REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

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Papers with this report	Northern Trust Executive Report WM Local Authority Quarter Reports Private Equity Listing Private Equity reports from Adams Street and LGT Advisor Investment Reports

SUMMARY

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

RECOMMENDATIONS

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

INFORMATION

1. The performance of the whole fund for the quarter to 30 June 2010 showed an underperformance figure of 0.43% with negative returns of 8.24%, compared to the negative benchmark 7.81%.

Performance Attribution

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

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

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

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

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

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

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

Absolute Returns

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

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

9. At the end of June 2010, £29.61m (book cost) had been invested in private equity, which equates to 5.70% of the fund against the target investment of 5%. However this level still remains within the limits of the over-commitment strategy of 8%. In terms of cash movements over the quarter, Adams Street called £701k with no distributions whilst LGT called £600k and distributed £107k.

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

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

Market Commentary

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

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

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

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None