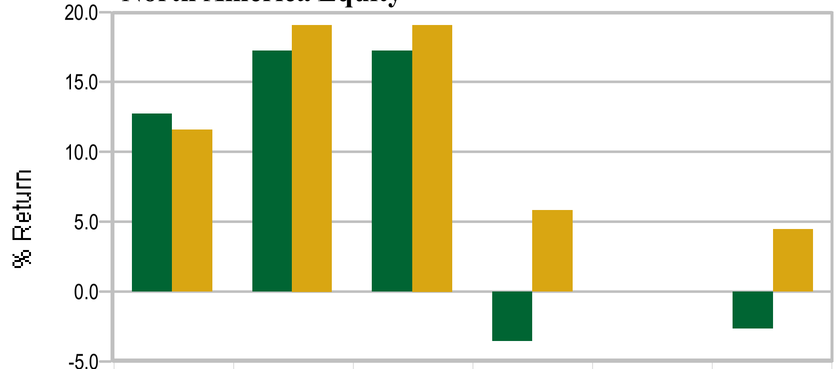
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.31	-0.35	-0.35	-6.17	-	-1.72
B'Mark	4.67	5.66	5.66	-1.15	-	4.03

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	9.37	11.12	11.12	-1.77	-	0.62
B'Mark	9.19	16.12	16.12	4.39	-	5.64

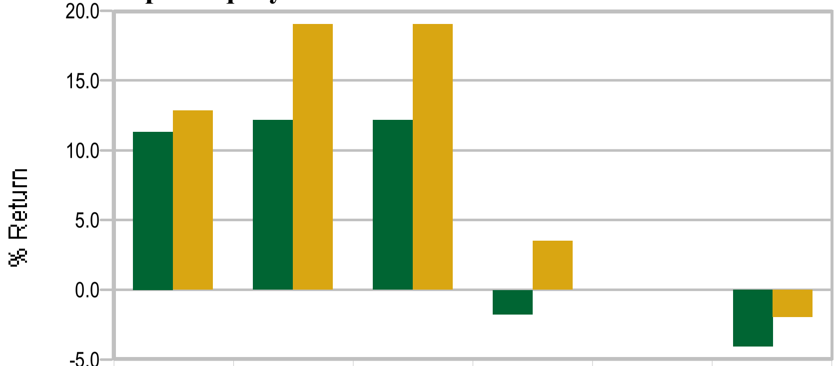
North America Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	12.73	17.23	17.23	-3.51		-2.64
B'Mark	11.59	19.07	19.07	5.82		4.47

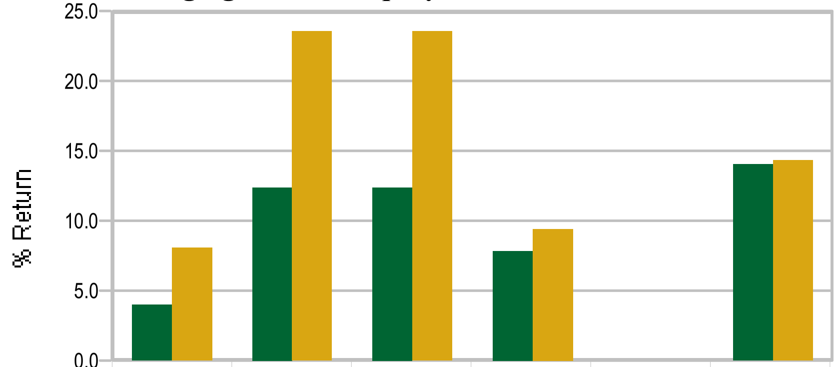
Alliance Bernstein

Japan Equity



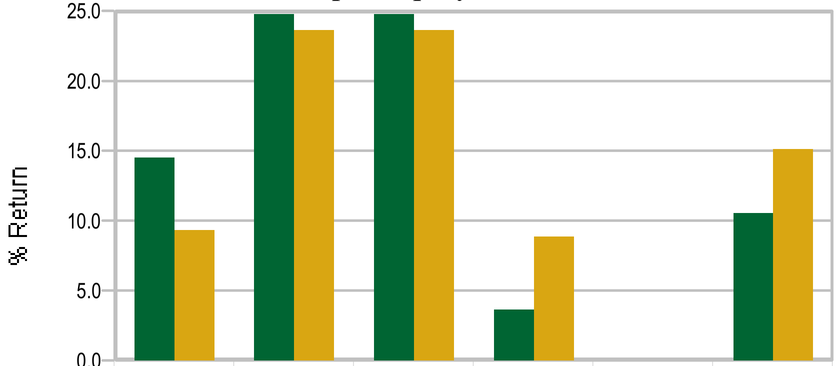
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.30	12.16	12.16	-1.75	-	-4.04
B'Mark	12.84	19.03	19.03	3.50	-	-1.97

Emerging Markets Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.00	12.38	12.38	7.85	-	14.06
B'Mark	8.07	23.58	23.58	9.42	-	14.36

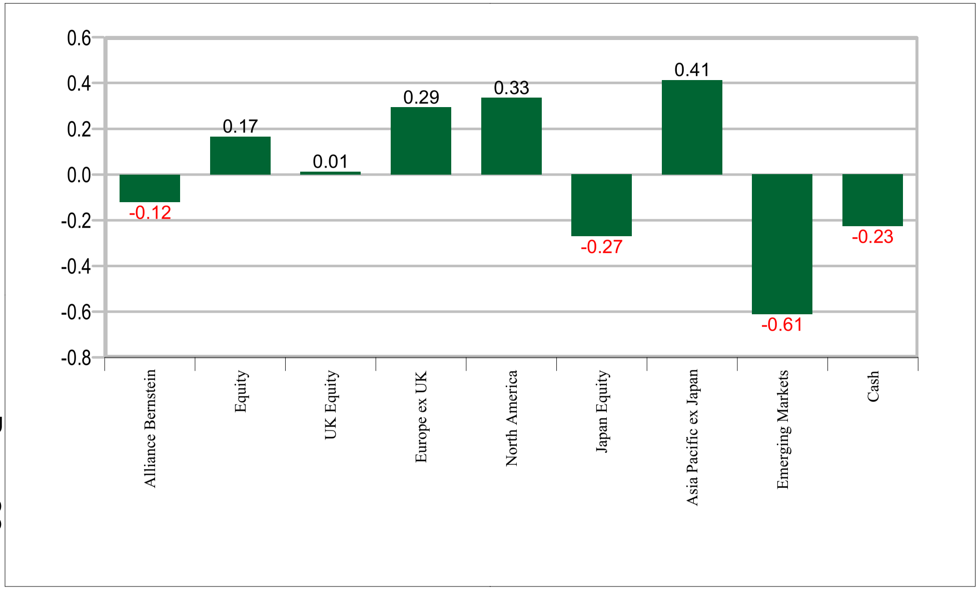
Asia Pacific ex Japan Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	14.52	24.78	24.78	3.63	-	10.55
B'Mark	9.32	23.65	23.65	8.86	-	15.11

Alliance Bernstein

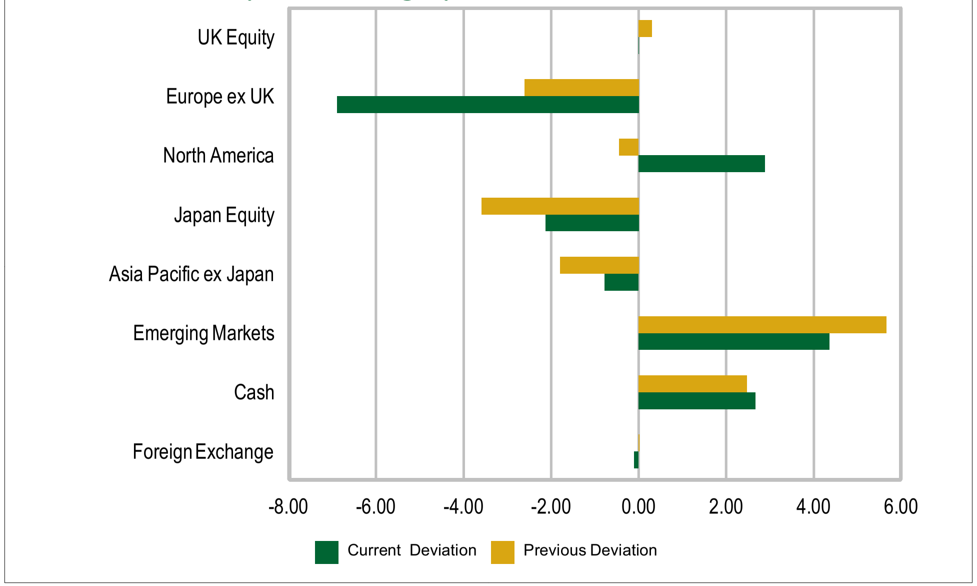
Relative Contribution - Three Months



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Alliance Bernstein	9.06	9.19	-0.12	-0.07	-0.09	-0.15	0.18	-0.12
Equity	9.38	-	9.38	0.00	-0.09	0.08	0.18	0.17
UK Equity	17.03	-	17.03	0.00	0.00	0.01	0.00	0.01
Europe ex UK	5.31	4.67	0.61	0.00	-0.07	0.13	0.23	0.29
North America	12.73	11.59	1.02	0.00	-0.05	0.02	0.37	0.33
Japan Equity	11.30	12.84	-1.37	0.00	-0.06	-0.02	-0.19	-0.27
Asia Pacific ex Japan	14.52	9.32	4.75	0.00	0.03	0.03	0.36	0.41
Emerging Markets	4.00	8.07	-3.77	0.00	0.07	-0.09	-0.59	-0.61
Cash	1.63	-	1.63	0.00	-0.00	-0.23	0.00	-0.23

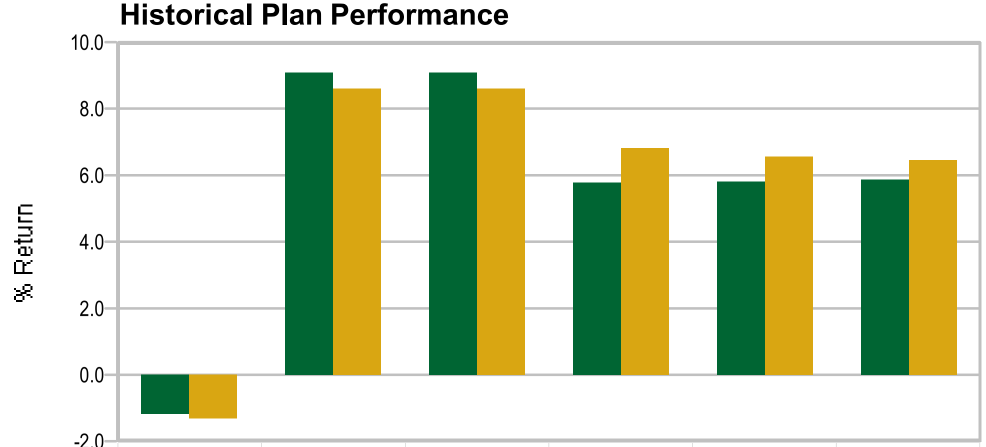
Alliance Bernstein

By Asset Category



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	0.00	0.30		0.00		0.30
Europe ex UK	23.11	27.39	30.00	-6.89	30.00	-2.61
North America	37.89	34.55	35.00	2.89	35.00	-0.45
Japan Equity	12.87	11.41	15.00	-2.13	15.00	-3.59
Asia Pacific ex Japan	9.22	8.20	10.00	-0.78	10.00	-1.80
Emerging Markets	14.36	15.66	10.00	4.36	10.00	5.66
Cash	2.66	2.47		2.66		2.47
Foreign Exchange	-0.11	0.02		-0.11		0.02

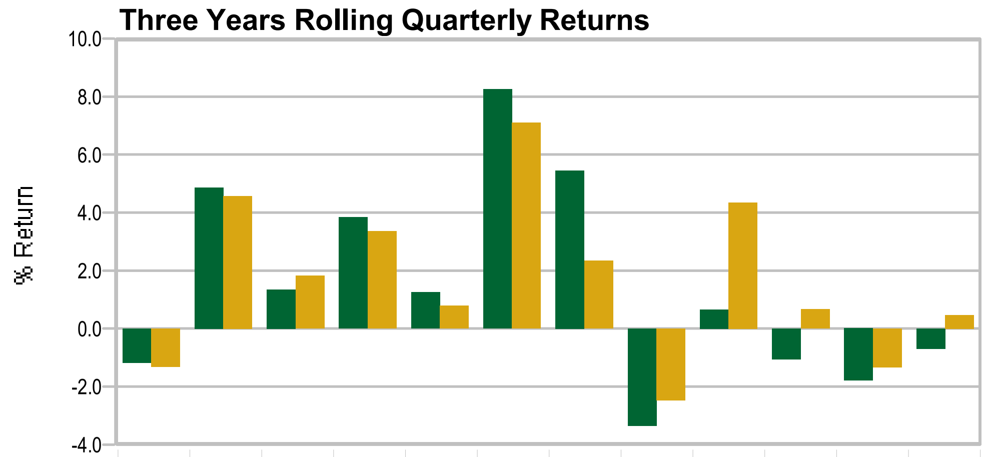
Goldman Sachs



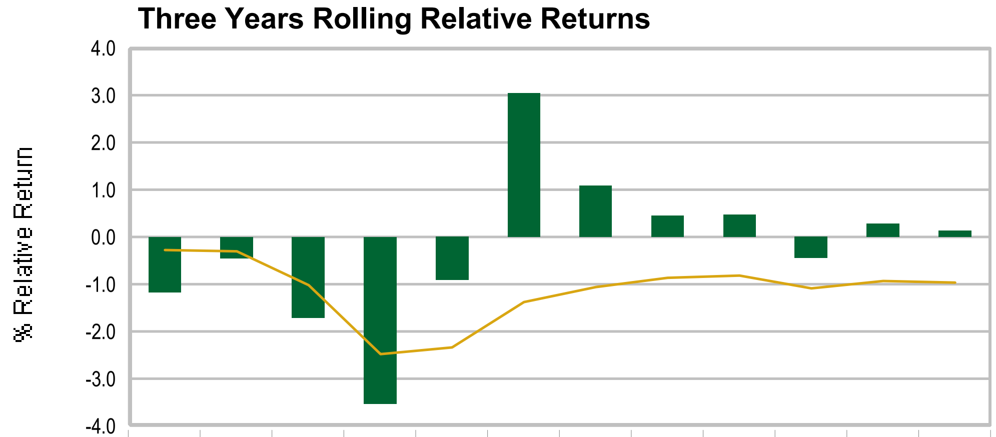
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.18	9.08	9.08	5.78	5.81	5.87
Benchmark	-1.32	8.61	8.61	6.81	6.55	6.46

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	5.78	6.81
Standard Deviation	7.47	6.94
Relative Return	-0.97	
Tracking Error	2.14	
Information Ratio	-0.48	
Beta	1.05	
Alpha	-1.11	
R Squared	0.92	
Sharpe Ratio	0.33	0.50
Percentage of Total Fund	11.8	
Inception Date	Dec-2001	
Opening Market Value (£000)	66,483	
Net Investment £(000)	0	
Income Received £(000)	76	
Appreciation £(000)	-863	
Closing Market Value (£000)	65,695	



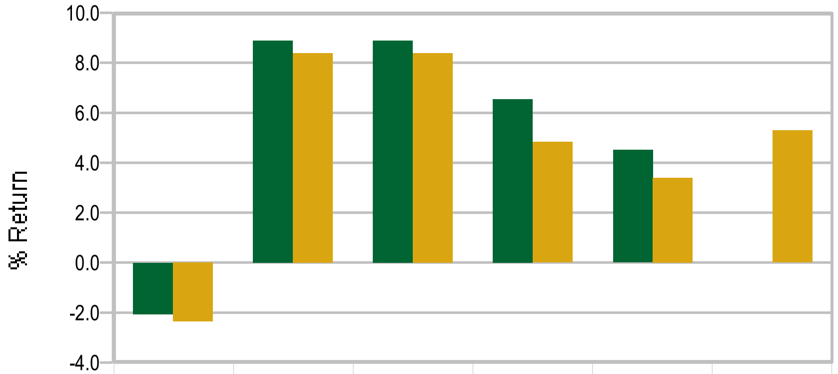
	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	-1.18	4.88	1.35	3.84	1.25	8.26	5.46	-3.37	0.67	-1.06	-1.80	-0.70
Benchmark	-1.32	4.59	1.81	3.36	0.79	7.09	2.34	-2.48	4.36	0.67	-1.35	0.48



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-1.17	-0.46	-1.71	-3.54	-0.91	3.05	1.09	0.46	0.46	-0.45	0.28	0.14
3Y Relative	-0.28	-0.31	-1.03	-2.48	-2.34	-1.38	-1.06	-0.87	-0.82	-1.09	-0.93	-0.97

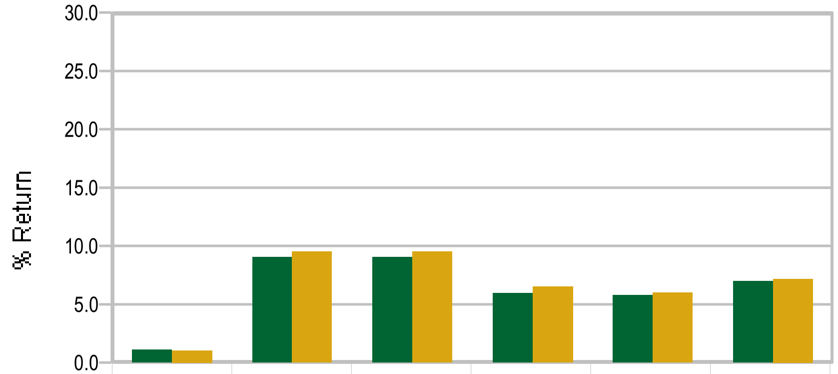
Goldman Sachs

World Fixed Income



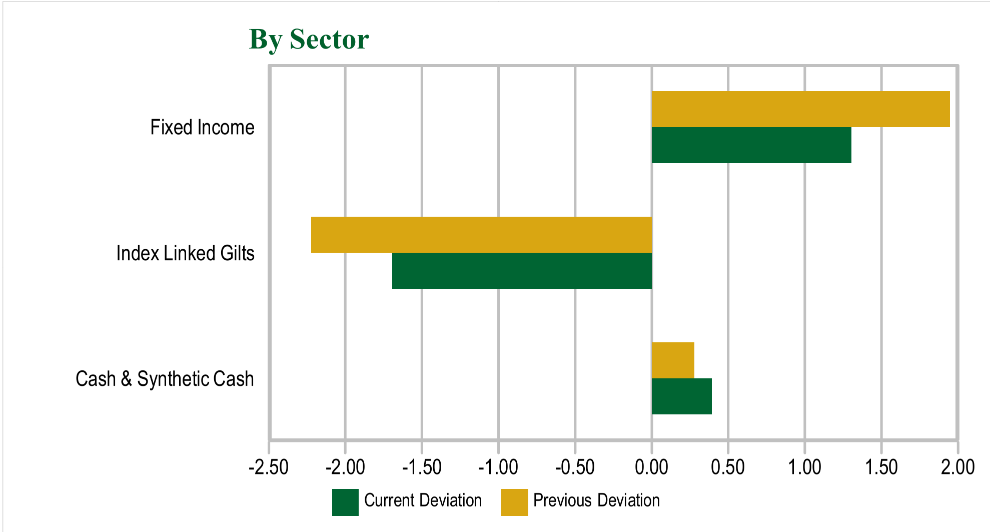
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.05	8.87	8.87	6.53	4.51	-
B'Mark	-2.35	8.38	8.38	4.83	3.39	5.28

Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.06	9.53	9.53	6.54	6.00	7.18
B'Mark	1.09	9.05	9.05	5.95	5.80	6.99

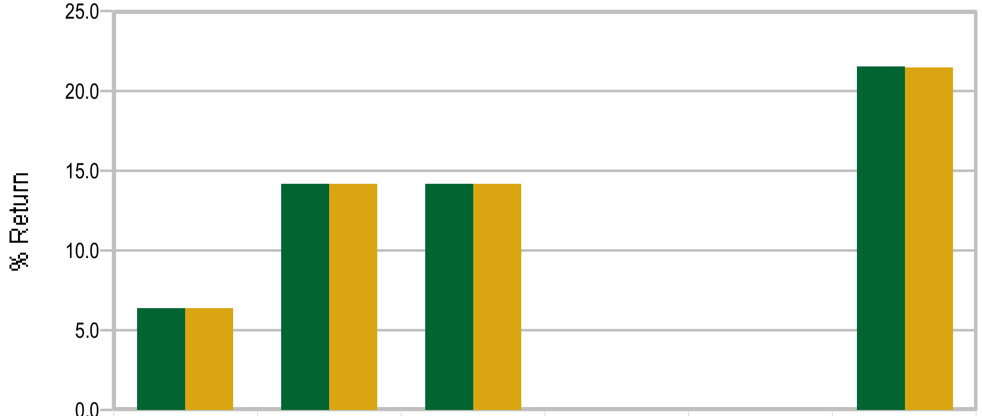
Goldman Sachs



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Fixed Income	71.30	71.94	70.00	1.30	70.00	1.94
Index Linked Gilts	28.31	27.78	30.00	-1.69	30.00	-2.22
Cash & Synthetic Cash	0.39	0.28		0.39		0.28

SSGA

Historical Plan Performance

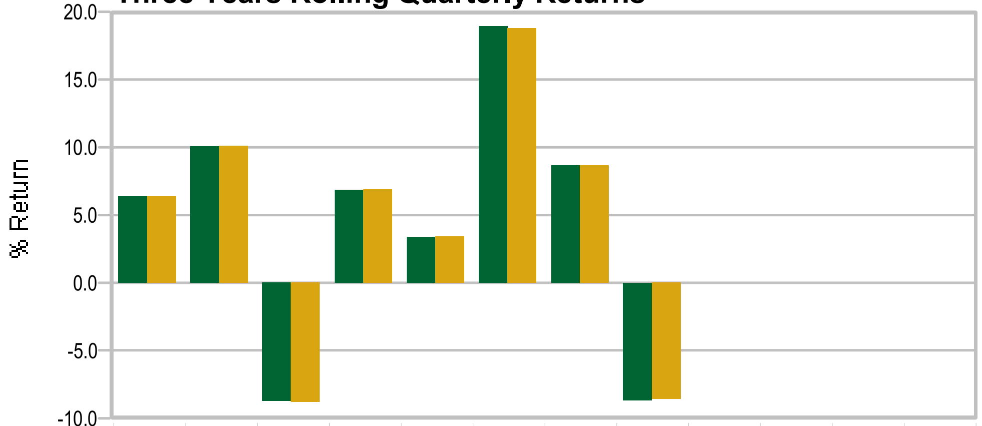


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.36	14.18	14.18	-	-	21.52
Benchmark	6.36	14.16	14.16	-	-	21.46

Risk Statistics - 3 years

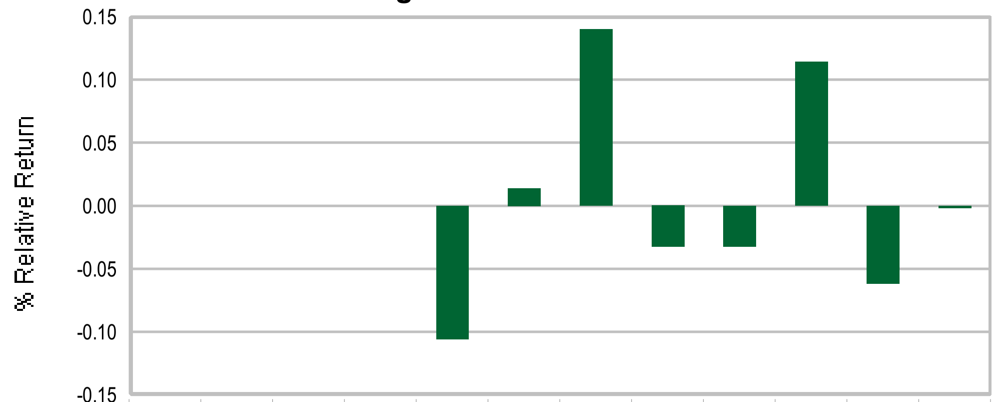
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	20.4	
Inception Date	Nov-2008	
Opening Market Value (£000)	106,334	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	6,765	
Closing Market Value (£000)	113,099	

Three Years Rolling Quarterly Returns



	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	6.36	10.06	-8.72	6.85	3.38	18.95	8.68	-8.68	-	-	-	-
Benchmark	6.36	10.13	-8.82	6.89	3.41	18.78	8.66	-8.59	-	-	-	-

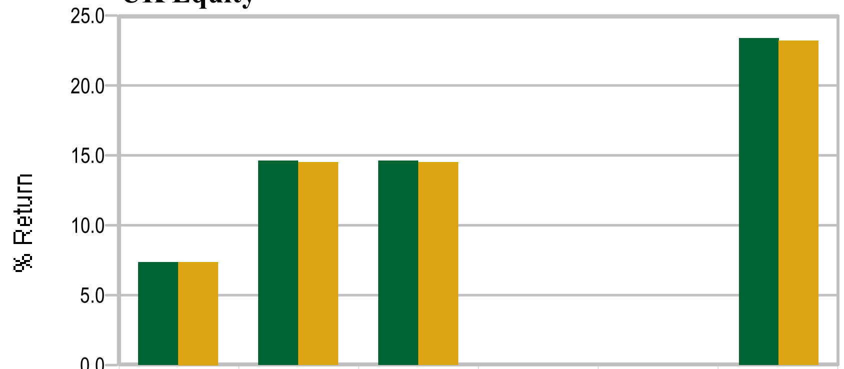
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-	-	-	-	-0.11	0.01	0.14	-0.03	-0.03	0.11	-0.06	-0.00
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

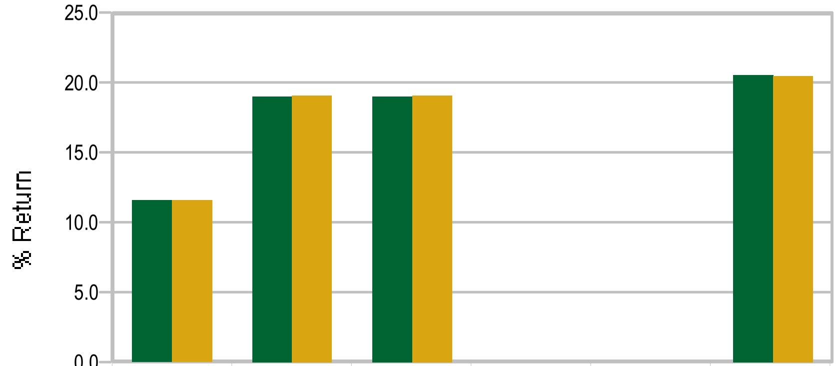
SSGA

UK Equity



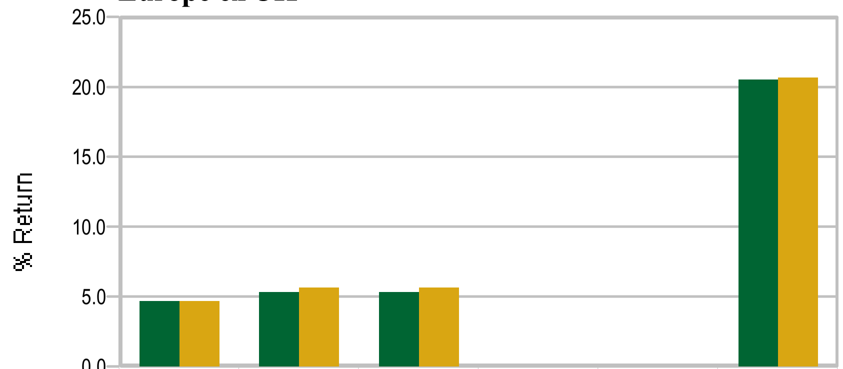
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.37	14.63	14.63	-	-	23.39
B'Mark	7.38	14.51	14.51	-	-	23.21

North America



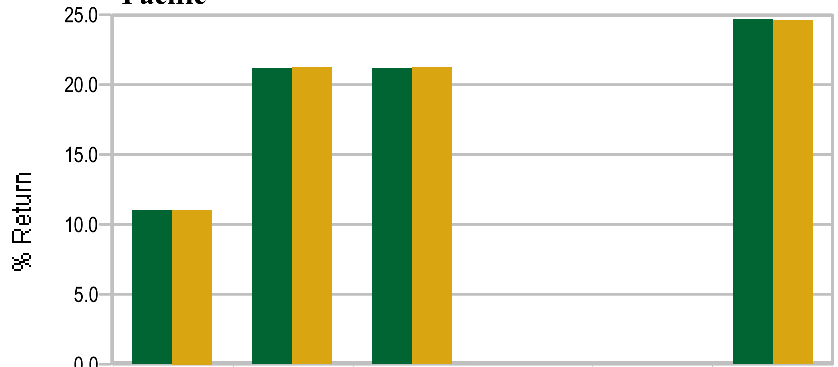
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.57	19.01	19.01	-	-	20.54
B'Mark	11.59	19.07	19.07	-	-	20.47

Europe ex UK



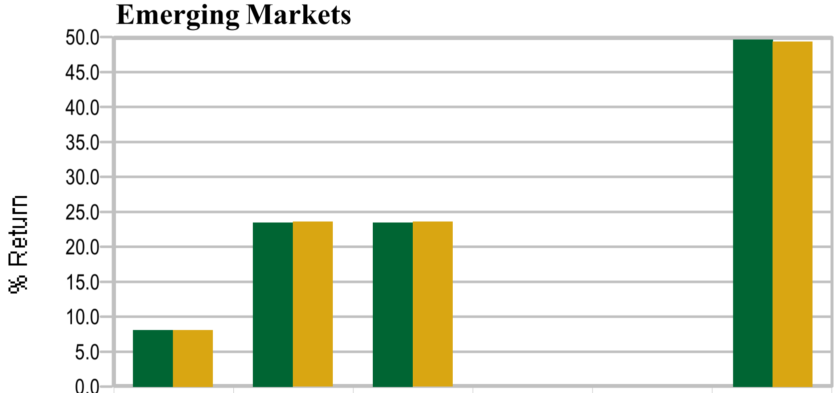
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.65	5.29	5.29	-	-	20.51
B'Mark	4.67	5.66	5.66	-	-	20.65

Pacific



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	11.02	21.21	21.21			24.69
B'Mark	11.06	21.27	21.27			24.64

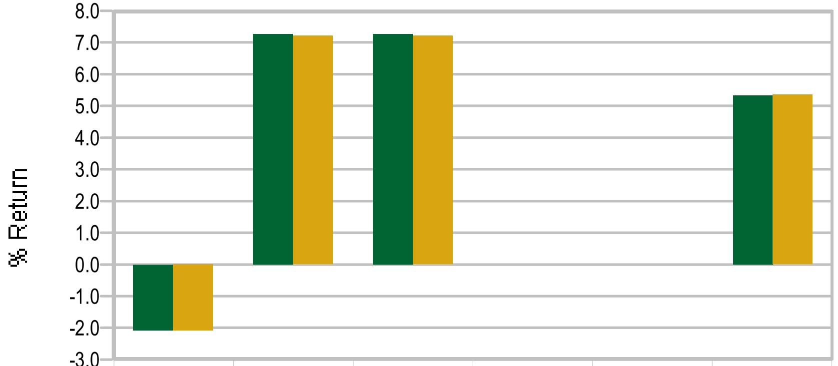
SSGA



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.07	23.49	23.49	-	-	49.66
B'Mark	8.07	23.58	23.58	-	-	49.38

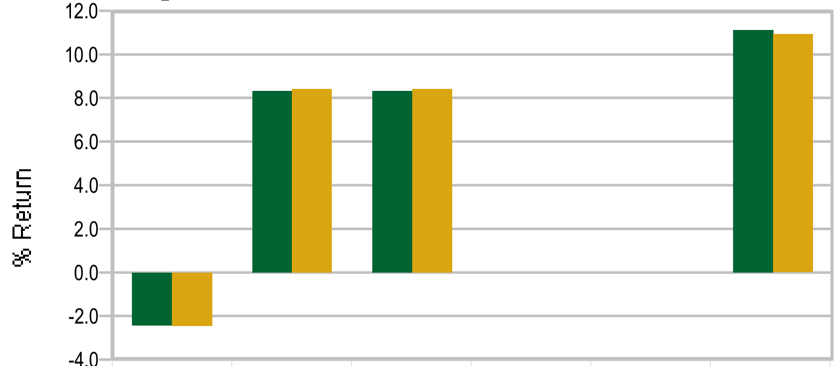
SSGA

Government Bonds



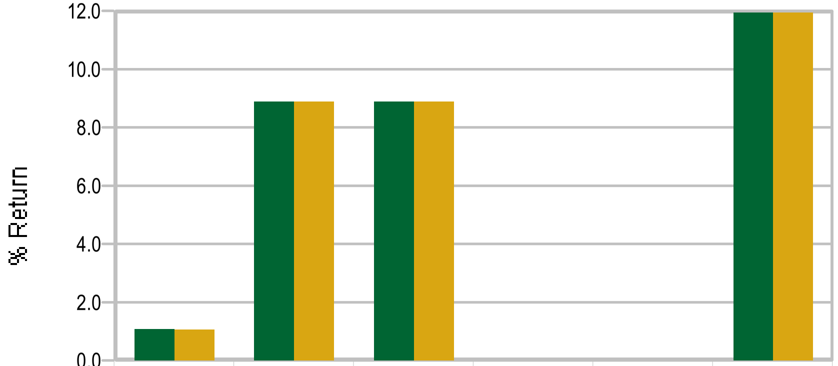
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.08	7.25	7.25	-	-	5.33
B'Mark	-2.08	7.20	7.20	-	-	5.35

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.42	8.32	8.32	-	-	11.11
B'Mark	-2.45	8.41	8.41	-	-	10.92

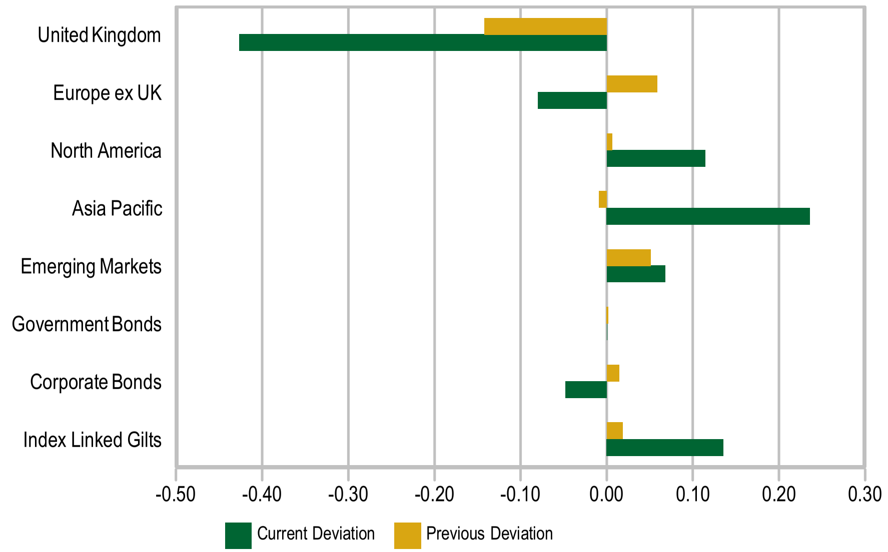
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.05	8.90	8.90	-	-	11.96
B'Mark	1.08	8.88	8.88	-	-	11.94

SSGA

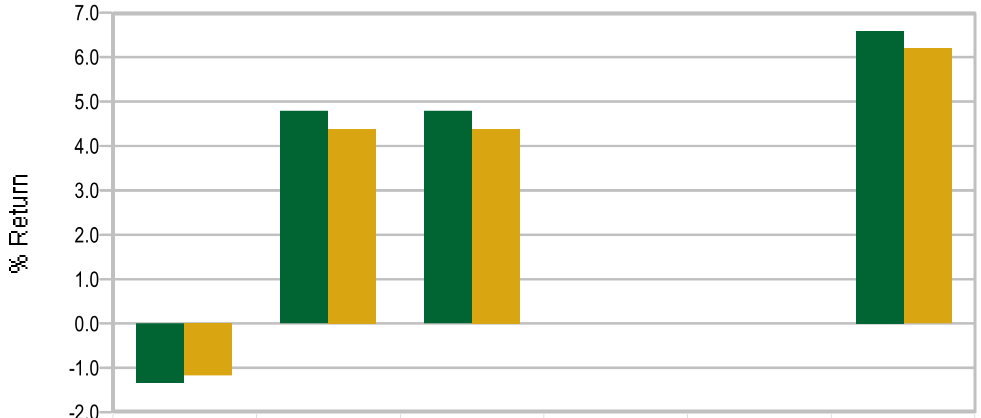
By Sector



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Equity	79.91	79.96		79.91		79.96
United Kingdom	43.57	43.86	44.00	-0.43	44.00	-0.14
Europe ex UK	10.92	11.06	11.00	-0.08	11.00	0.06
North America	11.11	11.01	11.00	0.11	11.00	0.01
Asia Pacific	11.24	10.99	11.00	0.24	11.00	-0.01
Emerging Markets	3.07	3.05	3.00	0.07	3.00	0.05
Fixed Income	9.95	10.02		9.95		10.02
Government Bonds	1.50	1.50	1.50	0.00	1.50	0.00
Corporate Bonds	8.45	8.51	8.50	-0.05	8.50	0.01
Index Linked Gilts	10.14	10.02	10.00	0.14	10.00	0.02

SSGA Drawdown

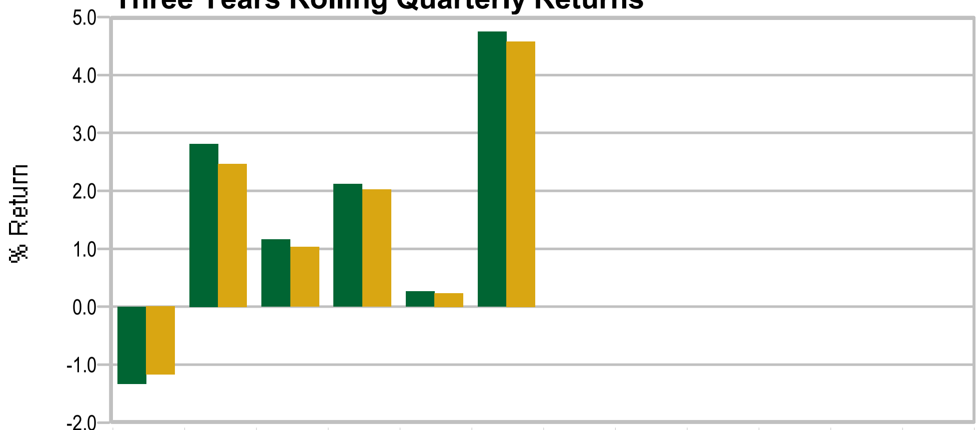
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.34	4.79	4.79	-	-	6.59
Benchmark	-1.17	4.38	4.38	-	-	6.19

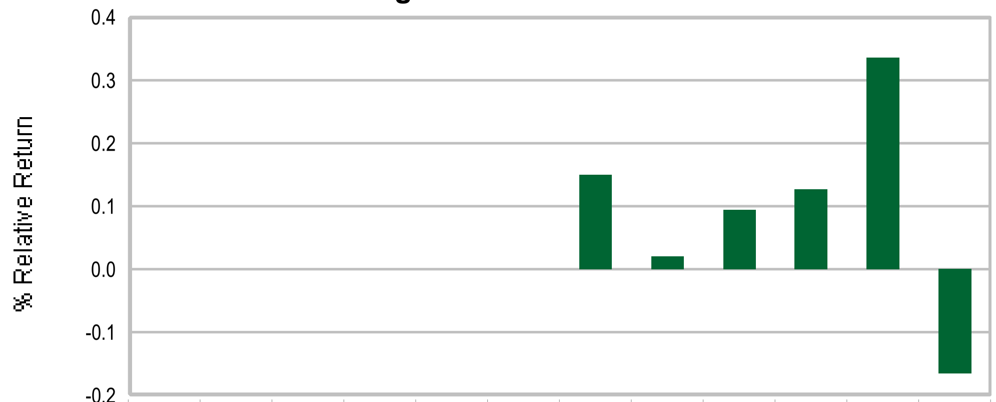
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	3.4	
Inception Date	Jun-2009	
Opening Market Value (£000)	21,185	
Net Investment £(000)	-2,143	
Income Received £(000)	-0	
Appreciation £(000)	-286	
Closing Market Value (£000)	18,756	

Three Years Rolling Quarterly Returns



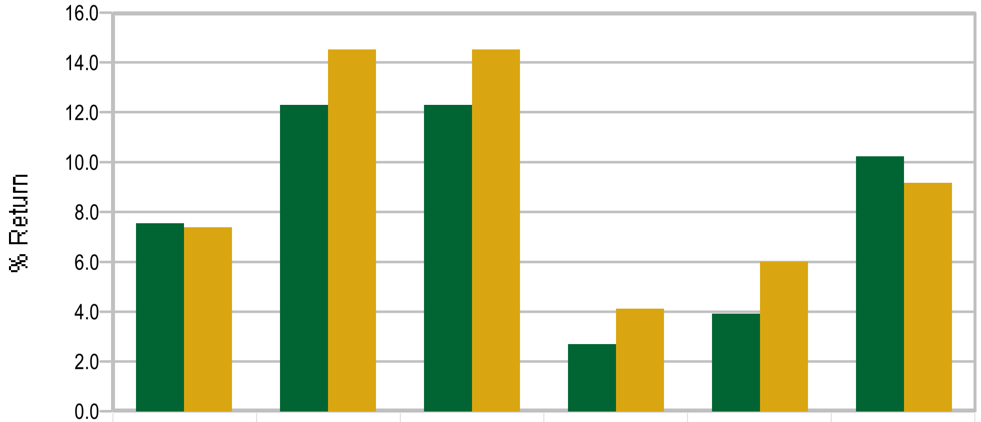
	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	-1.34	2.81	1.16	2.12	0.26	4.75	-	-	-	-	-	-
Benchmark	-1.17	2.47	1.03	2.02	0.24	4.59	-	-	-	-	-	-

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-	-	-	-	-	-	0.15	0.02	0.09	0.13	0.34	-0.17
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.55	12.29	12.29	2.70	3.92	10.23
Benchmark	7.38	14.51	14.51	4.12	6.00	9.18

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	2.70	4.12
Standard Deviation	21.07	18.91
Relative Return	-1.37	
Tracking Error	4.46	
Information Ratio	-0.32	
Beta	1.09	
Alpha	-1.19	
R Squared	0.96	
Sharpe Ratio	-0.03	0.04
Percentage of Total Fund	20.0	
Inception Date	Dec-1988	
Opening Market Value (£000)	103,659	
Net Investment £(000)	-658	
Income Received £(000)	718	
Appreciation £(000)	7,067	
Closing Market Value (£000)	110,785	

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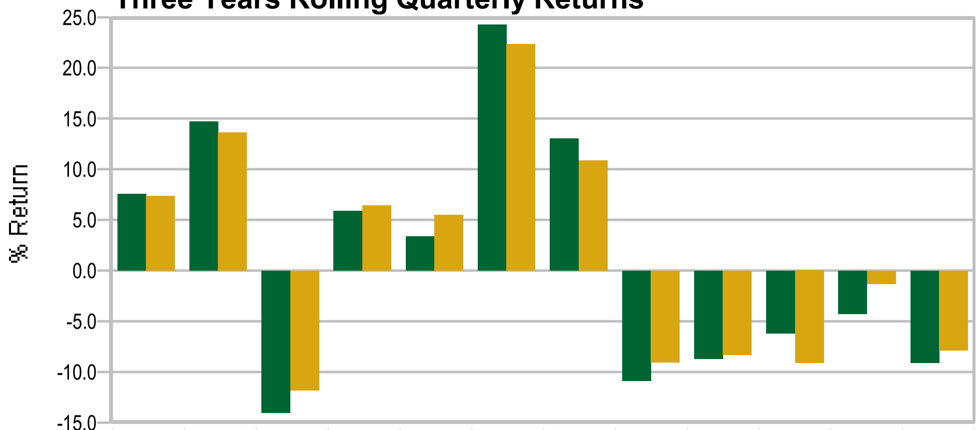
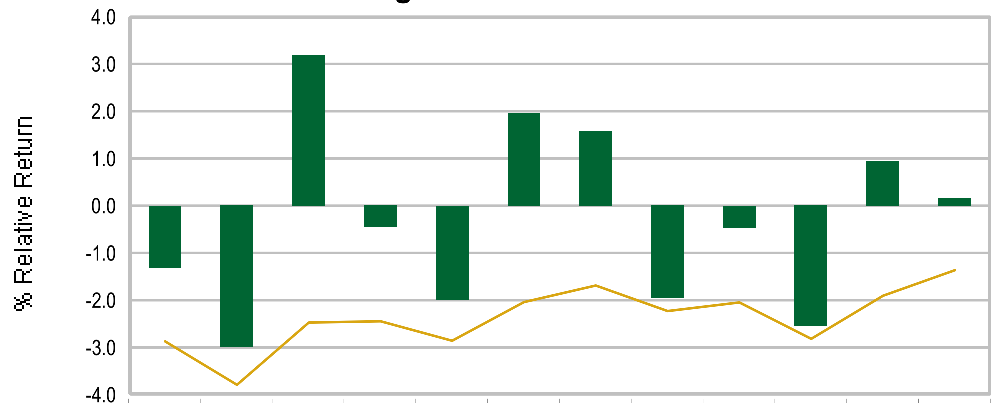
Three Years Rolling Quarterly Returns



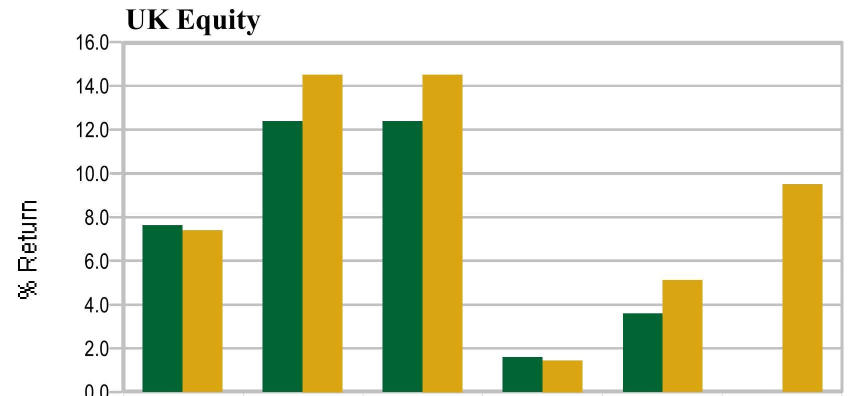
	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	7.55	14.69	-14.05	5.91	3.41	24.30	13.04	-10.90	-8.71	-6.22	-4.28	-9.08
Benchmark	7.38	13.63	-11.80	6.42	5.47	22.38	10.88	-9.08	-8.30	-9.11	-1.33	-7.88

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-1.31	-2.99	3.18	-0.45	-1.99	1.95	1.57	-1.96	-0.48	-2.54	0.93	0.16
3Y Relative	-2.88	-3.79	-2.48	-2.45	-2.86	-2.04	-1.69	-2.24	-2.05	-2.82	-1.91	-1.37

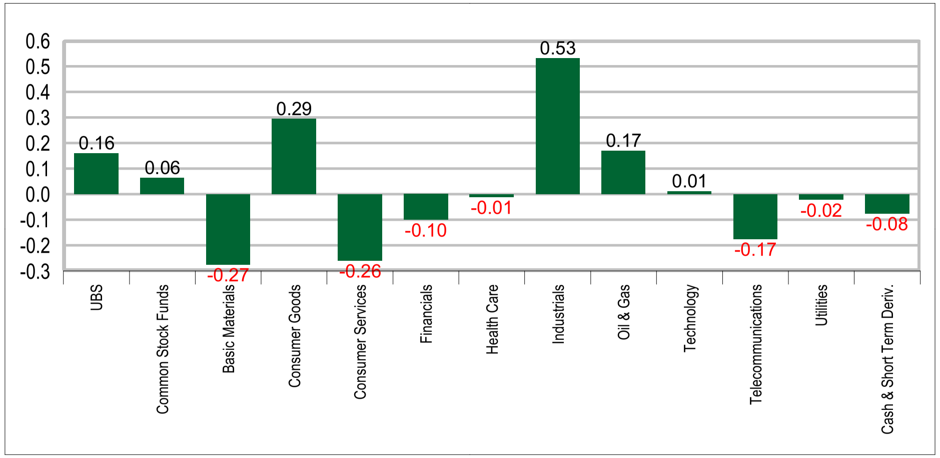
UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.62	12.39	12.39	1.59	3.58	-
B'Mark	7.38	14.51	14.51	1.45	5.12	9.49

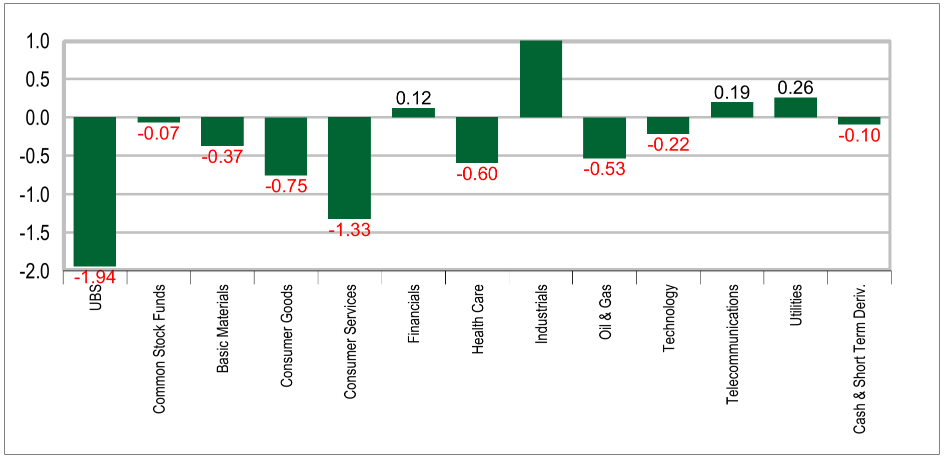
UBS

Relative Contribution - Three Months



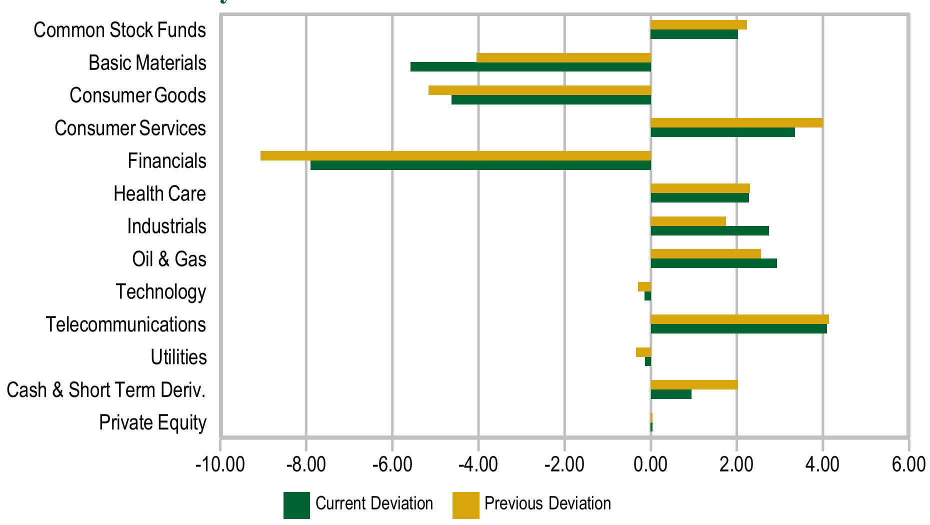
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	7.55	7.38	0.16	-0.14	0.29	0.16
Common Stock Funds	10.75	-	10.75	0.06	0.00	0.06
Basic Materials	27.58	22.34	4.28	-0.63	0.36	-0.27
Consumer Goods	10.02	6.33	3.46	0.05	0.24	0.29
Consumer Services	3.40	4.84	-1.37	-0.09	-0.17	-0.26
Financials	-3.08	0.96	-4.00	0.51	-0.60	-0.10
Health Care	0.12	-1.87	2.03	-0.20	0.19	-0.01
Industrials	14.18	8.25	5.48	0.02	0.51	0.53
Oil & Gas	12.08	11.78	0.27	0.12	0.05	0.17
Technology	2.99	3.23	-0.23	0.01	-0.00	0.01
Telecommunications	6.66	9.19	-2.32	0.07	-0.25	-0.17
Utilities	5.42	6.16	-0.70	0.01	-0.03	-0.02
Cash & Short Term Deriv.	0.02	-	0.02	-0.08	0.00	-0.08

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
UBS	12.29	14.51	-1.94	-0.65	-1.36	-1.94
Common Stock Funds	12.89	-	12.89	-0.07	0.00	-0.07
Basic Materials	35.10	31.03	3.11	-0.64	0.27	-0.37
Consumer Goods	7.28	17.78	-8.91	-0.11	-0.65	-0.75
Consumer Services	4.22	14.64	-9.09	-0.09	-1.24	-1.33
Financials	5.02	7.99	-2.76	0.46	-0.34	0.12
Health Care	1.33	3.69	-2.27	-0.24	-0.36	-0.60
Industrials	51.57	28.20	18.23	0.07	1.38	1.45
Oil & Gas	2.91	5.03	-2.02	-0.22	-0.31	-0.53
Technology	17.24	34.67	-12.94	-0.05	-0.17	-0.22
Telecommunications	21.26	22.22	-0.79	0.28	-0.08	0.19
Utilities	23.91	15.56	7.23	0.08	0.18	0.26
Cash & Short Term Deriv.	0.03	-	0.03	-0.10	0.00	-0.10

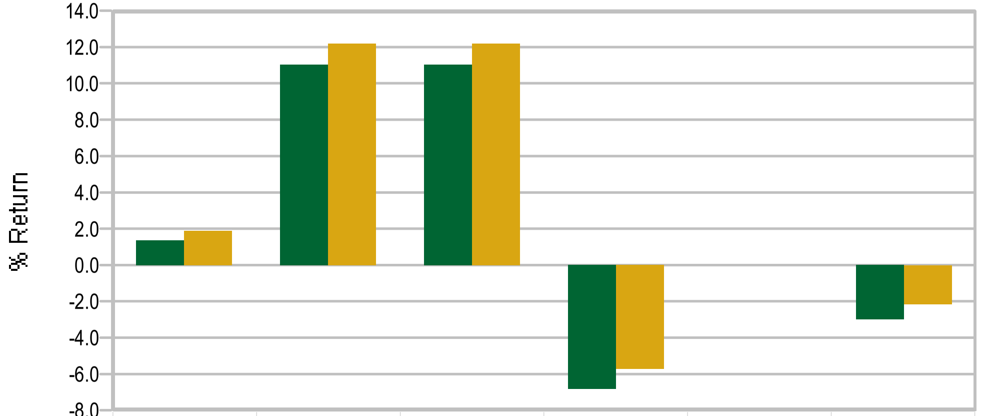
UBS



	Current Qtr	Previous Qtr	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Common Stock Funds	2.03	2.23		2.03		2.23
Basic Materials	8.50	8.20	14.08	-5.58	12.24	-4.04
Consumer Goods	6.69	6.37	11.32	-4.62	11.53	-5.16
Consumer Services	13.02	13.88	9.67	3.35	9.88	4.00
Financials	14.69	14.66	22.59	-7.90	23.72	-9.06
Health Care	9.20	9.93	6.91	2.28	7.63	2.31
Industrials	10.03	9.02	7.29	2.74	7.27	1.75
Oil & Gas	19.78	18.76	16.86	2.92	16.20	2.55
Technology	1.42	1.50	1.57	-0.15	1.79	-0.30
Telecommunications	10.11	10.13	6.02	4.09	5.99	4.14
Utilities	3.55	3.40	3.69	-0.13	3.74	-0.34
Cash & Short Term Deriv.	0.94	2.02		0.94		2.02
Private Equity	0.04	0.04		0.04		0.04

UBS Property

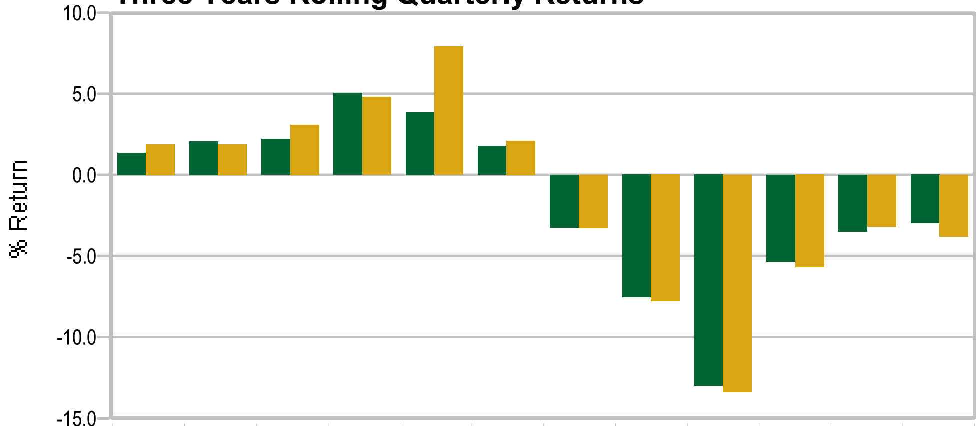
Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.36	11.05	11.05	-6.83	-	-2.99
Benchmark	1.90	12.19	12.19	-5.72	-	-2.16

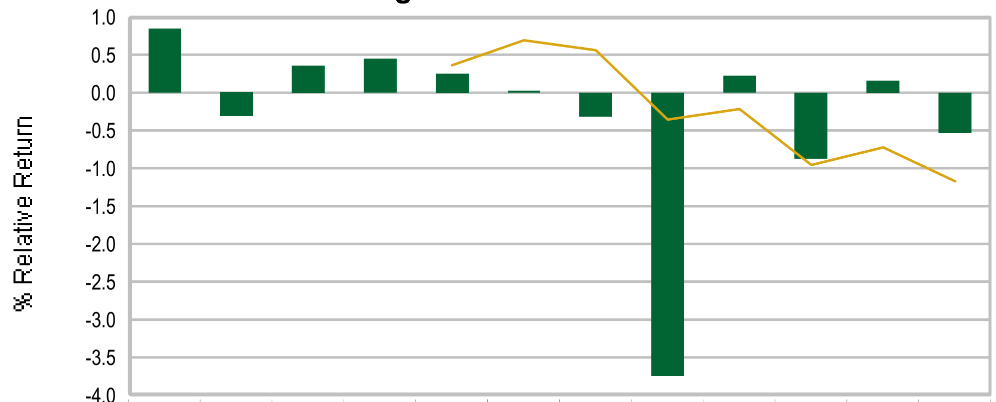
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-6.83	-5.72
Standard Deviation	6.42	6.79
Relative Return	-1.17	
Tracking Error	2.60	
Information Ratio	-0.42	
Beta	0.89	
Alpha	-2.17	
R Squared	0.88	
Sharpe Ratio	-1.58	-1.33
Percentage of Total Fund	8.2	
Inception Date	Mar-2006	
Opening Market Value (£000)	44,963	
Net Investment £(000)	0	
Income Received £(000)	430	
Appreciation £(000)	180	
Closing Market Value (£000)	45,573	

Three Years Rolling Quarterly Returns



	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	1.36	2.06	2.20	5.03	3.86	1.77	-3.28	-7.57	-13.01	-5.36	-3.50	-2.99
Benchmark	1.90	1.90	3.10	4.80	7.90	2.10	-3.30	-7.80	-13.40	-5.70	-3.20	-3.80

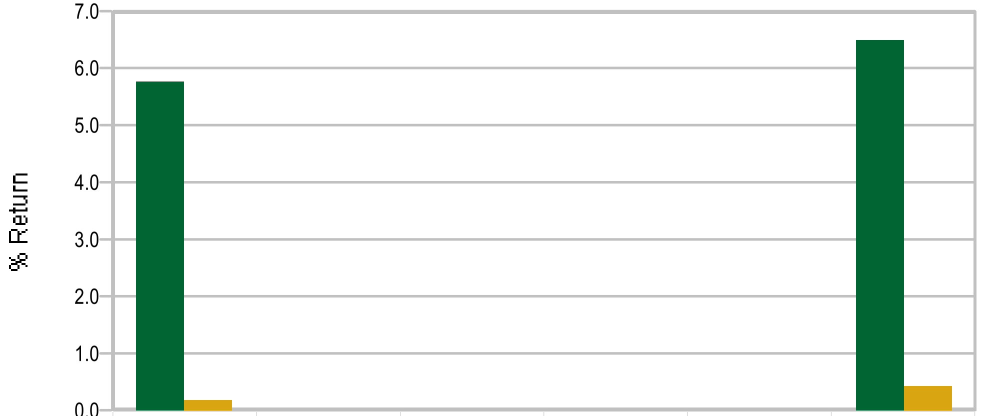
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	0.85	-0.31	0.36	0.45	0.25	0.03	-0.32	-3.74	0.23	-0.87	0.16	-0.53
3Y Relative	-	-	-	-	0.36	0.69	0.56	-0.35	-0.22	-0.96	-0.72	-1.17

Ruffer

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.77	-	-	-	-	6.50
Benchmark	0.18	-	-	-	-	0.43

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	9.7	
Inception Date	May-2010	
Opening Market Value (£000)	50,653	
Net Investment £(000)	0	
Income Received £(000)	159	
Appreciation £(000)	2,762	
Closing Market Value (£000)	53,574	

Three Years Rolling Quarterly Returns

	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	5.77	3.47	-	-	-	-	-	-	-	-	-	-
Benchmark	0.18	0.18	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-	-	-	-	-	-	-	-	-	-	3.28	5.58
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Marathon

Historical Plan Performance

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	8.28	-	-	-	-	17.86
Benchmark	9.66	-	-	-	-	14.63

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	10.4	
Inception Date	Jun-2010	
Opening Market Value (£000)	53,155	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	4,401	
Closing Market Value (£000)	57,556	

Three Years Rolling Quarterly Returns

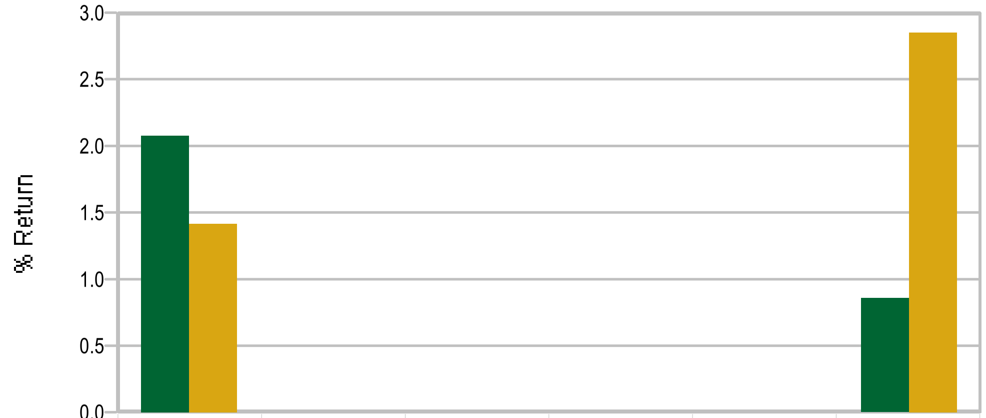
	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	8.28	12.07	-	-	-	-	-	-	-	-	-	-
Benchmark	9.66	8.02	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-	-	-	-	-	-	-	-	-	-	3.74	-1.26
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Fauchier

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.08	-	-	-	-	0.86
Benchmark	1.42	-	-	-	-	2.85

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	4.5	
Inception Date	Jun-2010	
Opening Market Value (£000)	24,504	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	509	
Closing Market Value (£000)	25,013	

Three Years Rolling Quarterly Returns

	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08
Fund	2.08	-1.19	-	-	-	-	-	-	-	-	-	-
Benchmark	1.42	1.41	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Relative	-	-	-	-	-	-	-	-	-	-	-2.57	0.65
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

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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 FTSE AW Emerging Markets
1.6 FTSE All Stock
8.9 iBox £ Non-Gilts (82.35%) / iBox £ Non-Gilt 15+ (17.65%)
5.3 FTSE Index Linked Gilts 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 ML Sterling Non-Gilts

SSGA Drawdown

50.0 ML Sterling Non-Gilts
50.0 FT 7 Day LIBID

Alliance Bernstein

30.0 FTSE AW Developed Europe ex UK
35.0 FTSE AW North America
15.0 FTSE AW Japan
10.0 FTSE AW Developed Asia Pac ex Japan
10.0 FTSE AW Emerging Markets

Goldman Sachs

70.0 ML Sterling Broad Market
30.0 FTSE Index Linked Gilts 5+ Yrs

UBS

100.0 FTSE All Share

UBS Property

100.0 IPD UK PPFI All Balanced Funds Index

Ruffer

100.0 LIBOR 3 Month GBP

Marathon

100.0 MSCI World

Fauchier

100.0 LIBOR 3 Month +5%

Previous Benchmark

Alliance Bernstein

50.0 FTSE All Share
15.0 FTSE AW Developed Europe ex UK
17.5 FTSE AW North America
7.5 FTSE AW Japan
5.0 FTSE AW Developed Asia Pac 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

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

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

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

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

Alpha

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

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

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

Beta

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

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

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

R-Squared

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

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

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

Sharpe Ratio

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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WM LOCAL AUTHORITY

QUARTER 4 2010

The following summary is based on 49 funds with a total Market Value of £66,461m.

Update 1 - 03/02/2010

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	64.4	65.3	8.6	9.4	16.2	16.7	16.2	16.7
GLOBAL POOLED INC UK	3.1	3.2	9.7	9.4	15.0	16.7	15.0	16.7
UK EQUITIES	29.3	29.4	7.6	7.4	15.7	14.5	15.7	14.5
OVERSEAS EQUITIES	32.0	32.7	9.3	9.6	16.9	17.2	16.9	17.2
North America	9.1	9.5	11.3	11.6	18.3	19.1	18.3	19.1
Europe	9.0	8.7	6.0	4.6	7.7	5.8	7.7	5.8
Japan	3.6	3.9	14.0	12.8	20.8	19.0	20.8	19.0
Pacific (ex Japan)	4.1	4.2	9.1	10.8	23.3	24.4	23.3	24.4
Emerging Markets	5.3	5.6	8.3	8.1	23.0	23.6	23.0	23.6
Global ex UK	0.8	0.9	10.3	9.6	17.4	17.2	17.4	17.2
TOTAL BONDS	18.3	17.8	-1.0	-	9.0	-	9.0	-
U.K. BONDS	9.9	9.5	-2.3	-2.1	8.6	7.2	8.6	7.2
OVERSEAS BONDS	2.1	2.2	-0.8	-2.2	7.9	9.9	7.9	9.9
INDEX LINKED	4.9	4.7	1.1	1.1	9.1	8.9	9.1	8.9
POOLED BONDS	0.8	0.7	2.4	1.4	13.4	-	13.4	-
TOTAL CASH	4.0	3.6	0.1	0.1	1.7	0.4	1.7	0.4
ALTERNATIVES	7.0	7.1	3.4	-	9.1	-	9.1	-
Total Private Equity	2.9	3.0	3.2	-	12.7	-	12.7	-
Total Hedge Funds	2.4	2.4	2.5	-	7.0	-	7.0	-
Other Alternatives	1.7	1.7	5.0	-	4.2	-	4.2	-
TOTAL EX-PROPERTY	93.9	94.0	5.9	6.0	13.5	13.1	13.5	13.1
TOTAL PROPERTY	6.1	6.0	2.0	2.2	11.9	14.5	11.9	14.5
TOTAL ASSETS	100.0	100.0	5.7	5.7	13.4	13.3	13.4	13.3

WM PERFORMANCE SERVICES
A State Street Business

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

LBH PRIVATE EQUITY FUNDS LGT CAPITAL PARTNERS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
	£ 000	%	£ 000	%	£ 000	%	000	%	% Dec-10
Crown private Equity European Buyout Opport.	11,649	1.98	8,729	1.48	5,164	0.88	3,565	0.61	7.30
Crown Global Secondaries Plc (US$)	1,939	0.33	1,620	0.28	852	0.14	768	0.13	3.88
Crown Private Equity European Fund	4,283	0.73	2,840	0.48	120	0.02	2,720	0.46	-1.66
Crown Private Equity European Buyout Opport. II	8,566	1.46	3,212	0.55	0	0.00	3,212	0.55	-2.47
Crown Asia-Pacific Private Equity Plc (US$)	1,939	0.33	1,160	0.20	112	0.02	1,048	0.18	10.31
Crown European Middle Market II plc	3,426	0.58	788	0.13	0	0.00	788	0.13	15.2
Crown Global Secondaries II Plc (US$)	1,422	0.24	501	0.09	31	0.01	470	0.08	49.9
TOTAL(S) LGT CAPITAL PARTNERS	**33,224**	**5.64**	**18,850**	**3.20**	**6,279**	**1.07**	**12,571**	**2.14**	
ADAMS STREET PARTNERS	**£**		**£**						**Se-10**
Adam Street Partnership Fund - 2005 US Fund	9,049	1.54	6,941	1.18	872	0.15	6,069	1.03	2.12
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,878	0.66	3,066	0.52	379	0.06	2,687	0.46	4.63
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,909	0.49	1,988	0.34	152	0.03	1,836	0.31	1.79
Adam Street Partnership 2006 Direct Fund	970	0.16	856	0.15	78	0.01	778	0.13	-4.83
Adam Street Partnership Fund - 2006 US Fund, L.P	5,817	0.99	3,848	0.65	403	0.07	3,445	0.59	-0.02
Adams Street Direct Co-Investment Fund, L.P.	1,939	0.33	1,818	0.31	0	0.00	1,818	0.31	N/A
Adams Street Partnership 2007 Direct Fund LP	323	0.05	280	0.05	46	0.01	234	0.04	5.18
Adams Street Partnership - 2007 Non -US Fund	1,131	0.19	487	0.08	0	0.00	487	0.08	1.76

Adams Street Partnership - 2007 US Fund	1,778	0.30	920	0.16	107	0.02	813	0.14	6.90
Adams Street Partnership - 2009 US Fund	970	0.16	165	0.03	0	0.00	165	0.03	39.62
Adams Street Partnership - 2009 Direct Fund	194	0.03	98	0.02	3	0.00	95	0.02	32.80
Adams Street Direct Co-Investment Fund II.	1,616	0.27	392	0.07	0	0.00	392	0.07	N/A
Adams Street 2009 Non-US Emerging Mkt Fund	194	0.03	18	0.00	0	0.00	18	0.00	11.06
Adams Street Partnership 2009 Non-US Developed Market	582	0.10	38	0.01	0	0.00	38	0.01	40.77
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**31,350**	**5.33**	**20,915**	**3.55**	**2,040**	**0.35**	**18,875**	**3.21**	

FUND VALUE	**588,706**	
COMMITMENT STRATEGY	51,512	8.75%
TO ACHIVE INVESTMENT	29,435	5.00%
CURRENT INVESTMENT BOOK COST	31,446	5.34%
CURRENT INVESTMENT MARKET VALUE	33,045	5.61%

Fund Value as per NT Report (Excluding PE & Macquarie)	554,992.0
PE Investment (Market Value)	33,045.0
Macquarie (Market value)	669.0
Total Fund Value	588,706.0

End Q4 2010 portfolio overview

- The portfolio has performed well in the quarter having a TV/PI of 1.13x compared with 1.11x last quarter
- Since the last report, net invested capital has increased by Euro 0.7 million as underlying managers have continued to invest capital
- Distributions have nonetheless maintained their pace of around one-third of capital calls
- NAV has risen by Euro 1.3 million, the Euro 0.6 million net increase in performance reflecting a continuing rise in equity valuations across the board
- The USD strengthened by 1.8% against the Euro in the period which had a negligible effect on portfolio performance
- Overall, the portfolio generated gains of Euro 2.2 million over the calendar year 2010

Q4 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	18.2	-6.2	12.0	14.2	2.2	0.34	1.12	56%	37%
Euro equivalent Dollar Exposure @	1.3384 USD / Euro	6.1	3.8	-1.2	2.6	3.3	0.7	0.30	1.18	62%	43%
Total Exposure (in Euro millions)		38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%

Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q4 figures as of 31st December 2010
D/PI - distriutions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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

Industry Update

As we begin a new year, we would first like to thank our clients, for your continuing support during the uncertain times of the last couple of years. Overall, 2010 was a good year as the private equity industry continued to bounce back from the financial crisis and subsequent global recession. Valuations increased steadily across all subclasses throughout the year. In addition, private equity activity increased meaningfully during the year.

Portfolio Statistics as of September 30, 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%**	**63%**	**66%**	**0.98x**	**1.55%**	**N/A**	**-1.11%**
2005 Subscription	02/2005	100%	73%	73%	1.00x	2.91%	N/A	-0.67%
2006 Subscription	01/2006	100%	65%	65%	0.91x	-0.32%	N/A	-1.33%
2007 Subscription	01/2007	90%	47%	52%	1.01x	5.19%	N/A	0.33%
2009 Subscription	01/2009	30%	10%	35%	1.07x	35.94%	N/A	14.88%
Direct Co-Investment Fund	09/2006	100%	94%	94%	0.90x	-3.60%	N/A	-4.81%
Co-Investment Fund II	01/2009	100%	24%	24%	1.04x	12.88%	N/A	17.89%

*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. September 30th was not available at print time. The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

Main Drivers of Performance

Returns for the venture capital industry have clearly been lacklustre over the last decade. We continue to be optimistic about venture capital for a number of reasons. First, there is much less capital coming into venture these days. The disappointing recent performance has led many limited partners to decrease their allocation to the subclass. To be sure, the best Venture Capitalists are still able to raise their funds easily. Many General Partners (“GPs”), however, are struggling to raise new funds, so there is clearly a shakeout taking place. For new investments there is significant opportunity for technological and business model innovation, and there are a number of breakout companies currently in the portfolio that are ready for exit once the markets are more receptive. Exciting companies such as Facebook, Twitter and Groupon (all portfolio companies) have started to create a buzz around the venture community that has not been present for a number of years. The most obvious impediment to attractive venture returns over the past decade has been a poor exit environment. This is slowly improving as the public markets are beginning to open for sizeable growing companies. We are also seeing an increase in M&A activity although this activity is still not at the levels that some had predicted, given the large amount of cash on corporate balance sheets.

On the buyout side, we have also seen improvement. There is no question that the buyout market was overheated during the 2005-2007 time-period. Many GPs took advantage of accommodating debt markets to make investments at very high prices during this timeframe. The global recessionary environment put many of these deals in jeopardy. The recent resurgence in the debt markets (most notably the high yield market) has allowed these GPs to aggressively refinance, and thus they have been actively chipping away at the 2012-2014 “wall of debt” that was anticipated and written about extensively. Our best guess at this point is that buyout transactions from these vintage years will generate modest returns (high single digits on average). These returns are clearly below our long-term expectations, but are better than we would have predicted a couple of years ago. Overall, we are quite pleased with the way our GPs have responded, making the best of what in some cases could have been very bad situations.

Portfolio Outlook

We believe Adams Street is well positioned to provide our clients with strong returns over the next decade. Our first quarter newsletter will provide more details on a review of the state of the private equity industry. We wish you a healthy and prosperous 2011 and look forward to seeing you in the near future.

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Investment Report: Q4, 2010

Market Summary

The final quarter of 2010 saw risk assets extend the recovery of Q3 (Figure 1). Fiscal difficulties within Europe were quickly forgotten once the Irish banks were ''fixed' and confirmation of the ongoing recovery in real economic activity lightened investor mood. The announcement of further quantitative easing by the US Federal Reserve combined with the explicit pursuit – in the US – of higher inflation added 'fuel to the flames'. The move higher was, largely, in a straight line as the 'Market Postcards' later in this note illustrate.

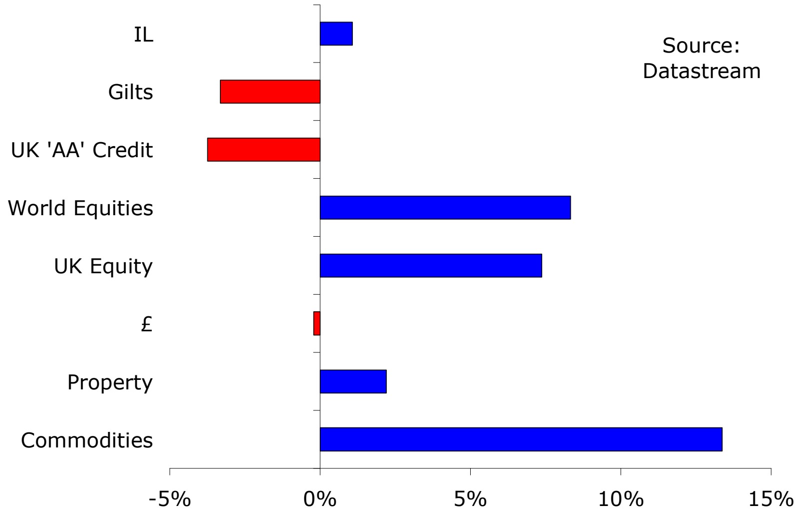


Figure 1: Market Performance – Q4, 2010 (total return)

It has taken a while but the money markets are beginning to adjust to the notion that official interest rates might move away from the emergency settings of the crisis years. That adjustment has picked up pace through January and consistent with actual inflation data is most pronounced in the UK and Europe; there remains minimal core inflation in the US so those money markets have yet to move. The challenge for policymakers in the UK is that the headline inflation data points to a situation almost out of control yet the Q4 GDP estimates suggest the economy is contracting. Take away the impact of sharp increases in indirect taxation as well as the variable and 'made in Asia' surge in commodity prices and core UK inflation is barely 2%. Equally, it is worth noting that the strongest inflation in Europe is in Spain and they hardly need a tighter monetary policy. Who would be a Central Banker?

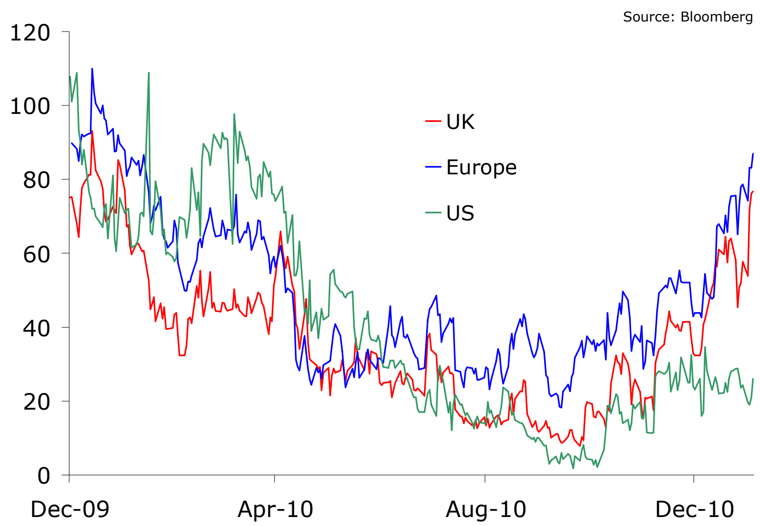
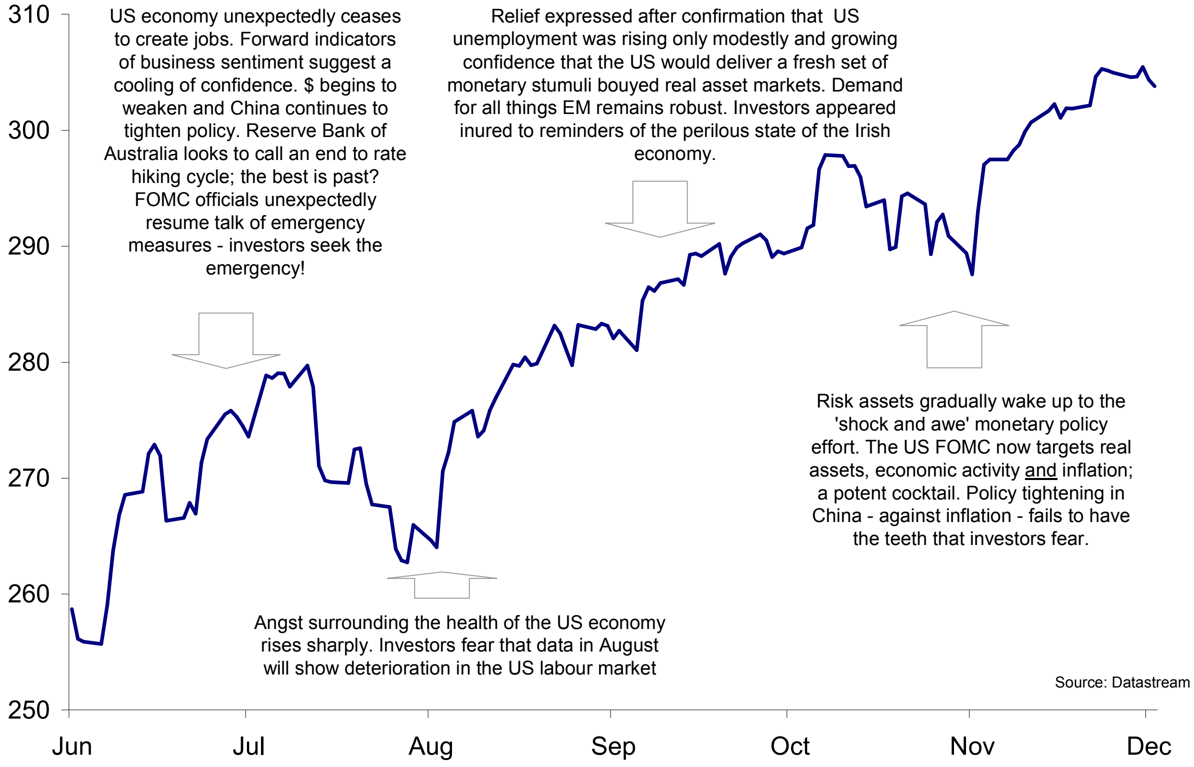


Figure 2: Expected Change in Official Rates – 1 year hence

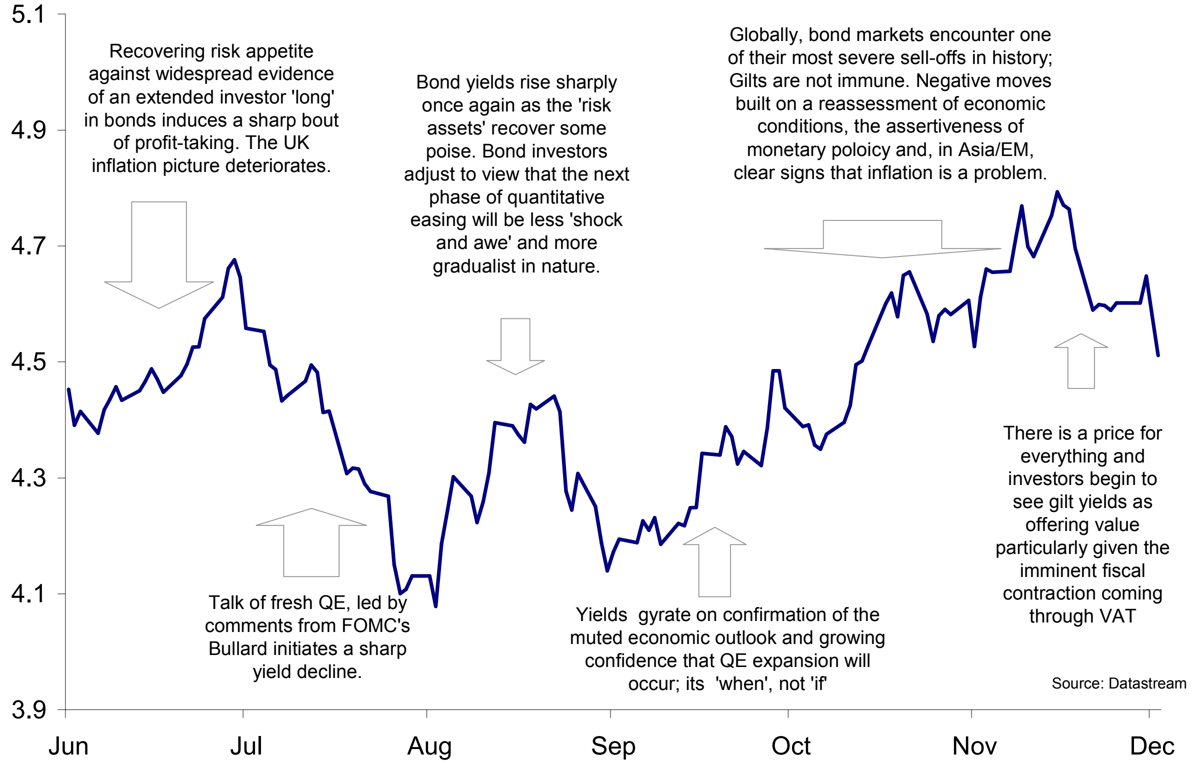
Market 'Postcards'

The next four charts provide an annotated, pictorial summary of moves over past six months.

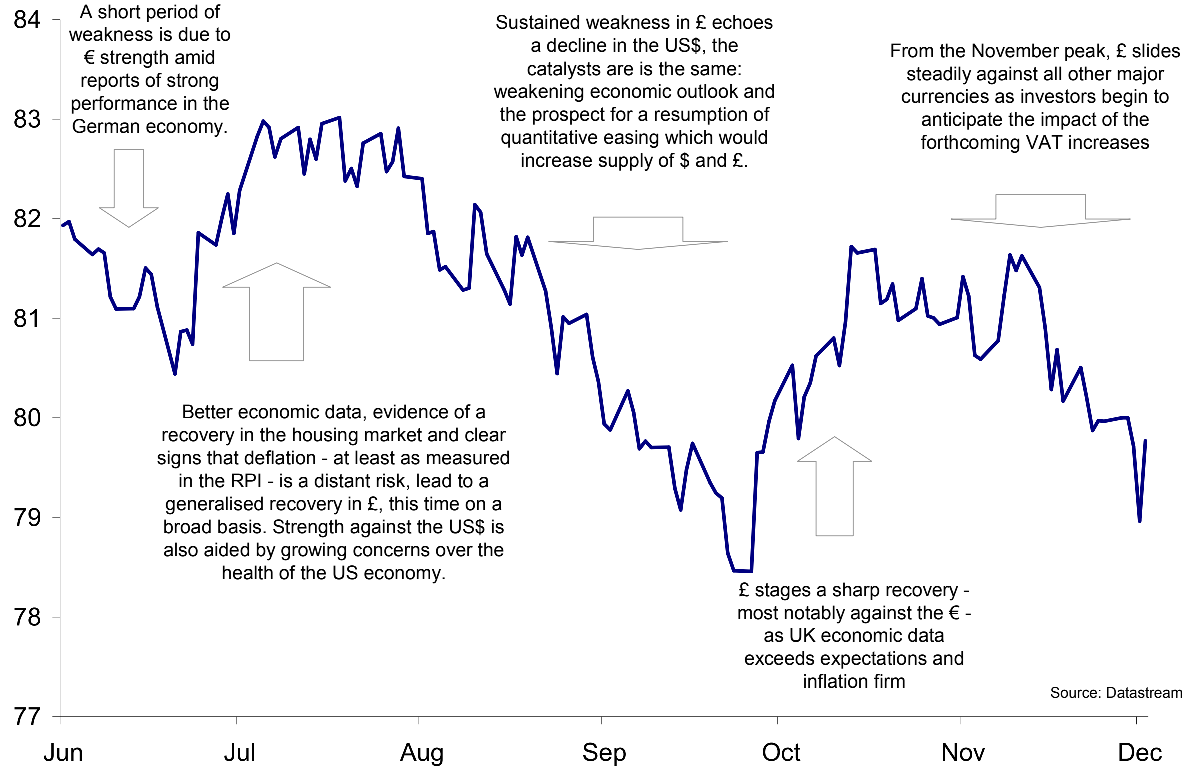
Global Equities:



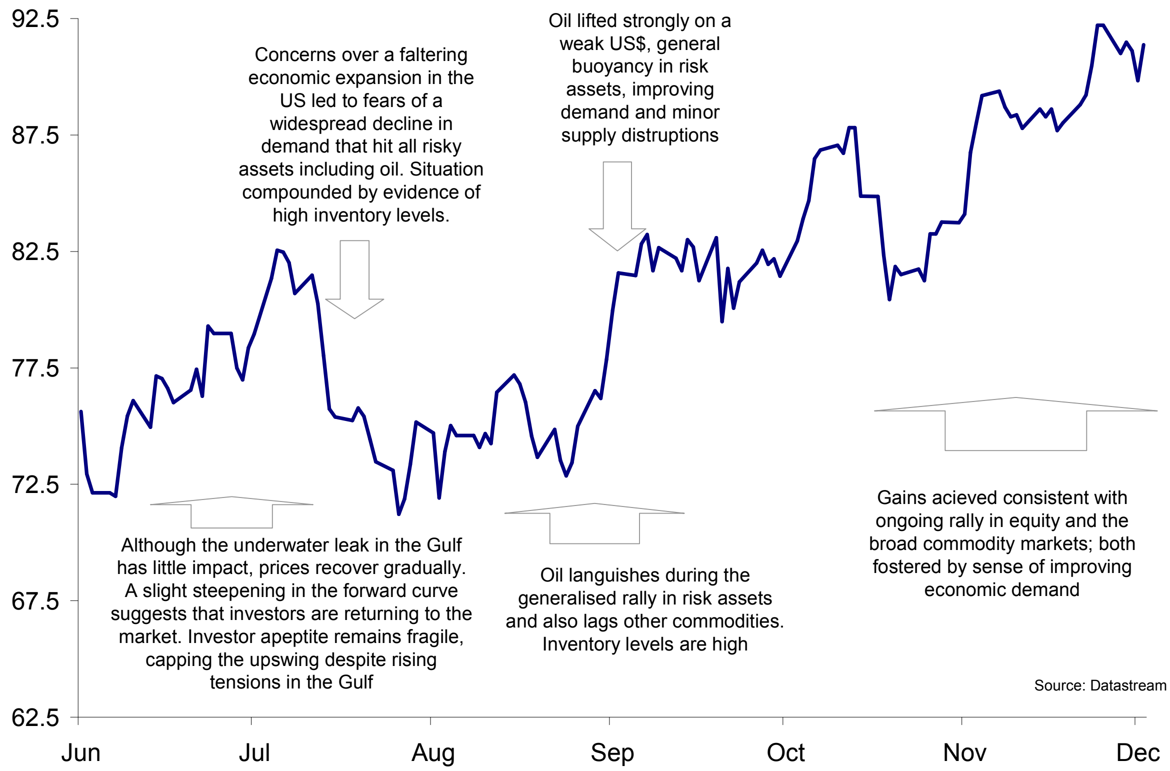
Long Gilts:



£ (Trade Weighted Index):



Oil:



Commentary

The broad backdrop for 2011 is very familiar. Cyclically, the bottom-up and top-down dataflow is supportive for corporate earnings, with positive implications for both equities and, to a lesser extent, given ratings, corporate credit. However, the structural backdrop remains challenging and there will likely be at least hiccups, and possibly worse, from the political and economic aftermath of the Great Recession.

The cyclical positives are clear. The major economies (US, Germany, UK) are growing at rates (measured by nominal GDP) which should be sufficient to lower unemployment levels more quickly than currently expected and bolster tax receipts (thus cut fiscal deficits). Corporate earnings will be robust and will encourage capital investment, hiring and M&A activity. Real interest rates are historically very low and boosting real asset prices (equities, property, commodities), while yield curves are steep enough to boost banking sector profitability. There is upward pressure on Chinese and other emerging market currencies. A stronger Renminbi in particular would assist in the long-term process of re-balancing, which is needed between surplus (generally emerging markets) and deficit countries (US, UK and southern Europe).

Meanwhile the structural challenges also stand out. Economic growth has been boosted by extraordinary policy support; but support is going to be less visible in 2011. Indeed away from the US, that fiscal support is being removed. Perhaps more significantly and as the year progresses, markets may begin to discount the end of zero interest rate monetary policies. Higher interest rates will not help the still very weak housing sector. Global imbalances are worsening, with northern Europe profiting as southern Europe sinks deeper into recession. Also, emerging market (EM) surpluses are expanding even as profligate fiscal policy encourages more deficit spending in the US. The Euro area’s problems have received most publicity but inflows into emerging market local currency debt markets could be the true flashpoint in 2011. Capital controls are already evident across the EM complex - more of the same could be destabilising. Inflation is a problem in a number of EM markets already (including China). This is all inherently unstable. The banking sector remains impaired by yet unrecognised loan losses, a continued capital shortage, repercussions from any Euro area debt restructuring and regulatory hostility (“regulatory uncertainty” to be polite). Bank lending is a lagging indicator but in this cycle it could be even more so, thus impeding how self-sustaining the recovery can be. Some of these structural threats to the outlook in 2011 have a greater probability of being destabilising than others.

The thing about PIIGS

Take the peripheral European sovereign/banking crisis. Yes, it seems highly likely that the market may well challenge policymakers over Spain. Unless there is a pre-emptive policy announced to strengthen the existing mechanisms in place to provide funding to distressed countries, the market will wonder whether the ECB and stronger euro zone countries have the political will to provide enough support to Spain via, for example, lines of credit sufficient to recapitalise the Spanish banking system. Therefore, it’s quite possible that spreads between Spanish and German government bonds will at some point widen from current levels. It’s also possible that Greece and/or Ireland embark on some form of debt restructuring, perhaps involving lengthening the duration of existing debt.

However, how much of a shock would that be to broader financial markets? A review of the 2010 performance of 95 equity, bond, commodity and alternative assets shows that just fifteen of them had negative returns (in local currency) in 2010. Ten of those fifteen were the equity and government bond markets of Portugal, Ireland, Italy, Greece and Spain. It’s quite possible that the PIIGS will deliver another year of negative returns. But one wonders whether quite a lot of their problems have already been reflected in the performance of their markets last year. And some sense of history is, as ever, useful when considering things European. For example, in the 17th century the Netherlands was able to borrow money at 3.75% while the Kingdom of Spain, at the time also a major world power, was borrowing short-term money at 40%. Plus ça change? Rather than thinking about the destabilising effect of countries where bond yields are already in the range of 4.5% to 12.5%, and widely expected to go higher, perhaps the market needs to think about the effect of interest rates rising in markets where they are 0-3% and widely expected not to move.

From East to West – the bright light or shadow of inflation

Since December 2008, the Fed Funds rate has been 0.25% and the UK Bank rate has been 0.5% since March 2009; neither rate has ever been this low (back to 1694 in the UK). Yet two years into a recovery and the consensus is forecasting minimal changes over the year ahead.

These extraordinarily low interest rates are part of the legacy of the battle aimed at preventing a recurrence of the Great Depression and a breakdown of the banking sector. Central bank balance sheet expansion has also been extraordinary via not only quantitative easing (QE) but also via the acceptance of a remarkable array of securities in return for which the central banks have provided government bills and notes. There have been other examples of banks accepting exceptional collateral. In the 1825 banking crisis the Bank of England "…lent money by every possible means and in modes we have never adopted before. We took in stock on security…" according to Bank Director Jeremiah Harman. In the 12th century, King Baldwin II of Jerusalem secured a loan using his beard as security. But these are all extraordinary things and it is dangerous to extrapolate the extraordinary too far into the future.

The combination of the December agreement to loosen fiscal policy and the ongoing commitment to QE is leading forecasters to raise real GDP growth rates for the US economy by 1% or more. Real growth of 3.5% and nominal growth of over 5% appears eminently achievable in 2011. This should lead to a decline in the level of unemployment. If the cyclical tailwinds continue, a look at where a variety of economic indicators tend to be when Fed policy changes suggests that each will be consistent with a rate hike by October 2011.

In a normal cycle, the first moves to tighten monetary policy tend to be supportive for equities as the policy change is seen as a validation that the cycle has momentum. Normally the market moves to discount some tightening, with shorter duration bond yields rising and the yield curve flattening as those rates move up more than longer duration yields. Now clearly there is substantial evidence that this is not a normal cycle. Given that many commentators argue that the recovery has been rather muted by some measures despite extraordinary policy support, it's quite possible that if the market begins to think extraordinarily loose monetary policy is ending there will be a wobble in "risk assets".

That will certainly be the case if there are any signs that inflationary pressures are spreading beyond that already factored into forecasts. One of the risks to a positive investment slant for 2011 is that food, energy and other commodity price inflation begins to creep further up the value chain. Should there be signs of inflationary expectations rising, there is a risk that western central banks are perceived to be losing their anti-inflation discipline and that could lead investors move to discount more rapid rate rises. It also remains the case that inflationary pressures are already high in many emerging markets and any more aggressive policy response to that in, for example China, could be destabilising to markets more broadly.

For the moment, cyclical tailwinds will continue to be supportive. Nevertheless, the implication of another couple of quarters of reasonably strong growth could be the market beginning to discount higher interest rates in the US and UK (as has started to happen in January – see figure 2). Moreover, that could, at some point in 2011, pose more of a challenge to the broad financial markets than another year when only in the PIIGS are interest rates rising.

Strategy Guidance

The global economy remains highly challenged by global imbalances that see the 'west' smothered by a debt mountain and the Chinese economy defined by a 53% (of GDP) savings rate; this is unsustainable. Policymakers continue to believe that there is an outcome that doesn't involve an element of debt destruction through default; rather they seem inclined to (quietly) favour debt destruction through inflation. Bond investors are starting to sense the epithet of 'patsy'.

The Japanese were able to inflict upon themselves 'lost' decades largely because they were a creditor nation; the 'West' are, largely, debtors, and their creditors simply won't allow such an outcome. Eventually the West will need to sign up to a grand version of an IVA (Individual Voluntary Agreement). Only then will free capital be able to be durably deployed to risk, in the meantime, while all the evidence suggests that (scarce) free assets are being targeted (impossibly) at liability reduction/hedging.

As a result, the multi-year outlook remains for a broad, but ultimately trend-less, trading range for equity markets. 'Contingency' cover will be important.

The Fund is inherently 'long' risk assets. As such, the Fund is exposed to underperformance of these risk assets and to a strengthening (decline) in bond yields.

Specific points

1. The preceding Commentary highlights the 'tug of war' between the cyclical and structural forces. The current uneasy truce is seeing risk assets find favour as, generally, economies are expanding and no imminent hostile policy move is threatened. Inflation is largely an issue for EM and the UK; bond investors have, thus far, been prepared to dismiss these as special situations. If core inflation in the US were to rise materially from the current level of 0.8% per annum, there will be an end to the complacency. If bond investors take fright, the impact is likely to be felt across all markets.

2. March/April sees the Spanish banking system requiring to re-finance around €70bn of borrowing. Market appetite to renew these lines of credit is unclear; hence the activity in recent weeks by the ECB *et al* to establish a fallback. This period is likely to prove a focal point for market angst and, perhaps a watershed. A successful outcome without a crisis-induced solution could herald a period of policy tightening as policymakers seek to restore credibility.

3. Emerging markets are being challenged by stubbornly high inflation and relentless inflows of foreign capital. Monetary policy is attempting to deal with the inflation pressures but too credible a stance, driven by higher interest rates, risks enhancing – for FX at least – the external attractiveness. The 1997/8 emerging market collapse occurred when investor optimism proved mis-placed. This time, the strategic arguments for emerging economies are clearly well supported. EM central banks have a difficult path to tread and an error could easily occur.

4. The upshot of the points above is that markets are likely to deliver more volatility than most investors would welcome. Shocks are likely to enhance bond prices albeit that, in some situations, episodes might be characterised by rising bond yields.

5. The potential for marked currency volatility remains high. FX rates remain the principal means by which national contrasts might be expressed, indeed, for some, currency imbalances, are a significant issue. Overall exposure to programmes – such as CTAs – remains appropriate.

6. All the while, the theme of investing for a persistent higher level of inflation than the consensus expects is likely to persist. Perhaps a UK-only phenomenon, the process of orienting portfolios to a pro-inflation stance will likely drive market ratings. Markets are

vulnerable to any resumption of a deflationary outlook.

7. Pressure for protectionist policies – from within EM at least – will persist. This market period would be highly unusual were it not to be characterised by some mis-placed, politically inspired, policy error.

8. As a general rule, it's better to be wary of the impact of things that are not widely expected, than to be too focused on those that are.

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Investment Report for the Quarter ended 31st December 2010

Market Commentary

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

Index returns expressed in sterling

		Quarter ended 31st December 2010
		%
Equities		
Japan	FTSE Developed Japan	12.8
North America	FTSE North America	11.6
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	9.3
Emerging Markets	MSCI Emerging Markets Free	8.1
UK	FTSE All Share	7.4
Europe	FTSE Developed Europe (ex UK)	4.7
Fixed Interest		
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	1.1
UK Gilts	FTSE British Government All Stocks	-2.1
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	-2.4
Property	IPD	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency Movements for quarter ended 31st December 2010

Currency	30th September 2010	31st December 2010	Change %
USD/GBP	1.576	1.566	-0.6
EUR/GBP	1.154	1.167	+1.1
USD/EUR	1.365	1.342	-1.7
Yen/USD	83.540	81.105	-2.9

Index returns expressed in sterling

		Year ended 31st December 2010
		%
Equities		
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	23.7
Emerging Markets	MSCI Emerging Markets Free	22.9
North America	FTSE North America	19.1
Japan	FTSE Developed Japan	19.0
UK	FTSE All Share	14.5
Europe	FTSE Developed Europe (ex UK)	5.7
Fixed Interest		
UK Index Linked Gilts	FTSE British Government Index Linked Over 5 years	9.1
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	8.5
UK Gilts	FTSE British Government All Stocks	7.2
Property	IPD	17.6*
Cash	Merrill Lynch LIBOR 3 Month	0.1

* For the year ended 30th November 2010

Currency Movements for year ended 31st December 2010

Currency	31st December 2009	31st December 2010	Change %
USD/GBP	1.615	1.566	-3.0
EUR/GBP	1.126	1.167	+3.7
USD/EUR	1.435	1.342	-6.5
Yen/USD	93.095	81.105	-12.9

As the return table for the quarter shows, head of the leader board was Japan (+12.8%) making up for its lacklustre negative performance earlier in the year. This reflected a degree of increasing confidence in the Japanese economy which had disappointed for so long. Next came North America (+11.6%) on the realisation that its economy was demonstrating appreciably better economic growth than expected by most economists. Asia/Pacific (+9.3%) continued to be a favoured area for investors as it managed to maintain very robust rates of GDP growth. For much the same reason Emerging Markets returns grew by 8.1%. The UK featured next with a very respectable +7.4%. Last, but certainly not least, came Europe (+4.7%), despite the well publicised financial and economic problems within the smaller Eurozone countries and fears for the future of the euro. As so often in the past, it was Germany with its dominating export powered economy which continued to be the bedrock of the Eurozone. All in all the quarterly equity returns provided an exceptionally strong end to a truly banner year.

Fixed interest returns were negative for the quarter except for Index Linked Bonds. This was not surprising given the strength of fixed interest earlier in the year and the recent perception that yields on gilt edged securities stand at extremely low historic levels. This is reflected in their return of -2.1%. However, this disappointing return is exceeded by Corporate Bonds which, after a strong positive 8.5% return for the year, produced a negative 2.4% for the quarter on the apprehension that the best may have been seen from this part of the Fixed Interest market. The return of +1.1% for Index Linked bonds was due to the continuing relative popularity of this class as an insurance against of the possibility that UK inflation rates are most likely to experience further rises.

Property continued its recovery and benefited from increased investor confidence in the sector both from the UK and internationally. City of London offices performed particularly well with the largest increase in markets for 22 years. Residential property values, on the other hand, continued to fall.

The reported quarter brought to an end a year of unprecedented market and economic activity triggered by a plethora of mostly urgent initiatives from both governments and central banks in order to control and resuscitate their respective economies with the emphasis on growing their rates of GDP. This was especially prevalent within the industrialised nations of the Western Hemisphere, especially within the beleaguered peripheral Eurozone countries together with the UK and the USA with their most burdensome trade deficits. These resuscitating actions included an amalgam of financial bail outs, quantitative easing programmes, bank rescue packages including nationalisations, and emergency economic stimulatory measures. For the year as a whole the market pendulum swung between fear and greed. The former was particularly prevalent in the first quarter of the year with worries of double dip recessions and the increasingly parlous economic state of the Eurozone peripheral nations.

There is no doubt that the above litany of gloom and doom acted as a severe depressant to equity market levels, particularly towards the end of the first quarter of 2010. However, very few investment strategists and commentators could possibly have foreseen the strong rate of equity recovery that was to come between March and the end of the year. The cause of this recovery was the fact that, as time went by, it became increasingly apparent that the government and central bank measures outlined above were causing respective economies to "muddle thorough" despite quantitative easing programmes (printing money by any other name) which, in the past, have almost always been followed by rising inflation rates. Apart from the surprising resilience of economies, it also became apparent that corporate health was in much better shape than once forecast. That is to say, earnings were better than expected, balance sheet strength was greatly improved with lower levels of debt and, most importantly, dividends were appreciably better than expected. It also became evident to investors that fears of double dip recessions were receding. Another important market influence was that, within the Western Hemisphere, the maintenance of extremely low levels of interest rates were helpful both to consumers and corporations alike. So, for all the aforementioned reasons equity markets took heart as is clearly shown in the above return tables both for the year and quarter ended 31st December 2010.

With regard to the markets of the Eastern Hemisphere and Emerging Markets, their economies grew at an appreciably faster rate compared with their Western counterparts. Particular strength was shown by China, India, Australia and Brazil.

UK

Positive Influences

- Much to the surprise of many, on Christmas Eve the FTSE 100 Index broke through the 6,000 barrier at 6,009, a level it reached 2 ½ years ago. However, at the year end it reacted to 5,900.

- Private Equity demonstrated a strong revival and accounted for a record 75% of all UK mergers and acquisitions in the first nine months of 2010.

- The newly formed Office for Budget Responsibility estimates economic growth in the UK of 1.8% in 2010 followed by 2.1% in 2011.

- The purchasing managers' index for December reached a 16 year high of 58.3 (November 57.5).

Negative Influences

- GDP for the third quarter of 2010 was revised down marginally to +0.7% from the previous estimate of +0.8%. This was attributable to weaker North Sea oil production.

- In the quarter to 31st October unemployment increased by a larger than expected 35,000 representing a rate of 7.9%, fractionally higher than the previous quarter's rate of 7.8%.

- The Office for National Statistics reported that the Consumer Price Index (CPI) in November was 3.3% p.a. versus the Bank of England's target of 2.0%. CPI has now exceeded its target for the past 49 months.

- The British Bankers' Association reported mortgage approvals for October of 30,766, down from 31,058 in September. This compares with an average rate over the previous 6 months of 33,914.

USA

Positive Influences

- November durable goods orders rose by 2.4% recovering strongly from October's fall of 1.9%.

- On 14th December the Federal Reserve Board left interest rates unchanged and stated that the Federal funding rate would remain at "exceptionally low levels" for an extended period.

- On 7th December President Obama transacted a landmark fiscal deal with the opposition Republican Party in order to extend the Bush era tax cuts for two years. This could boost GDP in 2011.

- New claims for jobless benefit in November fell to a 2 year low of 407,000.

- The Institute of Supply Management's non manufacturing index advanced to 57.1 in December from 55.0 in November. This compared with estimates of 55.6. The Institute's index of factory activity rose to 57.0 in December (November 56.6) representing the seventeenth monthly rise.

- The private sector added 297,000 jobs in December up from 92,000 in November. This was the eleventh consecutive month of expansion. This result was appreciably higher than consensus economists' estimates of 100,000.

- Chicago's purchasing managers' index (a measure of manufacturing activity in the Mid West of America) increased markedly to 68.6 in December from November's 62.5.

Negative Influences

- Although October house prices rose by 0.7% they recorded a fall of 3.4% on an annualised basis.
- The unemployment rate in November rose higher still to 9.8% from 9.6% in October.
- In mid December US Treasury stocks were hit by the biggest sell off for two years, directly attributable to soaring borrowing costs.
- October housing starts dropped by a marked 11.7%.
- On 30th December, the US $ fell to a record low against the Swiss Franc of 0.9351 and a 28 year low against the Australian dollar of 1.1098.
- The Conference Board's index of consumer confidence decreased to 52.5 in December from 54.3 in November versus misjudged estimates of 57.0.

Europe

Positive Influences

- On 28th November the European Union arranged a €85B bail out for Ireland and agreed a formal mechanism for dealing with future debt crises in the Eurozone. This mechanism is specifically designed to head off further corrosive contagion. In that regard there is to be a new institution called the European Financial Stability Facility.
- The German economy has benefited considerably from the weakness of the euro.
- The German IFO November business survey hit a post unification high.
- Angela Merkel the German Chancellor was re-elected as leader of the ruling Christian Democratic Union.
- German industrial orders advanced strongly by 5.2% in November (October +1.6%).

Negative Influences

- Silvio Berlusconi's centre right coalition came under acute pressure and only just survived a vote of no confidence by 314 votes to 311. It does seem that his political days at the helm are numbered.
- Financial contagion spread to Spain which is of distinct concern as it accounts for approximately 11.7% of the Eurozone's GDP.
- Eurostat stated that Eurozone inflation in December rose to 2.2% p.a. from 1.9% p.a. in November. This compares with the ECB's target of "close but below" 2.0% over the medium term.

- The Eurozone unemployment rate in November was unchanged at 10.0%. This masks a wide range of rates within the individual member countries e.g. Germany 6.7%, Ireland 13.9% and Spain a staggering 20.6%.

Japan

Positive Influences

- GDP increased in the third quarter of 2010 by 3.9%.

- The purchasing managers' index for December increased to 48.3 from 47.3 in November.

Negative Influences

- The Finance Ministry stated that November exports grew by 9.1% p.a. whilst imports advanced by a marked 14.2%. Thus, the all important trade balance deteriorated.

Asia/Pacific

Positive Influences

- On 25th December the People's Bank of China increased its lending rate to 5.81% in order to combat rising inflation.

- On 21st December China promised to take "concerted action" to support the Eurozone "if necessary" this includes purchasing Eurozone sovereign bonds.

- China's retail sales in October grew at a most robust 18.6% p.a.

- In the fourth quarter of 2010 China's foreign exchange reserves (the largest in the world) rose by a record £199B to $2,850B.

- India's GDP growth in the third quarter was a substantial 8.9% which was much higher than expected. It is therefore hardly surprising that the Reserve Bank of India intends to raise interest rates in order to cool economic growth. The government estimates that GDP growth for 2010 will be 8.5% which compares with 7.4% in 2010.

- South Korea's industrial production in November increased by 1.4% compared to the 4.2% drop in October. Retail sales in November grew by 2.9% (October +0.2%).

Negative Influences

- China's CPI for November rose by 5.1% p.a. appreciably higher than the 4.4% p.a. increase in October. The government's target is 3.0%.

- China's purchasing managers' index for manufacturing slipped to 54.4 in December from 55.3 in November.

- New Zealand's third quarter rate of GDP decreased by 0.2% largely due to the strength of the New Zealand dollar and its negative effect on the nation's export growth.

- On 23rd November the inflammatory move by North Korea in shelling the South Korean island of Yeon Pygong reminded the whole region of North Korea's antagonistic regime with its nuclear capability.

- On 16th November South Korea increased interest rates by ¼% to 2.5% in order to better combat inflation which for October was up 4.1% p.a.

- On 2nd November the Reserve Bank of Australia raised rates by ¼% to 4 ¾%. This move caused the Australian dollar to temporarily reach parity with the US dollar.

- As widely expected, the Reserve Bank of India raised its interest rate by ¼% to 6 ¼%.

Principal influences of a general nature were as follows:-

- Most commodity prices boomed. On 7th December gold rose to a record $1,430.95 whilst silver rose to a 30 year high of $30. Copper achieved a record high of almost $9,447 a tonne in part due to the large demand from China. This represented a rise of 33% for 2010 which compared with an advance of 139% for 2009. Oil broke through a 26 month high of $90 with consumption levels the strongest for 30 years. Food commodities e.g. cereals also demonstrated substantial strength. It goes without saying that this unprecedented commodity strength was bad for the containment of inflation levels.

- The Organisation for Economic and Co-operative Development (OCED) forecast that the global GDP rate in 2011 would be 4.25% to be followed by 4.5% in 2012.

- Governments continued to be greatly influenced by wide spread trade protectionism as respective countries sort to benefit their vital export trade by manipulating their currencies.

- The pronounced build up of corporate balance sheet cash and lower debt levels caused increased merger and acquisition activity together with higher investment in research and development.

- Emerging Market economies were enhanced by a marked increase in the spending power of their growing middle classes.

<u>Conclusion</u>

As we start 2011 the background for capitalism both in the UK and globally appears to be distinctly more promising than that of a year ago. This more conducive background applies not just to equities, but to most other asset classes. That is to say, private equity, property, infrastructure, hedge fund of funds, commodities, global tactical asset allocation and foreign exchange. The clear omission from this list is fixed interest. The reason for this is simply that the predominant allocation to this sector is usually in gilts, sovereign debt and index linked gilts. The yields on these sub sectors in such a low rate environment have been driven down to unprecedented low levels which makes them, with the exception of index linked bonds, look unattractive at this time, particularly as and when interest rates rise. Also sovereign risk is on going within the weaker economies of the Eurozone. However, with regard to the other sub sectors of Fixed Interest, corporate and secured bonds still seem moderately attractive with very few defaults likely. The sub sectors with more obvious attraction are high yield bonds, emerging market debt and absolute return bonds, provided they are sufficiently liquid. There is no doubt that future Fixed Interest strategies will need to be much more nimble and flexible than heretofore with gilts and sovereign debt constituting the minority part of a Fixed Interest portfolio from here on.

With regard to the other aforementioned sectors, private equity should continue to benefit from improved prospects for increased activity in IPOs and mergers and acquisitions which are both continuing to recover. Property also is recovering well with attractive valuations still available with a better environment in which to manage property assets. Infrastructure managers should continue to take advantage of an increasing flow of opportunities across the spectrum. Hedge fund of funds, after a generally poor 2010 relative performance, should be able to benefit from a likely increase in volatility with less correlation. Factors on which their returns are so dependent. It is hoped that there will be a considerable improvement in their long/short and global macro activities which proved such a performance detraction last year. Although both hard and soft commodities boomed in 2010 especially in minerals, useful gains should still be possible in 2011. However, a nearer term pause for breath could easily occur. Both the GTAA and foreign exchange sectors should be able to produce worthwhile gains on the back of increased volatility in the currency market, caused by more central bank and corporate treasury hedging activities.

In sum, even after the strong showing of most asset classes last year, conditions exist which should translate into meaningful gains in 2011, especially for high quality equities with strong balance sheets and the ability to produce consistently rising earnings and dividends. However, it seems sensible to caution that the course of markets for 2011, though upwards, is unlikely to be smooth with many periods of volatile uncertainty. After a 9 month period of an unexpectedly strong equity run it would be all to easy to fall into the trap of unbridled optimism. As always, much will depend on the macro economic news flow from around the world which can be summarised with the following conditions:-

- In the UK, the coalition government must continue to hold firm as its belt tightening austerity measures impact consumers and corporations alike. The absorption of the VAT rise to 20% from 17 ½% will be important. So far the British propensity to take the necessary harsh medicine has been surprisingly good. But it needs to remain so, as severe austerity is destined to last at least three more years. It will also provide a test for the Trade Union/Government relationships, particularly in the area of unemployment. At their current valuations equities could surprise on the upside with appreciably stronger balance sheets than a year ago. A double dip recession seems most unlikely.

- In the USA, President Obama will need to show that he can live with the Republican Party majority in the House of Representatives and demonstrate an ability to compromise on essential issues. Corporate profitability is likely to remain strong and could translate into higher rates of GDP than market forecasters currently expect.

- In Europe, the joint efforts of the European Central Bank, Angela Merkel, the German Chancellor, and the International Monetary Fund should show that they can cope with the grossly indebted economies of Greece, Ireland, Portugal and Spain. Above all, it is imperative that the domino effect of leverage contagion can be contained and the future of the Euro assured. In the near future it seems probable that the Portuguese economy will have to be bailed out. Eurozone unemployment rates will likely remain of constant concern. Certain high quality equities are on surprisingly cheap valuations.

- In Japan, it is imperative that the Government can demonstrate that the tired and unsuccessful policies of the past are undergoing a radical change in order to spur consumers and corporations to spend so that the nation can grow itself away from the systemic deflation in which it has been mired for so long. A weaker yen would be helpful to Japanese exports, particularly to the Asian region.

- In Asia/Pacific, rates of GDP growth should continue apace, although at marginally lower levels than in 2010. This applies to China, India, South Korea, Singapore, Australia and less so to Russia. In particular, the People's Bank of China will need to continue with measures to cool down its very strong rate of economic growth and, at the same time, to be seen to revalue its currency the renminbi. China seems well capable of achieving this, but it will have to keep a close eye on inflation, particularly in respect of food for its massive population. China has, without doubt, become the centre of global trading with its insatiable demand for minerals, cars and so many big ticket items. It seems certain that it will continue to flex its muscles on the international stage.

- Emerging markets will most likely continue to attract long term investors, particularly the BRIC group which has really already matured from its emerging chrysalis stage such is the rapidity of their development. The same could be said of South Korea and Taiwan. There seems no doubt that in the longer term the equities and economic growth of the emerging market countries will outperform those of the classic Western Hemisphere developed countries. However, an area of concern for many emerging nations is the rapid rise in their inflation rates.

- In general, it seems both likely and essential that the Bank of England, the ECB and the Federal Reserve Board will continue to maintain their currently very low level of interest rates.

- The encouraging upturn in world trade is likely to continue with the International Monetary Fund forecasting global growth of 4.3% in 2011. There has been a sharp increase in shipping container transport which is usually a reliable barometer of trade activity.

- As always, inflation rates will have to be carefully monitored. In that regard pressure is likely to come from the accelerating rise in food and energy prices.

Finally, at the risk of being repetitive, it should be stressed that portfolios that embrace globalisation in all asset classes are most likely, in the long term, to be rewarded in peer group performance tables.

Valentine Furniss
14th January 2011

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Briefing note on Lord Hutton's Review of Public Sector Pensions

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	*Hymans Robertson – Summary of Recommendations*

This report is for information only

SUMMARY of Key Findings and impact on the LGPS

The final report on the review of public sector pensions was published by Lord Hutton on 10 March. The report makes a series of 27 recommendations for changes to all public sector pension schemes. Our advisor, Hymans Robertson, have issued a briefing note on those 27 recommendations which is attached to this report.

Impact on Local Government Pension Scheme (LGPS)

The key recommendations which would impact on members of the LGPS

- The final salary scheme should be closed and all members moved to a new career average scheme
- Accrued rights in the current scheme should be fully protected
- Normal Retirement Age should be linked to State Pension Age – currently 65, but set to increase.
- The different financing arrangements for the LGPS should continue – i.e. it should remain as a funded scheme
- Pension Boards to be created for every fund in the LGPS to include member nominees.

Central government will now be responsible for taking those recommendations forward and drawing up changes to each of the pension scheme rules. It is expected that changes will come into effect before the end of the current parliament in 2015.

Until draft regulations are written we will not be in a position to understand the impact on the LGPS. As such there will be no impact on the 2010 valuation.

Following the publication of Lord Hutton's interim report, proposals were drafted for an early increase to members' contributions, potentially from 2012. The scale and timing of these increases are a key concern as they have the potential to cause wide-spread opt-outs in the LGPS, which would have a significant impact on the continued viability of the scheme. The government need to give further consideration to both the timing of such a move and the disconnect to the other major scheme changes, and to the current inequity in member contribution rates across all public sector schemes.

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pensions reform

Lord Hutton's Review of Public Service Pensions – Summary of recommendations March 2011

John Wright
Head of Public Sector

The following is a summary of the recommendations which Lord Hutton is making to the government:

Chapter 1: the case for reform revisited

1 Role of public sector pensions is to ensure adequate levels of retirement income.

2 Employers should consider an employee's **total reward** (pay, pensions, benefits).

Chapter 2: The deal

3 **Adequacy**: Full state pension and scheme benefits should provide an "adequate level of income" for members that have a full career in the public sector.

4 **Accrued rights**: Full protection; retaining the final salary link and retirement age.

5 **Existing members** should move to new scheme for **future service** as soon as is practical.

6 Data produced to common standards and methodologies should be regularly published by all schemes, enabling simple comparisons to be made across the schemes.

Chapter 3: The design

7 A **career average** revalued earnings (CARE) scheme for all public sector schemes.

8 Pre-retirement revaluation should be in line with **average earnings**; post-retirement increases should be linked to **prices**; government to decide pre-retirement revaluation for deferreds (earnings or prices).

9 A single benefit design. Contributions tiered by earnings (well paid live longer and benefit more).

10 **Choice** for members: Not ancillary benefits. **Flexible retirement** with actuarial adjustments for early and late retirement. Removal of abatement and removal of caps on pension accrual.

Chapter 4: The controls

11 Normal **retirement** age should be linked to **State Pension Age**. The link should be reviewed to ensure it remains appropriate but should be maintained if possible.

12 Cap and share principles where costs exceed a **fixed cost ceiling**. Apply **default changes** where agreement cannot be reached.

Chapter 5: Applying the design

13 No recommendation of a single public sector scheme, but encouragement to **move towards a common framework**, except for uniformed services.

14 A new normal pension age of 60 should be set for **uniformed** schemes. This should be reviewed regularly.

15 **Common scheme design** features to apply to all schemes. The LGPS should remain **funded**.

16 **Eligibility**: Undesirable for future non–public service workers to have access.

Chapter 6: A transparent and effective system

17 **Pension Boards** for every scheme (and each LGPS fund), to include member nominees. A **policy group** should be set up for each scheme at national level to consider major changes.

18 All schemes should issue annual **benefit statements** to active members, with more emphasis on the use of technology for communication with members and employers.

19 **Scheme wide oversight** by, for example, the Pensions Regulator (TPR) or some other body: improved governance and transparency would be achieved by establishing a framework to oversee governance, administration and data.

20 The Office for Budget Responsibility (OBR) should **publish regular analysis** of the implications for public finances (across all schemes including the LGPS).

21 **Centrally collated data**, covering all LGPS funds should be published, including fund comparisons.

22 Standards of **good administration** should be defined. A benchmarking exercise should be carried out to assist in raising standards.

23 Monitor the benefits of **shared services** within the LGPS. Extending, where appropriate, across all local authorities. Consider shared services and outsourcing for unfunded schemes.

24 Primary legislation to introduce a new common UK **legal framework** for all schemes.

Chapter 7: Delivering the change

25 **Consultation process** should be centrally co-ordinated: to set the cost ceilings and timetables for the consultation and implementation. Consultation on the detail should be conducted scheme by scheme involving employees and their representatives.

26 **Timescale**: Aim to introduce the new scheme before the end of this Parliament.

27 **Best practice governance** arrangements for business as usual and the transformation process

For further information, or to discuss any matter raised by the Briefing Note, please speak to your usual contact at Hymans Robertson LLP.

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2010 VALUATION RESULTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	*LB Hillingdon – Funding Strategy Statement*

INFORMATION

The triennial revaluation of the pension fund has now been completed and Bryan Chalmers, the fund actuary, will present the results of the 2010 valuation to committee, incorporating a discussion on the results.

Summary of the Valuation Results

- The results of the 2010 valuation indicate the funding level is now 78%, a decrease from 92% at the 2007 valuation. This has resulted in the deficit increasing from £50m as at 31 March 2007 to £163m as at 31 March 2010. The deterioration of the funding position is largely due to poorer than anticipated investment returns.

- The common employer contribution rate is made up of two components, the future service cost and an adjustment for the past service position. The results indicate a future service rate of 15.9% and a past service cost of 6.6% giving a common contribution rate at the whole fund level of 22.4%. However, this rate is theoretical, and in practice each participating employer has its own underlying funding position and circumstance.

- An increase to the London Borough of Hillingdon Employer's contribution of 1% per year is recommended, as a result of the valuation. Hillingdon has paid an additional 1% contribution to fund the cost of early retirements over the last 2 valuation periods and it is recommended that this continues.

- At the time of budget setting it was unclear whether the Hutton review would impact on this valuation and as a result a contingency of £850k was created to cover any potential increase. The valuation results recommend an employer rate for Hillingdon for 2011/12 of 18.1% plus a lump sum of £926k. This provides us with the flexibility to keep the employer rate static and then pay a lump sum later in the year. This will also give us the flexibility to consider making a capitalisation request to CLG for this increase.

Funding Strategy Statement

- Following agreement of the results the valuation the Funding Strategy Statement (FSS) of the fund has been revised and is included with this report for Committee approval prior to publication.

- The FSS sets out how the Council, in its role as Administering Authority, has balanced the conflicting aims of affordability, stability and prudence in the approach to funding the scheme's liabilities.

Appendix

Funding Strategy Statement

1 Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2011.

1.1 Regulatory framework

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

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - FSS guidance produced by CIPFA
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Review of the FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact:-

Nancy le Roux (Senior Finance Manager) – nleroux@hillingdon.gov.uk

Ken Chisholm (Corporate Pensions Manager) - KChisholm@Hillingdon.gov.uK

2 Purpose

2.1 Purpose of the FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding policy

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

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business and to the Fund, in view of the employer's strength of covenant, where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions by implementing a stabilisation mechanism, reviewable after a 3 year period, which restricts the movement in employer contributions, where the Administering Authority considers it reasonable to do so;
- to use reasonable measures, such as obtaining bonds and guarantees from employers, to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3 Solvency issues and target funding levels

3.1 Derivation of employer contributions

Employer contributions are normally made up of two elements:

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

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

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

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which individual employers are actually required to pay. The types of "peculiar" factors which are considered are discussed in Section 3.7.

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

For some employers it may be agreed to pool contributions, see Section 3.7.9.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. Please note, the contribution rate for London Borough of Hillingdon incorporates an additional 1% to cover early retirement strain costs.

[1] See Regulation 36(5) of LGPS (Administration) Regulations 2008

For other Fund employers, any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision). Instalments can be paid up to a maximum of 3 years after the decision where the Administering Authority considers this appropriate.

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

3.2 Solvency and target funding levels

The Fund's actuary is required under Regulation 36(1) of The Local Government Pension Scheme (Administration) Regulations 2008 to report on the "solvency" of the whole fund at least every three years,

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

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. Please refer to paragraph 3.9 (admission bodies ceasing) for the treatment of departing employers. The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe,

The Administering Authority may vary the discount rate used to set the employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (eg using gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

3.3 Ongoing funding basis

a) Life Expectancy

[2] See Regulation 36(7) of LGPS (Administration) Regulations 2008

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1% pa minimum underpin to future reductions in mortality rates.

The combined effect of the above changes from the 2007 valuation approach, allows for people living around 0.75 years longer per decade. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

b) Investment Return

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

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

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

c) Salary Growth

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next three years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11,2011/12 and 2012/13. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

d) Pension Increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010. At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

e) General

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation. Demographic assumptions vary by member characteristics and so reflect the different profiles of the employers.

3.4 Future service contribution rates

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

3.4.1 Employers that admit new entrants

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

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

3.4.2 Employers that do not admit new entrants

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

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

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

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

3.5 Asset share calculations for individual employers

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

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

- past contributions relative to the cost of accruals of benefits to date;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;

- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

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

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset share calculations for individual employers

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

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

3.7 Stability of employer contributions

3.7.1 Solvency issues and target funding levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation").
- the use of extended deficit recovery periods.

- the phasing in of contribution increases / decreases.
- the pooling of contributions amongst employers with similar characteristics.

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit the London Borough of Hillingdon's contribution rate changes to 1% of employer contributions per annum from 1 April 2011 to 31 March 2014, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

Heathrow Travel Care has been pooled with the London Borough of Hillingdon and will pay the same contribution rate over the period from 1 April 2011 to 31 March 2014, without the additional 1% to cover early retirement costs. The stabilisation approach for other specific Fund employers is set out below. To aid affordability, stable employers with no tax raising powers are us to use deficit recovery periods as follows:

Uxbridge College – 25 years

Hillingdon and Ealing Citizens Advice – 25 years

Stockley Academy – 20 years

Harefield Academy – 20 years

The contribution rate increases are to be phased in over the three year period from 1 April 2011 to 31 March 2014 for Hillingdon and Ealing Citizens Advice, Uxbridge College and Harefield Academy. Stockley Academy will have no increase to their contribution rate from 1 April 2011 to 31 March 2014 and will pay the same rate as the year ending 31 March 2011.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a stable net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit recovery periods

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

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

Type of Employer	*Maximum* Length of Deficit Recovery Period
Statutory bodies with tax raising powers and Resolution bodies	25 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 25 years
Academies	20 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers

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

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Deficit recovery periods

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is an admitted body with a relatively large deficit recovery contribution rate (eg 15% or more), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

3.7.5 Surplus spreading periods

As part of the overall Funding Strategy it was agreed to adopt a 'stabilisation mechanism' that limits increases and reductions in contribution rates for public sector bodies: see 4.1 below. Therefore any emerging surplus will not reduce their contributions outside the pre-determined range.

Any other employers deemed to be in surplus the preferred approach would be to maintain contributions at the future service level. However, reductions **may** be permitted to reduce contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

To help meet the stability requirement, employers outside the stabilisation mechanism may prefer not to take such reductions.

3.7.6 Phasing in of contribution rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be entitled to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

3.7.7 Phasing in of contribution reductions

Any contribution reductions will be put in place with immediate effect for employers not subject to stabilisation.

3.7.8 The effect of opting for longer spreading or phasing in

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

3.7.9 Pooled contributions

The Administering Authority may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

3.8 Regular Reviews

The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions payable (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), an increased level of security or guarantee, or some combination of these.

3.9 Admission bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended but can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement (notwithstanding the provisions of the agreement):

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

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

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

a) For Transferee Admission Bodies, the assumptions applying at the end of the contract would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers. It will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. In order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

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

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

As an alternative to (b) above, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security or guarantee to be held against any deficit, and would carry out the cessation valuation on an ongoing valuation basis: deficit recovery payments would be derived from this cessation amount. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority’s contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

3.10 Early retirement costs

3.10.1 Non ill-health retirements

The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

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

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

The London Borough of Hillingdon’s contribution rates, as shown in Annex A, incorporate an additional 1% to cover early retirement strain costs. Other Fund employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. Depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years.

3.10.2 Ill-health monitoring

The Fund monitors each employer’s, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.10.3 Ill-health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged;
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.11 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields
- allowance for unpaid contributions

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis. This is included within the Fund's risk register.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment strategy

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

The investment strategy is set for the long-term, but the Fund has a policy to formally review the asset allocation, following the completion of the triennial valuation of the Fund, or perhaps more frequently to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 79% of the total Fund assets.

The investment strategy of lowest default or volatility risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with funding basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on fixed interest gilts. This resulted in a return on the Fund's assets of 6.1% p.a. to be adopted for the 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

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

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

4.3 Balance between risk and reward

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

4.4 Inter-valuation monitoring of funding position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted. The Fund also reports back to employers annually at its Annual General Meeting.

5 Key risks and controls

5.1 Types of risk

The Administering Authority's has an active risk management programme in place including a Fund specific risk register. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;

- demographic;
- regulatory; and
- governance.

5.2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations subject to market experience*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.* *This could be supplemented with an analysis of absolute returns against those under-pinning the valuation.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading, phasing in of contribution rises and possible pooling.*

5.3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*
A company admitted to the Fund as an admission body may become financially unviable	*A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this is reviewed regularly to ensure it provides adequate cover for the financial risks involved.*
Ill-health retirements significantly more than anticipated	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.*
Reductions in payroll causing insufficient deficit recovery payments	*In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:* *For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increase).* *For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification, budget changes for higher earners and the Hutton Review of public sector pensions.	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.* *The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.*

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). Administering Authority not advised of an employer closing to new entrants.	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.*
An employer ceasing to exist with	*The Administering Authority believes that it would*

insufficient funding or adequacy of a bond.	*normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* *Vetting prospective employers before admission.* *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.* *Reviewing bond or guarantor arrangements at regular intervals.* *Reviewing contributions if thought appropriate.*

Annex A – Rates and adjustments certificate

Employer name	Contributions currently being paid in 2010/11	Minimum Contributions for the Year Ending					
		31 March 2012		31 March 2013		31 March 2014	
		% payroll	Monetary amount (£000)	% payroll	Monetary amount (£000)	% payroll	Monetary amount (£000)
London Borough Of Hillingdon (see note 1)	18.1%	18.1%	926	20.1%		21.1%	
Heathrow Travel Care	17.1%	18.1%		19.1%		20.1%	
Hillingdon & Ealing Citizens Advice	14.5%	15.5%		16.6%		17.6%	
Uxbridge College	12.9%	14.2%		15.5%		16.8%	
Stockley Academy	18.5%	18.5%		18.5%		18.5%	
Harefield Academy	13.0%	13.3%		13.7%		14.0%	
Lookahead Housing And Care	18.6%	23.0%		23.0%		23.0%	
MITIE (Ex-Dalkia Services)	21.0%	21.0%		21.0%		21.0%	
MITIE (Ex-ICT)	21.0%	21.0%		21.0%		21.0%	
Yes Dining	21.0%	21.0%		21.0%		21.0%	
Greenwich Leisure Limited	16.8%	16.8%		16.8%		16.8%	

Annex B – Responsibilities of the key parties

The **Administering Authority** should:

- collect, account and reconcile employer and employee contributions from the employer bodies;
- invest monies not required for the immediate payment of benefits, transfers and administration costs in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly.
- pay all contributions (employees and employers), including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework and inform the Administering Authority of their individual policies on discretions;
- make additional contributions in accordance with agreed arrangements, for example, augmentation of scheme benefits, early retirement strain;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding;
- engage with the Administering Authority in all required consultation processes; and
- comply with the valuation timetable where required and respond to communications as necessary to complete the process.

The **Fund actuary** should:

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

The **Pensions Committee** should: -

- carry out statutory functions relating to local government pensions under regulations made under Sections 7, 12 and 24 of the Superannuation Act 1972. Broadly this enables them to oversee the general framework within which the Fund is managed;
- monitor investment and administration performance;
- carry out regular reviews of investments and investment strategy;
- determine and keep under constant review, an overall asset allocation policy for the Fund, including appointment and termination of fund managers;

- consider appropriate professional advice on all matters with a material impact on the Fund;
- approve significant internal decisions and documents for the Fund including the valuation, Annual Report and Accounts and the FSS; and
- determine and keep under constant review, all policies and strategies of the Fund.

PENSION FUND BUDGET 2010 - 2011

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

SUMMARY

Although not explicit within the Terms of Reference of the Pensions Committee, as part of its role in governance of the pension fund, the Committee has responsibility to oversee the setting of the annual budget for the operation of the Pension Fund and to monitor income and expenditure against that budget. This report is being put before the Committee to enable them to fulfil this responsibility.

RECOMMENDATION

1. **It is recommended that Committee note the budget position as at 31 December 2010.**
2. **It is recommended that Committee approve the budget for 2011 - 2012 attached at Appendix B.**

PENSION FUND BUDGET

As explained previously, 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.

BUDGET MONITORING 2010/11

Member income projected from Month 9 is expected to be slightly higher than the budget, an improvement in the position shown at month 6. However, the caveat noted at month 6 still stands in that if the numbers of redundancies continue to rise then a fall in scheme membership would occur, and potentially member income could fall.

At month 9, projected member's expenditure has dropped considerably from month 6, mainly due to a fall in the projected cost of lump sum death benefits and transfer values. Overall the estimated member's expenditure is now projected to be 9% higher than last year, compared to an estimated 13% at month 6.

Net administration expenditure is expected to be broadly in line with last year's cost.

The current forecast is predicting a deficit from operations of £1.2 million, an improvement of £1.4 million from last quarter. The deficit arises from the high member expenditure, as explained above. This will be a major concern going forward if this continues as the fund will need to draw on investment income to meet operating expenditure. This situation will be monitored closely for both the impact of continuing redundancies and the impact of any scheme changes as they are announced.

This report does not report on a forecast for the return on investments as these returns are monitored quarterly through the fund manager performance reporting.

PENSION FUND BUDGET 2011- 2012

At this stage, we are proposing that the budget for 2011/12 be aligned with the actuals for 2010/11.

The big unknown for 2011/12 is the impact of redundancies on both income, in terms of reduced contributions, and expenditure in terms of increased benefits. However, at present we have no mechanism for quantifying this impact. Pension payments will also increase as payments have been increased this year by CPI of 3.1%. Additionally, due to the Council setting salary inflation at zero for 2011/12, total administration costs are expected to remain flat against the actuals for 2011/12.

Once the outturn position for 2010/11 is known the budget for 2011/12 will be realigned with those figures. However, as the budget is fully recharged to the Pension Fund we will monitor on a monthly basis and adjust as the projections become more accurate.

Investment income (dividends and interest income) will also be forecast to remain flat on the 2010/11 outturn, at this stage in the process, as will the valuation of the investments with regards to appreciation/depreciation.

The budget for investment management fees will also be set against the 2010/11 actuals, however, as these fees are linked to performance of both markets and manager, it is difficult to forecast at this point in time.

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.

	2009-010 Actual	2010-11 M9 Actual	2010-11 Budget	2010-11 Forecast	2011-12 Projected
Member Income					
Employers Contributions	21,448	16,794	21,558	22,392	22,392
Employees Contributions	8,310	6,167	8,253	8,223	8,223
Transfer Values Receivable	4,057	2,561	3,906	3,415	3,415
Net Member Income	**33,815**	**25,522**	**33,718**	**34,029**	**34,029**
Member Expenditure					
Pension Payments	(22,025)	(17,346)	(22,115)	(23,128)	(23,128)
Lump Sum Retirement Benefits	(4,602)	(4,744)	(4,526)	(6,325)	(6,325)
Lump Sum Death Benefits	(503)	(885)	(639)	(1,180)	(1,180)
Refunds of Contributions	(7)	(8)	(8)	(11)	(11)
State Scheme Premiums	(2)	2	(3)	3	3
Transfer Values Payable	(4,557)	(2,894)	(5,547)	(3,859)	(3,859)
Net Member Expenditure	**(31,696)**	**(25,875)**	**(32,838)**	**(34,500)**	**(34,500)**
Net Member Surplus	**2,119**	**(353)**	**880**	**(471)**	**(471)**
Administration Expenditure					
Pensions Administration	(402)	(404)	(538)	(538)	(538)
Miscellaneous Costs	(126)	(1)	(55)	(1)	(1)
Investment Administration	(171)	(146)	(172)	(195)	(195)
Net Administration Expenditure	**(699)**	**(551)**	**(765)**	**(734)**	**(734)**
Surplus/Deficit from Operations	**1,420**	**(904)**	**115**	**(1,205)**	**(1,205)**
Returns on Investments					
Investment Income	11,066	5,830	10,549		
Change in Market Value of Investments	136,635	12,127	0.00		
Management Fees	(2,090)	(997)	(1,989)		
Irrecoverable Withholding Tax	(171)	(90)	(221)		
Net Returns on Investments	**145,440**	**16,870**	**8,339**		
Net Surplus in Period	**146,860**	**15,966**	**8,453**		
Fund Value B/fwd 01/04/2009	417,430	564,290	564,290		
Fund Value	**564,290**	**580,256**	**572,743**		

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DELOITTE – 2010/11 ANNUAL AUDIT PLAN

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

SUMMARY

The attached document sets out the initial plans for the audit of the Pension Fund Annual Report 2010/11 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit.

RECOMMENDATIONS

The committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2010/11 accounts.

COMMENT ON THE CONTENT OF THE PLAN

Materiality: Materiality is calculated on the basis of the net assets of the fund but is restricted to the materiality established for the audit of the Council's financial statements as a whole, which for 2011 is £7.3m (2010 £6.0m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.4m (2010 £0.3m).

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

- Contributions
- Calculation of Benefits
- Unquoted Investment Vehicles
- IFRS implications

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2011.

FEES

The estimated level of fees for the 2010/11 audit is £36,500 for the pension fund audit.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon

Report to the Audit Committee and Pensions Committee

Audit Plan for the 31 March 2011 year end Pension Fund Audit

Contents

Executive summary

We have pleasure in setting out in this document details of our proposed audit scope for the London Borough of Hillingdon Pension Fund for the year ending 31 March 2011.

Audit scope	Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance. Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Audit Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Council and cover issues relating to the pension fund. The pension fund accounts remain part of the accounts of the Council as a whole. The LGPS Regulations require administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts. Our audit report on the Council accounts will continue to cover the pension fund section of that document. In addition, we are asked by the Audit Commission to issue an audit report for inclusion in the annual pension fund report.

Materiality	We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Council's financial statements as a whole. We estimate materiality for the year to be £7.3 million (2010: £6 million). We will report to the Pensions Committee on all unadjusted misstatements greater than £0.4 million (2010: £0.3 million) unless they are qualitatively material. Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Council's financial statements.

Executive summary (continued)

Key audit risks	The key audit risks which we have identified as part of our overall audit strategy are: 1. Unlike the position in the private sector, we are not required to issue a separate statement on contributions. Nevertheless, in view of the complexity arising from the participation of different admitted bodies within the fund, together with changes to the fund introduced from April 2008 which mean that members may pay different rates depending on their pensionable pay, we have included the identification, calculation and payment of contributions as areas of specific risk. 2. There are a number of complexities to the calculation of both benefits in retirement and ill health and death benefits introduced by changes to the local government pension fund last year. We will perform testing to verify that the calculation of benefits is in accordance with the Scheme rules. 3. The pension fund in the past has made some use of investments in unquoted investment vehicles which can give rise to complexities in accounting, disclosure and measurement. There are four new fund managers in the year and the transfer of fund and transition will be an area of focus. We will review the internal control reports of the fund managers and verify how the Pensions Committee has satisfied itself of the controls at the fund manager. 4. The Code of Practice on Local Authority Accounting sets out how Local Government Pension Schemes should be applying International Financial Reporting Standard (IFRS). This has some application for the Fund.

Prior year uncorrected misstatements and disclosure deficiencies	There were no significant unadjusted misstatements or uncorrected disclosure deficiencies reported to you in respect of the 2009/10 accounts.

Timetable	The timetable is set out in Section 5. The fieldwork will be carried out at the same time as our work on the Council's financial statements. We plan to finalise our audit report included within the Pension Fund Annual Report at the same time as that included in the Council's accounts.

Executive summary (continued)

Independence	Deloitte have developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the "Independence policies and procedures" section included at Appendix 1. We will reconfirm our independence and objectivity to the Audit Committee and Pensions Committee for the year ending 31 March 2011 in our final report to the Audit Committee and Pensions Committee. We have discussed our relationships with the Council in our separate audit plan for the audit of the Council's financial statements.

Fees	We set out an estimate of our fees in a letter to the Council issued in July 2010. Since then we have agreed the fee estimate of £36,500 (2010: £38,000), this is accordance with the Audit Commission guidance.

Matters for those charged with governance	The "Briefing on audit matters", previously circulated to you, includes those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). We will report to you at the final audit stage any matters arising in relation to those requirements.

Engagement Team	Heather Bygrave will lead the audit and will be supported by Mark Browning. Heather is also the lead audit partner for London Borough of Hillingdon. Both Heather and Mark have significant experience in the audit of pension schemes.

1. Scope of work and approach

Overall scope and approach

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

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

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

Our audit objectives are set out in our "Briefing on audit matters" document, as previously circulated to you.

The audit opinion we intend to issue as part of our audit report on the Council's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the Local Government Statement of Recommended Practices (SORP).

For pension fund statements, we have initially considered the net assets of the fund as the benchmark for our materiality assessment as this benchmark is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. However, we have restricted our estimate of materiality to the amount set for the Council's financial statements as a whole, which is £7.3 million. Our separate audit plan for the audit of the Council's financial statements includes further information on how we derived this estimate. The concept of materiality and its application to the audit approach are set out in our Briefing on audit matters document.

The extent of our procedures is not based on materiality alone but also on the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

1. Scope of work and approach (continued)

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

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts; and
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Local Government SORP - as the financial statements included in the statement of accounts.

Our audit objectives are set out and explained in more detail in our “Briefing on audit matters” document, as previously circulated to you.

2. Key audit risks

Based upon our initial assessment we will concentrate specific audit effort in 2010/11 on the following areas:

Contributions	
Audit Risk	Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS. However, this remains a material income stream for the pension fund and in view of the complexity introduced by the participation of more than one employer in the fund, together with the introduction of the new benefit structure with its tiered contribution rates; we have identified this as a specific risk.
Deloitte response	We will perform tests of controls in this area in order to take a controls reliance approach for our substantive audit testing. We will perform procedures to ascertain whether employer and employee contributions have been calculated, scheduled and paid in accordance with the schedule.

2. Key audit risks (continued)

Benefits	
Audit Risk	Changes were made to the local government pension fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and 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 employers may not have retained all the necessary records.
Deloitte response	We will perform tests of controls in this area in order to take a controls reliance approach for our substantive audit testing. We will perform procedures to ascertain whether benefits payable have been calculated correctly in accordance with the fund rules.

2. Key audit risks (continued)

Investment Assets

Audit Risk

- The pension fund makes some use of investments in unquoted investment vehicles, like private equity houses. Nationally, a number of such investment vehicles have suffered significant losses over the last two years. Private equity funds are complex to value and include an element of judgement on the part of the investment manager. Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

- There are four new investment managers in the year and the transition of fund and management of these funds from one to the other is identified as a specific risk.

Deloitte response

- We will seek to understand the approach adopted in the valuation of such investments and inspect documentation relating to data sources used by the Council. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.

  The fund also makes use of derivatives which can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Local Government SORP. The use of expert advice may be required for testing these balances.

- As there are four new fund managers in the year we will need to verify the correct transfer of funds between the fund managers to ensure there were no errors in the transition.

  We will perform standard procedures like obtaining direct investment confirmations and reviewing the internal control reports of these fund managers. We will also gain an understanding of the Pension Committee review over these internal control reports to verify how it satisfies itself over the controls in place at the fund managers.

  We will also review the updated Statement of Investment Principles (SIP) to ensure investments have been made in line with these.

2. Key audit risks (continued)

International Financial Reporting Statements (IFRS)	
Audit Risk	The Code of Practice on Local Authority Accounting sets out how Local Government Pension Schemes should be applying International Financial Reporting Statements (IFRS). The main implications for the Hillingdon Pension Fund are as follows: • requirement for actuarial present value of promised retirement benefits to be disclosed – with three options for disclosure: • Option A - in the Net Asset Statement disclosing the resulting deficit or surplus; • Option B – in the notes to the Financial Statements; or • Option C – by referring to the actuarial information in an accompanying actuarial report. • additional note disclosures required around the actuarial position of the fund and the significant actuarial assumptions made; and • additional note disclosure requirements in IFRS 7, in relation to financial instruments disclosures, to report on the risks to which financial instruments expose the entity.
Deloitte response	We will review the additional disclosures in the Pension Fund accounts for compliance with the Code of Practice on Local Authority Accounting.

3. Consideration of fraud

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

ISA (UK and Ireland) 240 – 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in Hillingdon Council and its local government pension fund and the internal control that management has established to mitigate these risks.

We will make inquiries of management, internal audit and others within the Council as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition we are required to discuss the following with the Pensions Committee:

- Whether the Pensions Committee has knowledge of any fraud, alleged or suspected fraud?
- The role that the Pensions Committee exercises in oversight of:
    - Hillingdon Council's assessment of the risks of fraud in respect of the pension fund; and
    - the design and implementation of internal control to prevent and detect such fraud?
- The Pensions Committee's assessment of the risk that the pension fund financial statements and annual report may be materially misstated as a result of fraud.

We will be seeking representations in this area from the Nancy LeRoux, Senior Finance Manager - Corporate Finance, in due course.

3. Consideration of fraud (continued)

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- having understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, test the appropriateness of a sample of such entries and adjustments. We will again make use of our computer audit specialists to analyse the whole population of journals and identify those which have unusual features for further testing;

- a review of accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We will also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements; and

- obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Council and its environment.

4. Internal control

Obtaining an understanding of internal control relevant to the audit

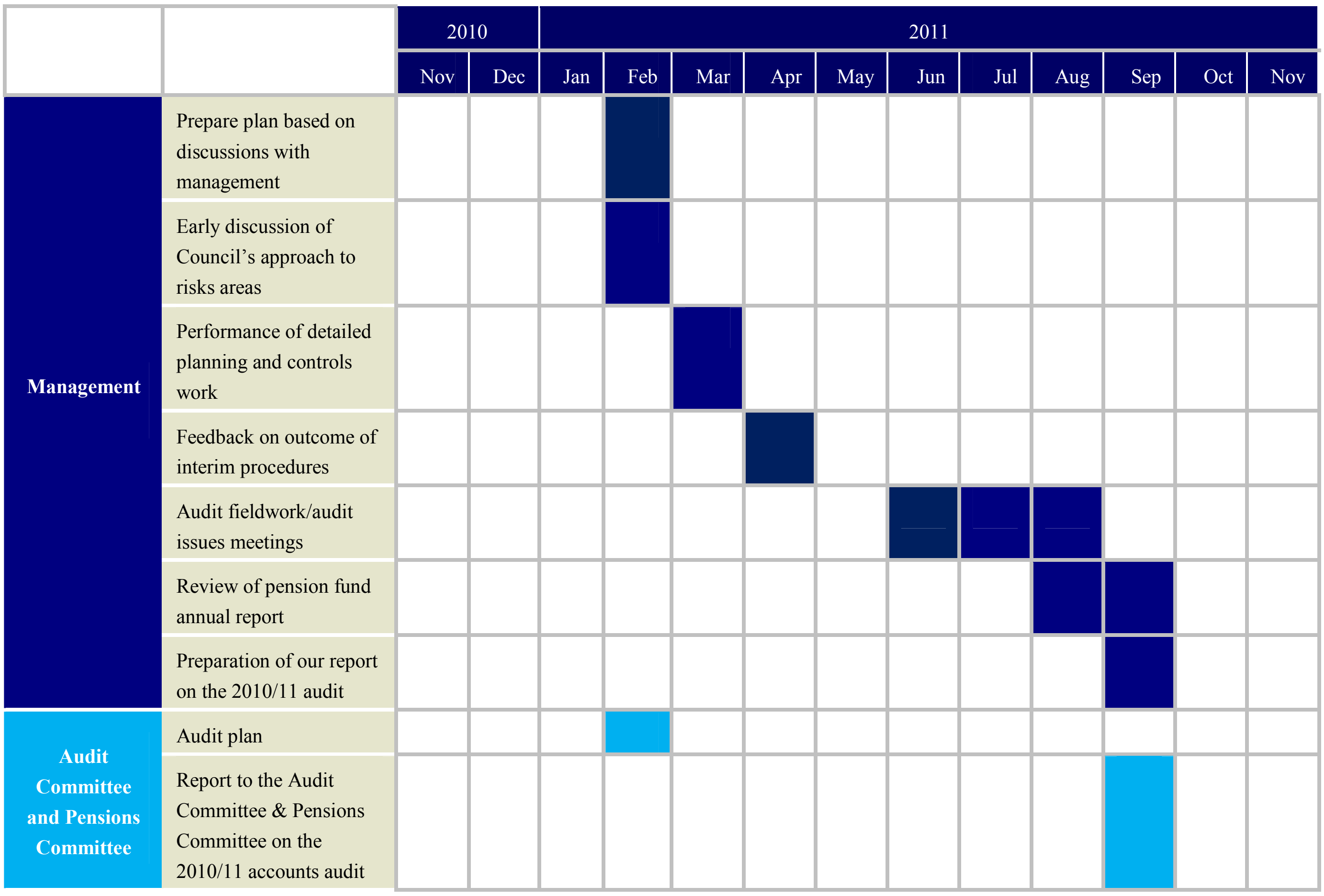
As set out in "Briefing on audit matters", for controls considered to be ‘relevant to the audit’ we are required to evaluate the design of the controls and determine whether they have been implemented (“D & I”). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council or its pension fund administration, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

Liaison with internal audit

We will be meeting with Helen Taylor, the Council’s Head of Internal Audit and Corporate Governance, and agree on a constructive and complementary liaison between the external auditors and the Council’s internal audit function, to maximise the combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Council’s internal audit functions, their systems documentation and risk identification during the planning of the external audit.

Following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function we will review any findings relevant to the pension scheme adjust the audit approach as is deemed appropriate.

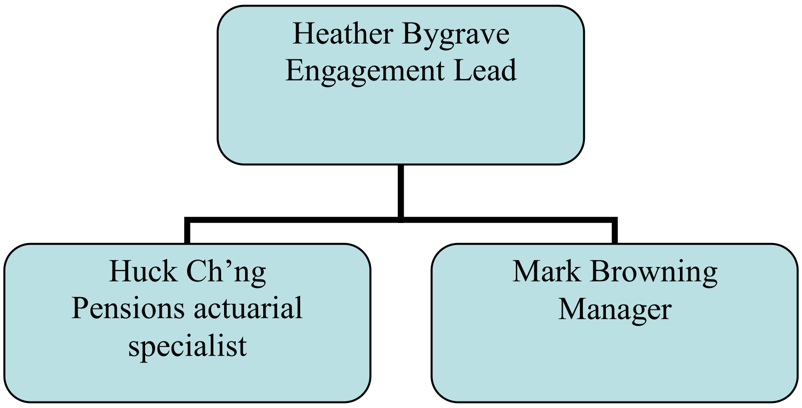
5. Timetable



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

6. Client service team

We set out below our Pension scheme audit engagement team.



7. Responsibility statement

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

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

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

Deloitte LLP
Chartered Accountants

St Albans
February 2011

Appendix 1: Analysis of professional fees

We summarise below our proposed audit fees as discussed with management, including details of any scope changes:

	Pension scheme Audit
2009/10	£38,000
2010/11	**£36,500**

Note 1 - We have not made any adjustment to the fee for inflation in line with the Audit Commission's recommendation.

Note 2 - In setting the fee at this level, we have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in respect of 2009/10.

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Member of Deloitte Touche Tohmatsu

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 third quarter of 2011/12. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

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

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

Number of Cases in the third quarter of 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				
Apr 10 to Jun 10	2	0	2	12
July 10 to Sept 10	8	0	4	7
Oct 10 to Dec 10	3	0	5	9

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
Apr10 to Dec 10	522,206	111,600,000	0.47

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 Wood, 01895 250151
Papers with this report	nil

SUMMARY

This report summarises the key work areas of the pension's 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 3 - 2010/2011

Area of Work	Target (Days)	Number processed within target	Percentage within Target	Total Cases
Transfer in Quote	5	36	70.59	51
Transfer Out Actual	9	14	93.33	15
Transfer Out Quote	5	6	75.00	8
Refund	5	2	100.00	2
Estimate of Retirement Benefits	10	193	89.77	215
Actual Retirement Benefits	5	60	92.31	65
Condolence Letter	2	50	98.03	51
Letter Notifying Dependants Benefits	5	9	90.00	10
Deferred Benefits	10	36	52.18	69
Answer General Enquiry Letter	7	176	100.00	176
Benefit Statement Enquiry	10	0	100	0
Admit new entrant	20	286	97.61	293
Additional Service Purchase	10	1	100.00	1
Total (3rd Quarter)		880	90.53	972
Total (2nd Quarter)		830	96.17	863
Total (1st Quarter)		870	94.67	919

The reduction in the overall performance during the year is largely due to the team carrying two full time vacancies for several months. These posts were filled during this quarter and the staff are now undergoing training. As a result performance should start to improve. The largest area of underperformance was in the calculation of deferred benefits and it was a conscious choice by the Payroll and Pensions Manager to delay work in this area and focus on priority calculations.

FINANCIAL IMPLICATIONS

There are no direct financial implications arsing from this report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

GOVERNANCE ISSUES

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	None

SUMMARY

This report provides an update on Pension Fund Governance issues. The main issues in this report relate to an update to the Communications Policy and some minor updates to the Statement of Investment Principles.

RECOMMENDATIONS

That Committee:

1. **Approve the revised Statement of Investment Principles**
2. **Approve the revised Communications Policy**
3. **Note the contents of the other items in the report.**

INFORMATION

1. Revision to the Statement of Investment Principles

The main changes to the Statement of Investment Principles are as follows:

- The investment responsibilities of the Investment Sub Committee, 2nd page, have been inserted – section highlighted
- Amendment of Director of Finance to Chief Finance Officer, throughout the statement
- Amendment to treasury management policy to include money market funds information – section highlighted

Committee are asked to approve the revised statement attached at appendix 1.

2. Revision to the Communications Policy

Regulations and good governance require the Fund to publish and maintain a communications policy detailing how the fund will communicate with all stakeholders of the Fund. As agreed in 2010, the current policy, published in 2006, has now been reviewed and updated. Committee are now asked to authorise the publication of this revised policy, attached at appendix 2.

3. Future Member Training and Development Events

DATE	EVENT	LOCATION
16-18 May	NAPF Local Authority Conference	West Midlands
13 Oct	UBS First Steps	London
7 Apr or10 Nov	UBS Second Steps	London
12 May or 23 Nov	UBS Third Steps	London
9 Nov	CIPFA Annual Pensions Conference	London

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

Statement of Investment Principles
(Revised March 2011)

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

INVESTMENT RESPONSIBILITIES

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

The **Pensions Committee** has responsibility for:

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

The Investment Sub Committee has responsibility for:

- Monitoring financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework,
- Keeping asset allocation under review within range guidelines set by the Pension Committee,
- Considering the framework for the allocation of new money among managers and similarly, in the event that assets need to be realised,
- Formally reviewing the mandates of the managers, and their adherence to their expected investment process and style,
- Considering the need for any changes to the investment managers' mandates or manager arrangements,
- Evaluating the credentials of potential managers and make recommendations to the Pension Committee in respect of any change of managers.
- Monitoring the investment advice from their investment consultant and investment adviser at least annually,
- Maintaining the Funds Statement of Investment Principles.

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

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

The **Investment Consultants** are responsible for:

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

The **Actuary** is responsible for:

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

The **Investment Managers** are responsible for:

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

The **Custodian** is responsible for:

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

FUND LIABILITIES

Scheme Benefits

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

Financing benefits

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

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

Actuarial valuation

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

INVESTMENTS

Approach

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

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, Alliance Bernstein, Fauchier Partners, Goldman Sachs Asset Management, LGT Capital Partners, M&G Investment Management, Macquarie Capital Funds , Marathon Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

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

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

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

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

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

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

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

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

The suitability of investments

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

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

The expected return on investments

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

Alliance Bernstein - 2.00% p.a. in excess of benchmark

Fauchier	- 5.00% p.a. in excess of benchmark
Goldman Sachs	- 0.75% p.a. in excess of benchmark
M&G	- 5.00% p.a. in excess of benchmark
Marathon	- Outperform benchmark
Macquarie	- Outperform internal rate of return hurdle
Ruffer	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Property	- 1.00% p.a. in excess of benchmark

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

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

Fee Structures

Alliance Bernstein	- Tiered fee based on portfolio value.
Fauchier	- Performance based
Goldman Sachs	- Tiered fee based on portfolio value.
M&G	- Fixed based on drawn capital
Marathon	- Performance based
Macquarie	- Fixed fee on committed capital + performance fee
Ruffer	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS Property	- Fixed fee based on portfolio value.
Hymans Robertson	- Price per piece
Scott Jamieson	- Fixed fee

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

Risk and diversification of investments

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

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

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

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

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

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

The realisation of investments

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

Pension Fund Treasury Management Policy

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

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

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

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

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

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

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

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

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

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

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

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

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

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

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

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

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

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

STOCK LENDING

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

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

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

COMPLIANCE

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

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

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

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

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

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

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

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

APPENDIX B

Limits on Investments

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

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

Restrictions identified in the above table does not apply if:

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

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

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

National Savings Certificates;

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

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

a deposit with a relevant institution.

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

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

APPENDIX C

Voting Guidelines

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

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

Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25%of total fees. Appointment of auditors be for at least 5 years.

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

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

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

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

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

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

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

STATE STREET GLOBAL ASSET MANAGEMENT Account 2			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index sub-Fund	50	+/- 10% of Benchmark	Merrill Lynch Sterling Non Gilt
Sterling Liquidity sub-Fund	50		
Total	**100**		

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

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

APPENDIX E

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy. In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF and NAPF.
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings.
Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from our fund managers on voting are received and engagement activity is reported to committee quarterly. In addition the fund receives 'alerts' from Local Authority Pension Fund Forum. These highlight corporate governance issues of concern and are considered accordingly.
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. On occasions, the fund may participate in escalation of poignant issues, principally through engagement activity through the Local Authority Pension Fund Forum.
Principle 5 - Institutional investors should be	The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on

willing to act collectively with other investors where appropriate**.**	individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does not currently disclose any voting data.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

COMMUNICATION POLICY STATEMENT

THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 1997 (as amended)

Issued by: Corporate Finance
Authorised by: Pensions Committee March 2011

The Council is required by regulation 106B of the Local Government Pension Scheme Regulations 1997 to maintain and publish a communications policy statement.

Under the terms of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008, the Council must publish a statement of policy concerning communications with scheme members and employing authorities.

This Communications Policy Statement concerns communications with scheme members, representatives of members, prospective members and employing authorities. It details:

a) the provision of information and publicity about the Scheme

b) the format, frequency and method of distributing such information or publicity, and

c) the promotion of the scheme to prospective members and their employing authority

As a provider of an occupational pension scheme, the Council is obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The Code of Practice issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met.

There are a number of stakeholders that have an interest in the affairs of the Fund and these may be summarised as follows:-

STAKEHOLDER	PRIMARY INTERESTS
1. London Borough of Hillingdon as Administering Authority	The London Borough of Hillingdon as the administering authority is responsible administering the scheme in accordance with the regulations and ensuring that the cost of scheme is kept to an acceptable level for all of its Stakeholders. As part of this function the authority endeavors to maintain the stability of cost of the scheme and exercise it's fiduciary

	duty to other stakeholders whom it must treat equally. The Authority will also maintain and adapt an investment strategy to meet the aims above.
2. **Scheme Scheduled Employers**: Uxbridge College Stockley Academy Harefield Academy Guru Nanak Sikh School London Housing Consortium	Scheduled Employers main interests, are the cost to them of participating in the Scheme, and how the Administering Authority plans to achieve a method to stabilize the cost of the scheme. The investment strategy is the principal tool used to achieve these aims.
3. **Scheme Admission Employer Bodies:** Hillingdon & Ealing Citizens Advice Heathrow Travel Care Lookahead Housing & Care Yes Dining MITIE Technical Services Greenwich Leisure	Admission Employer Bodies main interests are the cost to them of participating in the Scheme, and how the Administering Authority plans to achieve a method to stabilize the cost of the scheme. The investment strategy is the principal tool used to achieve these aims.
4. **Active Members:** Current employees, of Hillingdon and of the London Borough of Hillingdon Pension Fund, Scheduled and Admitted bodies, who have elected to join the scheme	Active members need to be kept informed of the solvency of scheme, and to be assured that the Fund has the ability to pay pensions in the future. It is also important that we keep the membership informed of the implications of rising costs for the provision of benefits how that my impact on scheme contributions.
5. **Deferred Members**	Deferred members need to be kept informed of the solvency of scheme, and to be assured that the Fund has the ability to pay pensions in the future.
6. **Pensioners**	Pensioner members need to be kept informed of the solvency of scheme, and to be assured that the Fund has the ability to continue to pay pensions now and in the future.
7. **Prospective Members**	Prospective members need to be made aware of the full array of benefits available in the scheme. Also, they will need to be confident that the scheme will have the ability to pay these benefits in the future.
8. **Local Taxpayers**	The funding of the scheme also has an impact on Council Tax and services. The Fund has a duty to achieve the best returns on investments to mitigate costs in regard to the Employers Contribution, and to be aware of its responsibilities relating to the schemes funding level (i.e. unfunded liabilities).
9. **Government (CLG)**	The Communities and Local Government department oversees the regulatory functions of all Local Authorities, and has the

	responsibility to enable and publish new legislation to ensure the stability of cost of scheme and that good governance is evidenced by each Fund. The consistency of administration is a prime objective and further consultations are due to commence shortly.

1. WEB SITE: www.hillingdon.gov.uk/central/pensions/index.php

The Pension Fund web pages are found on the London Borough of Hillingdon's web site, which is the primary vehicle for publishing and circulating information in relation to the scheme. All information relating to the Local Government Pension Scheme and to the Hillingdon Fund is available on these pages. As part of Hillingdon Council's public web site it is available to all our stakeholders. Hard copies of any of the documents are available to any member, prospective member or employer on request.

The web site is split into the following sections to make it easier to find the required information:

Fund Information:

- Annual Pension Fund Report and Accounts
- Statement of Investment Principles
- Funding Strategy Statement
- Copies of all pension Fund Policies
- Details of Pension Committee meetings, reports and minutes
- Performance information of the funds investments

Member Information:

- Joining Information
- Details of the Benefits available
- Regulations
- Information on relevant topics – eg increasing contributions,
- Copies of all relevant forms
- Some frequently asked questions

Latest News:

This section contains all the latest information available about the scheme, and any other pension related matters.

Communications:

- Historical Newsletters
- Circulars
- Regulation Updates

Useful Links:

There are links to other related web sites – for example DWP, HMRC, The Pensions Regulator.

Future Developments:

Both the Advisory Members of the pensions committee, representing current, deferred and pensioner members will be given the opportunity to post their own comments and ideas on the pension pages of the website. Development of this project will begin in April 2011. It is also planned to make greater use of electronic communication, both to disseminate information and as an enquiry tool for our members.

2. OTHER METHODS OF COMMUNICATION

The next section details the communication methods means with key stakeholders and the frequency of such communications. Where information is sent to members it is posted to their home address.

Scheme Employers:

The main contact with scheme employers is through operational contact. All changes are emailed directly to employers. As the web site is developed, the employers' area will be developed.

The intention is to introduce an annual consultative meeting with employers, both as an information forum and as a means of direct consultation to enhance the working relationship.

Active Members:

- Annual benefits statements sent to all members as soon as practicable following the end of the financial year.
- Member updates produced in response to regulatory changes and posted on the web pages.
- Periodic member surgeries

Pensioner Members

Annual letter are sent to each pensioner member detailing pension increases.

Deferred Members

Annual benefits statements sent to all deferred members as soon as practicable following the end of the financial year.

Prospective Members

A summary of the scheme benefits and DVD are sent to all prospective scheme members along with an application form. The information pack includes AVC provider details, an expression of wish form and guidance notes. This information is also made available to existing employees who are not currently scheme members.

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

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