REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

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Papers with this report	Northern Trust Executive Report WM Local Authority Private Equity Listing

SUMMARY

This report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the quarter to 31 March 2009. The value of the fund as at 31st March 2009 was £417.43m.

RECOMMENDATIONS

That the performance for the fourth quarter of 2008/09 be noted.

INFORMATION

1. The performance of the whole fund for the quarter to 31st March 2009 showed negative returns of 8.55% compared to a negative benchmark of 8.44%, underperforming by 0.11%. The long term performance figures for one, three and five year figures show underperformance of 3.10%, 2.46% and 1.96% respectively, relative to the benchmark. The since inception figure also remains just below the benchmark underperforming by 0.29%.

2. All asset classes detracted from performance, however compared to the benchmark, positive results from overseas equities (1.44%) helped mitigate some of the UK equity underperformance (-1.89%). Both the fixed income and real estate sectors also lagged behind their relative benchmarks.

3. Alliance Bernstein underperformed their benchmark by 0.25%, returning a negative 10.14% compared to a negative 9.89% benchmark. Weak stock selection within the Utilities and Finance sectors detracted from performance as amongst others Eon, Bank of America and MetLife suffered. Stocks which contributed to performance included the financial exchange operator CME which had better than expected results, Credit Suisse following their upbeat business view and energy holding Petro Canada after their merger with Suncor.

4. Capital International had a positive quarter outperforming by 1.81% by returning negative returns of 8.40% against their negative benchmark of 10.21%. The portfolio's holdings in technology and healthcare, including Samsung and Genentech helped towards positive performance. Stock selection within industrials was also positive. Counteracting some of the positive results were financials which lost a fifth of their value. An overweight position within telecommunications and poor returns from consumer services also detracted. Our Investment Management Agreement with Capital will be terminated from the end of June 2009, as reported elsewhere in this report.

5. GSAM also underperformed by 0.89% against their negative benchmark of 2.48%. Corporate selection was the primary reason for underperformance particularly within Investment grade financials. Prices fell as fears of nationalisation would wipe out subordinated debt holders. Cross sector strategy also detracted by having an overweigh allocation to credit sensitive mortgages. Positive impacts included selection in collateralised security within credit sensitive mortgages.

6. The UBS performance over quarter one showed a negative return of 10.90% compared to the negative benchmark of 9.08%, therefore underperforming by 1.82%. The largest positive contributions were the investments in HSBC, Barclays, HMV, Carnival and Regus. The largest detractors were Aviva, Brixton, BG Group, BHP Billiton and Wolseley.

7. The UBS property mandate showed positive performance relative to the benchmark of 0.23% mainly due to large cash holdings. The UK commercial property market continued to struggle and the deteriorating economic environment has increased voids, lengthened rent free periods for new lettings and led to lower reversionary rental levels.

8. At the end of March 2009, £33.07m had been invested in private equity, which equates to 7.92% of the fund against the target investment of 5%, although this remains within the limits of the over-commitment strategy. The main contributing factor for the movement this quarter resulted from the fall in overall fund value. In terms of cash movements, over the quarter £932k was called by fund managers and £151k was received back in distributions.

9. The securities lending activity for the financial year has resulted in income of £162k of which £24k was received from 01/01/09 to 31/03/09. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 March 2009 the assets on loan totalled £49m representing approximately 20% of this total.

10. There was a slight improvement compared to the WM Local Authority summary figures for the quarter to 31 March 2009. Despite this Hillingdon returns still remained below the quarter average figure of negative 7.4% by 1.15% (1.57% Q4 2008). The one year performance figure showed a slight improvement, but still underperformed against average by 4.4% (5.03% Q4 2008).

11. Following the end of quarter a single day event was held to meet and discuss performance with Alliance Bernstein, Goldman Sachs, SSgA and UBS.

Market Commentary

12. There was an overall decline in equities in the first quarter of 2009 with large falls in the first two months in both UK and overseas markets. However these initial equity losses were offset in part during March by gains in the mining and pharmaceutical sectors in the UK and IT in the US. There was little change in sentiment within finance and this sector suffered accordingly.

13. The fixed income sector saw negative returns with the major banks contributing large losses. Gilts which had previously ridden out the storm suffered as the government began its quantitative easing programme, with investors showing concern over the considerable increase in supply.

14. Property continued to fall against the backdrop of a deteriorating economic environment. This has increased vacancies, lengthened rent free periods, lower rental revisions and defaults.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None