



# London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2011

August 2011



**CAMRADATA**  
*Pension Reporting*

## Summary

The assets of the Scheme are considered in terms of four equally weighted sections: UK Equities, Overseas Equities, Dynamic Asset Allocation Mandates and the Matching Fund.

The UK Equities are managed by Majedie and the Overseas Equities by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer, managing three quarters and one quarter of this section respectively. The Matching Fund is split equally between a global bond mandate managed by Goldman Sachs and a Liability Driven Investment (LDI) fund managed by Legal & General. With the exception of the LDI fund, all others are actively managed by fund managers who aim to meet or exceed their stated benchmark.

## Liability Benchmark (LB)

To match the predicted growth in the liabilities, the Total Fund return needs to meet a return equivalent to the Liability Benchmark plus 1.75% p.a. (net of fees). The Total Fund strategy aims to exceed this and targets a return 2.5% p.a. (net of fees) in excess of the Liability Benchmark. Within this, the Matching Fund is targeting a return of 1% p.a. in excess of the Liability Benchmark.

The liabilities move in accordance with changes in relevant gilt yields. For this reason, the benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" is calculated based on the movement of a selection of Index-Linked gilts, in the following proportions:

27% Index-linked Treasury Stock 2½% 2024, 63% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2055

This Liability Benchmark was last reviewed in September 2008.

## Manager Benchmarks

Each Investment Manager has a benchmark which they are monitored against on an ongoing basis. These are:

Majedie	<i>FTSE All Share + 2% p.a. over three year rolling periods</i>
MFS	<i>FTSE World ex UK + 2% p.a. over three year rolling periods</i>
Barings	<i>3 month Sterling LIBOR + 4% p.a.</i>
Ruffer	<i>3 month Sterling LIBOR + 4% p.a.</i>
Goldman Sachs	<i>3 month Sterling LIBOR + 2% p.a.</i>
Legal & General	<i>2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.</i>

## Private Equity

Additionally, the Panel has agreed to invest up to £15 million in four private equity fund of funds. Two managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two by Unigestion which is invested almost entirely in Europe.

## Breakdown of Scheme Performance by Manager as at 30th June 2011

Fund	Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	2 year return (%) p.a.	3 year return (%) p.a.
<b>Total Fund</b>		<b>594,581</b>	<b>100.0</b>	<b>100.0</b>	<b>2.3</b>	<b>16.2</b>	<b>16.7</b>	<b>10.2</b>
	<i>Liability Benchmark + 1.75% p.a.</i>				4.1	10.8	11.1	3.9
	<i>Difference</i>				(1.8)	5.4	5.6	6.3
<b>UK Equities</b>		<b>159,060</b>	<b>26.8</b>	<b>25.0</b>				
	<b>Majedie</b>				2.3	24.2	21.4	11.0
	<i>FTSE All Share + 2% p.a.</i>				2.4	28.1	25.8	8.7
	<i>Difference</i>				(0.1)	(3.9)	(4.4)	2.3
<b>Overseas Equities</b>		<b>160,836</b>	<b>27.1</b>	<b>25.0</b>				
	<b>MFS</b>				2.7	22.9	24.7	13.4
	<i>FTSE World ex UK + 2% p.a.</i>				0.9	21.6	23.6	10.8
	<i>Difference</i>				1.8	1.3	1.1	2.6
<b>Dynamic Asset Allocation Mandates</b>		<b>148,374</b>	<b>25.0</b>	<b>25.0</b>	<b>1.2</b>	<b>10.8</b>	<b>14.3</b>	<b>-</b>
	<b>Barings (note 2)</b>	110,201	18.5	18.8	1.2	11.4	13.9	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.8	4.8	-
	<i>Difference</i>				0.0	6.6	9.1	-
	<b>Ruffer (note 2)</b>	38,173	6.4	6.2	1.1	9.0	15.5	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.8	4.8	-
	<i>Difference</i>				(0.1)	4.2	10.7	-
<b>Matching Fund</b>		<b>126,311</b>	<b>21.2</b>	<b>25.0</b>	<b>2.9</b>	<b>6.4</b>	<b>6.2</b>	<b>-</b>
	<i>Liability Benchmark + 1% p.a.</i>				3.9	10.0	10.3	-
	<i>Difference</i>				(1.0)	(3.6)	(4.1)	-
	<b>Goldman Sachs</b>	59,102	9.9	12.5	(0.3)	1.7	4.0	1.7
	<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	2.8	2.7	0.0
	<i>Difference</i>				(1.0)	(1.1)	1.3	1.7
	<b>Legal &amp; General (note 3)</b>	67,209	11.3	12.5	5.9	10.9	8.2	6.0
	<i>2 x FTSE + 15yr IL Gilts - LIBOR p.a.</i>				9.6	19.2	14.8	4.0
	<i>Difference</i>				(3.7)	(8.3)	(6.6)	2.0

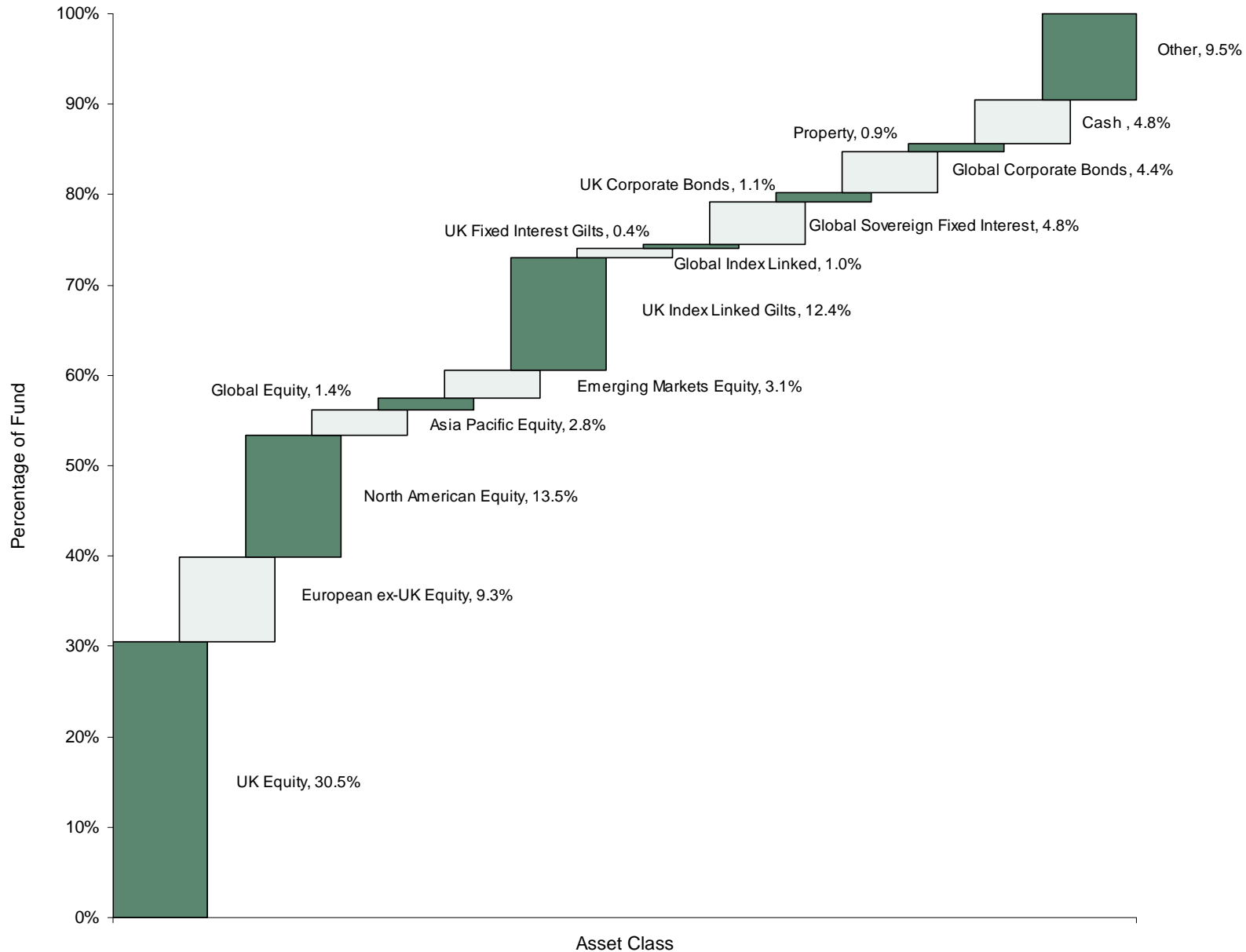
### Notes:

- 1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
- 2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.
- 3) At the time of reporting, the Legal & General mandate consisted of index-linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.
- 4) Two year fund and benchmark returns are calculated as the geometric average of the year to 30 June 2010 and year to 30 June 2011 figures as published by Northern Trust.

Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 31st March 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2011 £000	% of Total Fund	Target % of Total Fund
<b>Total Fund</b>		<b>581,414</b>	<b>100</b>	<b>(22)</b>	<b>10,419</b>	<b>2,770</b>	<b>(22)</b>	<b>594,581</b>	<b>100.0</b>	<b>100.0</b>
<b>UK Equities</b>	<b>Majedie</b>	<b>155,429</b>	<b>26.7</b>	<b>-</b>	<b>2,388</b>	<b>1,243</b>	<b>-</b>	<b>159,060</b>	<b>26.8</b>	<b>25.0</b>
<b>Overseas Equities</b>	<b>MFS</b>	<b>156,583</b>	<b>26.9</b>	<b>(22)</b>	<b>2,985</b>	<b>1,290</b>	<b>(22)</b>	<b>160,836</b>	<b>27.1</b>	<b>25.0</b>
<b>Dynamic Asset Allocation Mandates</b>		<b>146,646</b>	<b>25.2</b>	<b>-</b>	<b>1,491</b>	<b>237</b>	<b>-</b>	<b>148,374</b>	<b>25.0</b>	<b>25.0</b>
	Barings	108,900	18.7	-	1,274	27	-	110,201	18.5	18.75
	Ruffer	37,746	6.5	-	217	210	-	38,173	6.4	6.25
<b>Matching Fund</b>		<b>122,756</b>	<b>21.1</b>	<b>-</b>	<b>3,555</b>	<b>-</b>	<b>-</b>	<b>126,311</b>	<b>21.2</b>	<b>25.0</b>
	Goldman Sachs	59,262	10.2	-	(160)	0	-	59,102	9.9	12.5
	Legal & General	63,494	10.9	-	3,715	-	-	67,209	11.3	12.5

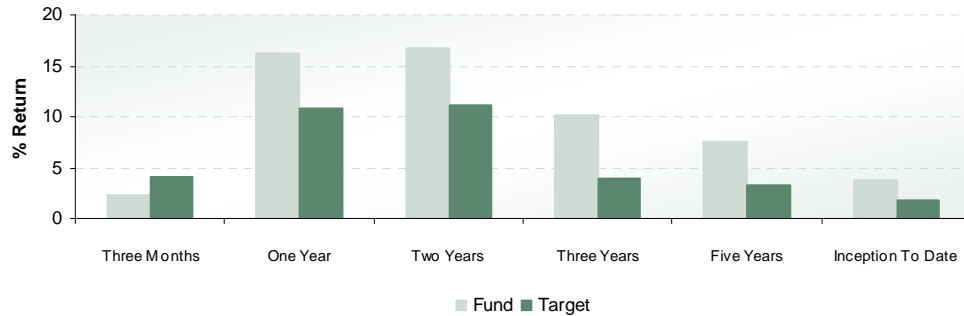
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

**Asset Class Breakdown as at 30 June 2011**



Notes: Breakdown has been estimated by CAMRADATA based on the available manager data. The category "other" includes asset and mortgage backed securities in the Goldman Sachs portfolio as well as items such as gold, illiquid holdings, derivatives and currency hedging instruments held in the DAA portfolios.

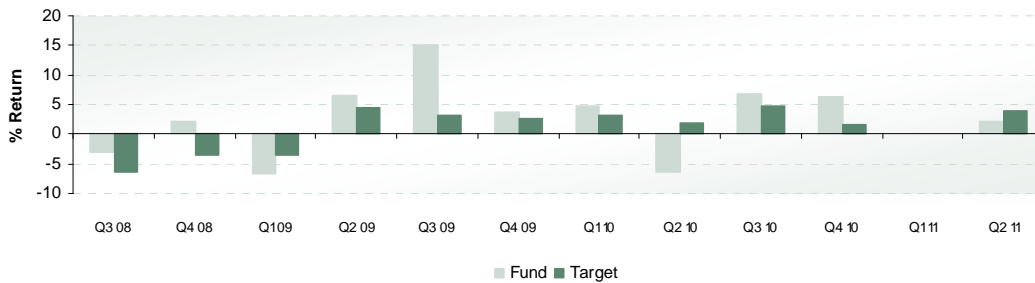
### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	2.27	16.24	16.67	10.16	7.51	3.76
<b>Target</b>	4.07	10.83	11.07	3.94	3.35	1.81

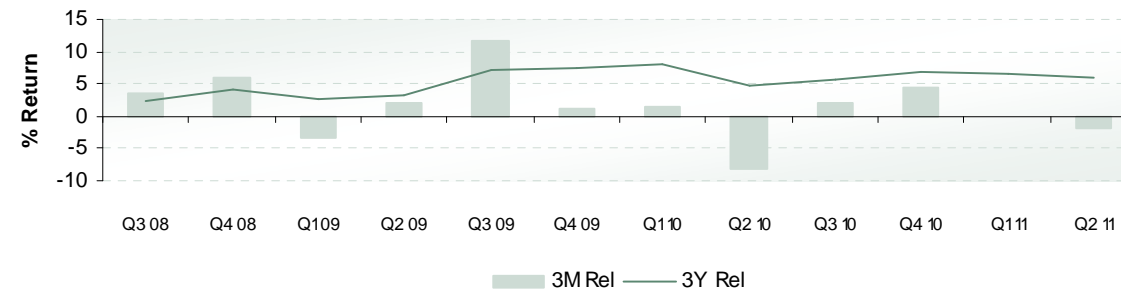
The Fund underperformed its liability benchmark by 1.80% over the quarter, returning 2.27% compared to the target of 4.07%. The relative underperformance was driven, in the main, by sluggish performance of the Dynamic Asset Allocation group and the negative performance of the Goldman Sachs portfolio. The Fund's performance of 16.24% over the year was ahead of its target by 5.41%, as it was boosted by strong global equity returns over the period. Overall the Fund has performed well over all longer periods.

### Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-3.11	2.03	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87	6.20	0.14	2.27
<b>Target</b>	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57	0.17	4.07

### Three Years Rolling Relative Returns

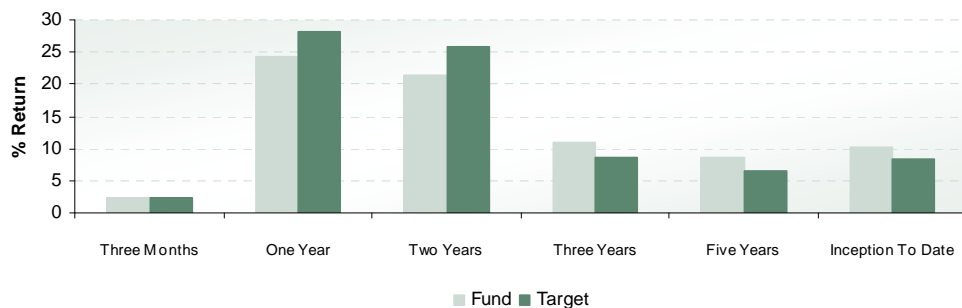


	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	3.45	5.85	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73
<b>3Y Rel</b>	2.21	4.13	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83	6.55	5.98

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	2.34	24.18	21.37	10.98	8.68	10.07
<b>Target</b>	2.41	28.09	25.79	8.67	6.57	8.38

### Quarterly Manager update

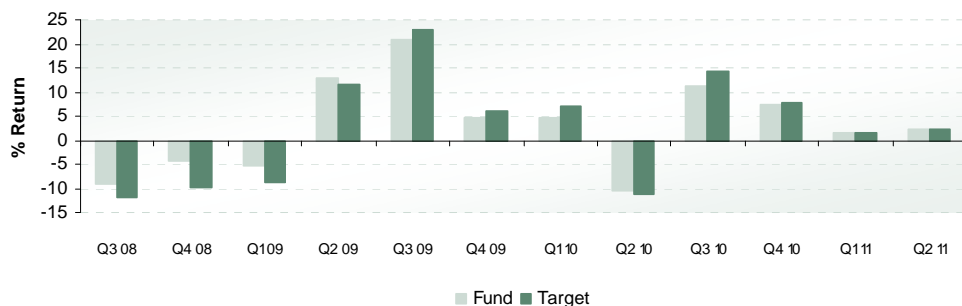
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was 2.34% over the quarter, 0.07% behind its target. Over 12 months, the portfolio was 3.91% below its target. The portfolio's long position the pharmaceutical shares GlaxoSmithKline, buoyed by good progress on its new drug pipeline and regulatory approval of world beating drugs, and Sanofi, boosted by the buy-out of its US competitor Genzyme, aided performance over the quarter. The short positions on Land Securities, who announced stronger than expected growth, and Aggreko, who supply temporary large power generation equipment and saw a strengthening share price in the wake of the Japanese earthquake, were detrimental to overall performance.

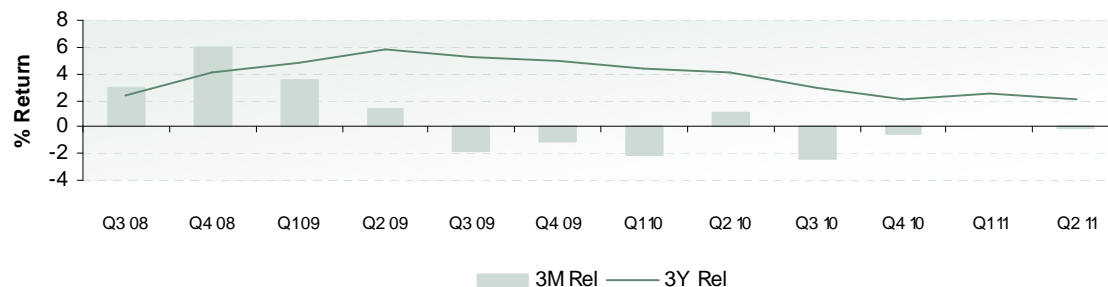
**Process** No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73	-10.47	11.36	7.29	1.56	2.34
<b>Target</b>	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35	14.17	7.90	1.53	2.41

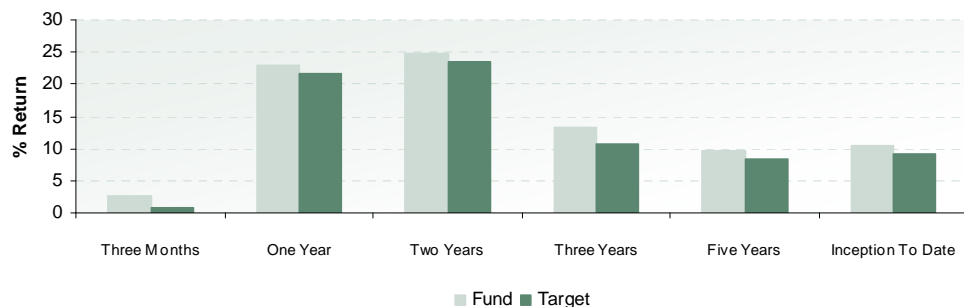
### Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	2.96	5.94	3.46	1.38	-1.81	-1.12	-2.06	0.99	-2.46	-0.57	0.03	-0.07
<b>3Y Rel</b>	2.38	4.13	4.88	5.82	5.27	4.96	4.35	4.11	2.93	2.11	2.48	2.13

MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

**Historical Plan Performance**



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	2.73	22.89	24.73	13.39	9.72	10.47
<b>Target</b>	0.86	21.60	23.58	10.75	8.45	9.26

**Quarterly Manager update**

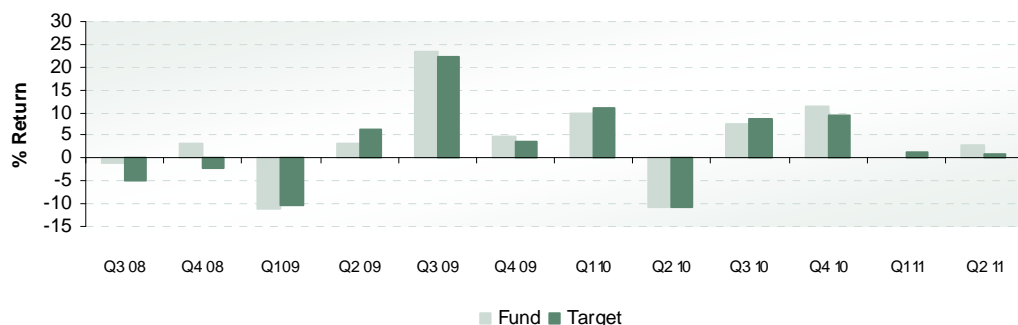
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The performance over the quarter was 2.73%, 1.87% ahead of the target. Over 12 months, the fund was 1.29% ahead of its target. Stock selection in basic materials and industrial goods & services we well was stock selection and overweight holdings in health care and consumer staples aided performance as did individual stock holdings in LVMH, Nike, Inditex and Lojas Renner. Stock selection in financial services and leisure as well as underweight positions in autos & housing and leisure was detrimental to performance. Individual holdings of ASML Holdings, Li & Fung, Hess and Inpex also detracted from performance over the quarter.

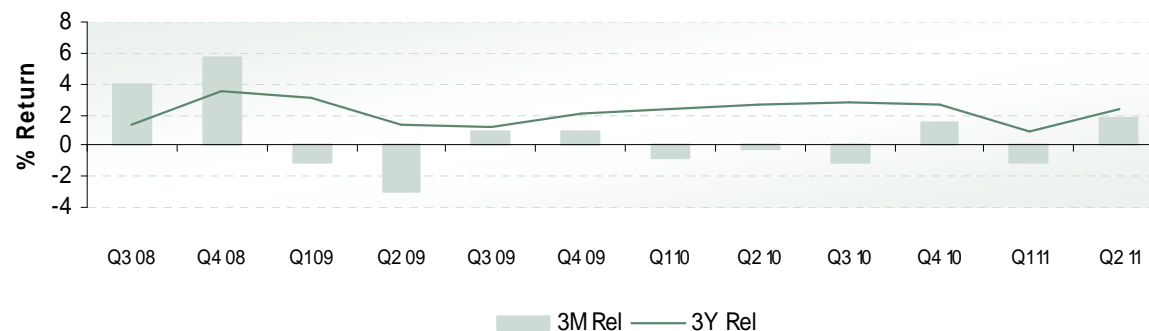
**Process** No significant changes over the quarter.

**Three Years Rolling Quarterly Returns**



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-1.02	3.29	-11.21	3.23	23.43	4.74	9.83	-10.85	7.54	11.19	0.04	2.73
<b>Target</b>	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80	-10.65	8.77	9.57	1.16	0.86

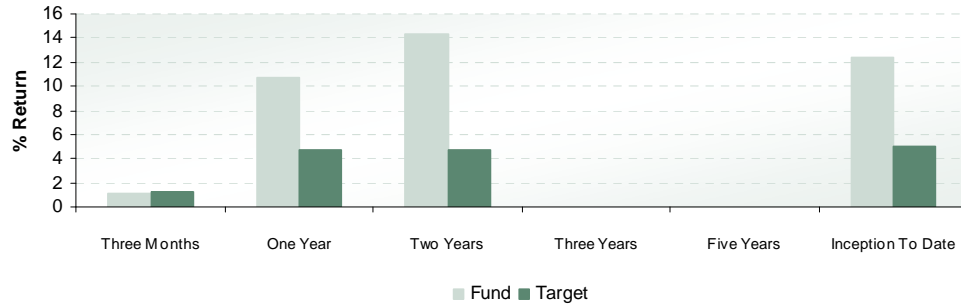
**Three Years Rolling Relative Returns**



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	3.93	5.64	-1.07	-3.02	0.92	0.98	-0.87	-0.22	-1.13	1.48	-1.11	1.85
<b>3Y Rel</b>	1.32	3.50	3.02	1.32	1.21	2.11	2.39	2.71	2.76	2.59	0.90	2.38



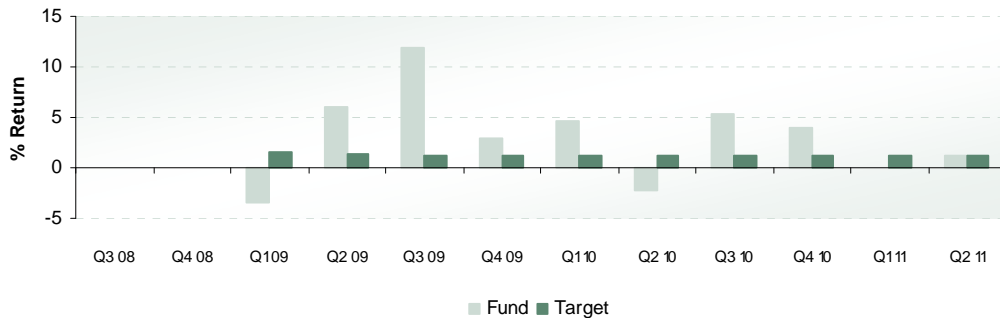
**Historical Plan Performance**



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	1.18	10.77	14.29	-	-	12.39
<b>Target</b>	1.19	4.80	4.75	-	-	4.96

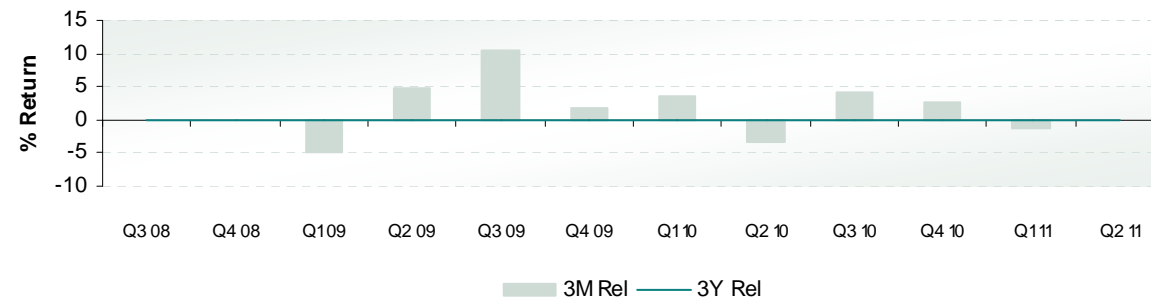
The performance of the group over the quarter was 1.18%, the LIBOR-based target returned 1.19%, Ruffer underperformed the target whereas Barings performed in-line with the target. Over the past 12 months, performance has been 5.97% above target, as both managers (particularly Barings) have outperformed the target.

**Three Years Rolling Quarterly Returns**



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-	-	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.18
<b>Target</b>	-	-	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19

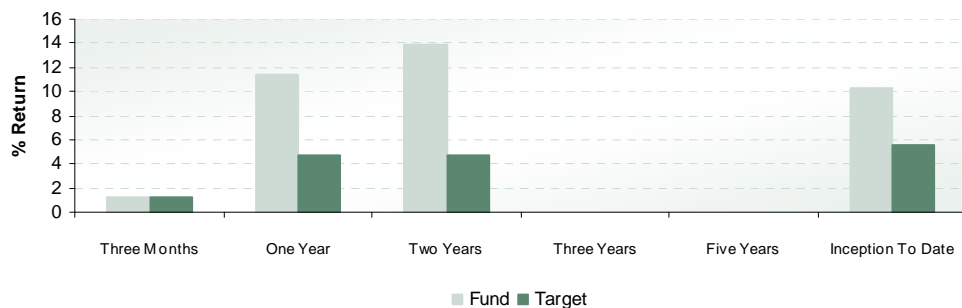
**Three Years Rolling Relative Returns**



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	-	-	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-	-	-	-

Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	1.19	11.39	13.88	-	-	10.26
<b>Target</b>	1.19	4.80	4.75	-	-	5.52

**Quarterly Manager update**

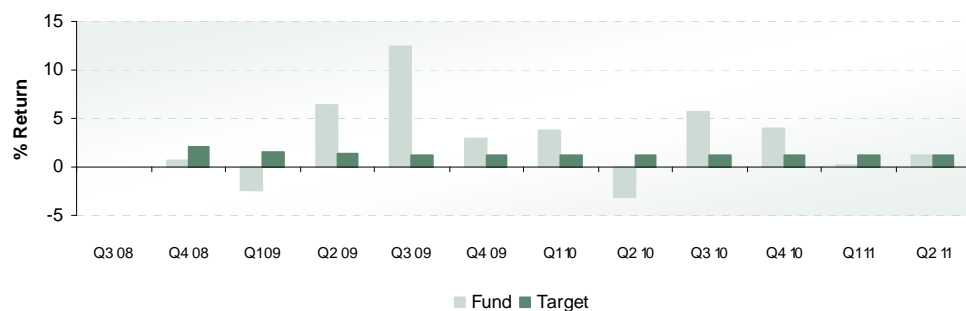
**Organisation** No significant changes over the quarter.

**Product** Toby Nangle and James Codrington, both members of the DAA team, have decided to leave. Barings plan to replace them with three senior hires, to facilitate an overall expansion of the multi-asset team. P-Solve believe that there is no action required at this time. The team members have a notice period of 6 months and P-Solve will work closely with Barings to ensure they are comfortable with the ongoing strength of the DAA team. The two key decision makers, Percival Stanion and Andrew Cole, will remain in place supported by 4 other portfolio managers and 3 analysts.

**Performance** The fund performance was 1.19% over the quarter, in-line with its target. Over 12 months, the fund is 6.59% ahead of target. The biggest contribution over the quarter came from foreign government bonds, mainly in Australia and the US. The portfolios direct gold exposure also benefitted performance. Stock selection in UK equities and the portfolio's general overseas equity exposure negated some of the gains made.

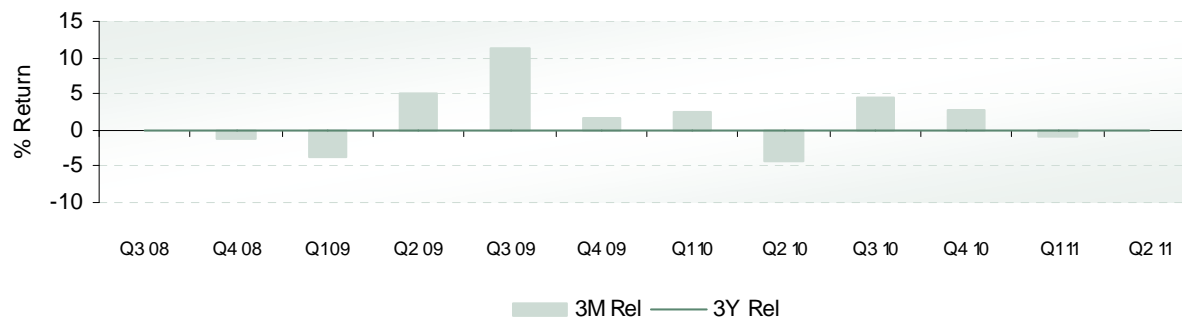
**Process** No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-	0.67	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73	3.88	0.22	1.19
<b>Target</b>	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19

Three Years Rolling Relative Returns

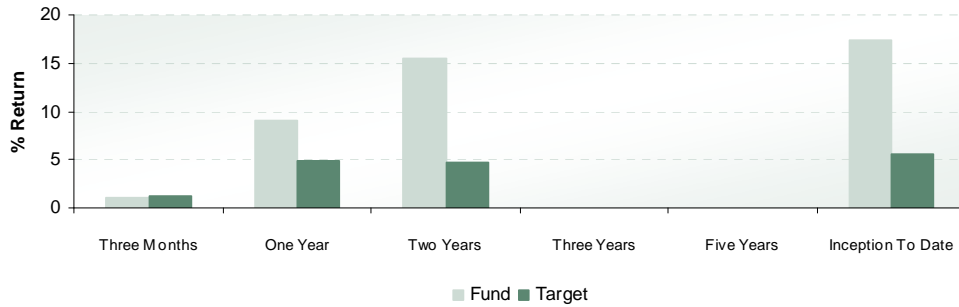


	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	-	-1.32	-3.86	5.02	11.18	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-	-	-	-

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	1.13	8.96	15.48	-	-	17.33
<b>Target</b>	1.19	4.80	4.75	-	-	5.52

**Quarterly Manager update**

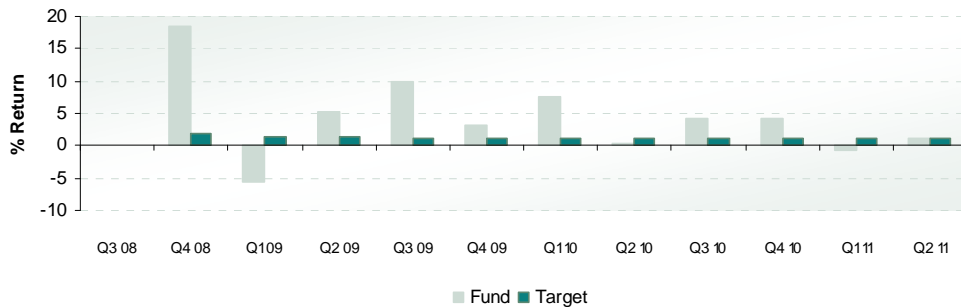
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was 1.13% over the quarter, 0.06% behind its target. Over 12 months, the fund was 4.16% ahead of target. Performance was harmed by gold equities, falling on the back of rising energy costs despite continually increasing gold prices. Put warrants, held in anticipation of sharp equity drop offs, and the portfolios holding in Sony, who suffered from a hacking attack, were also detrimental to performance. However, this was in part offset by the holding in index-linked bonds, aiding by the rising expectations of future inflation, and developed market defensive equities, as risk-appetite waned.

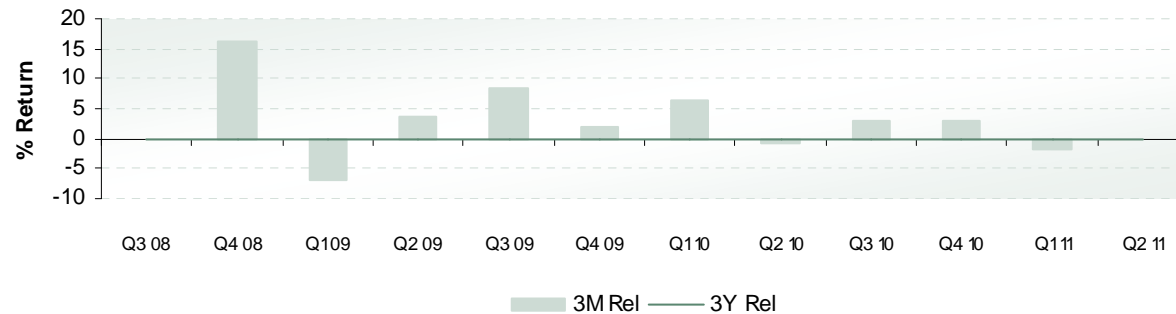
**Process** No significant changes over the quarter.

Three Years Rolling Quarterly Returns



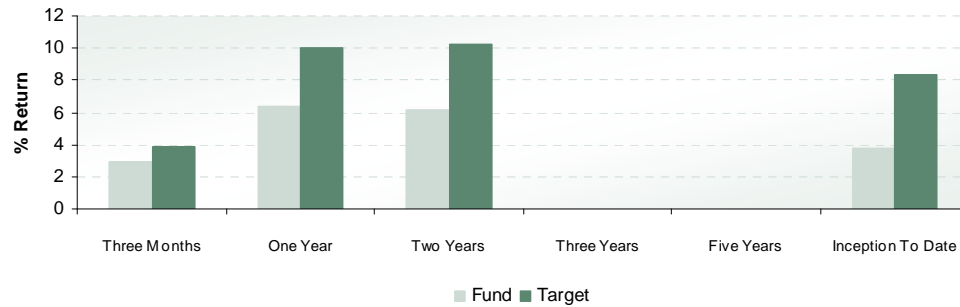
	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-	18.47	-5.49	5.17	9.81	3.12	7.64	0.41	4.13	4.11	-0.61	1.13
<b>Target</b>	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19

Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	-	16.14	-6.90	3.79	8.52	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-	-	-	-

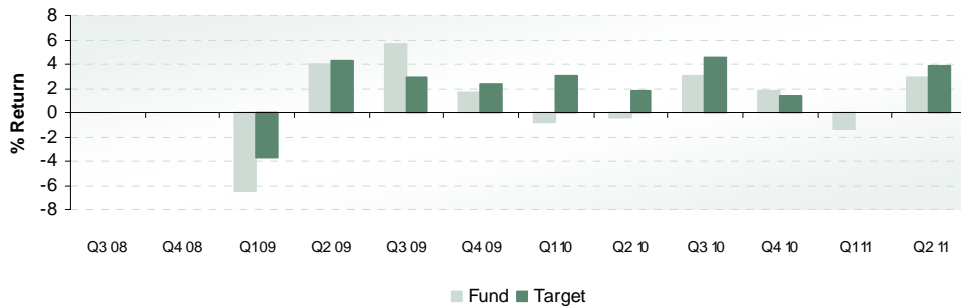
### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	2.90	6.39	6.17	-	-	3.78
<b>Target</b>	3.88	10.02	10.26	-	-	8.32

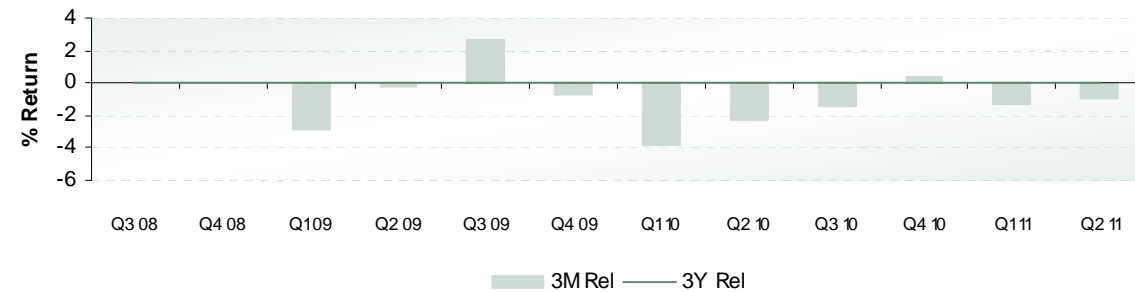
The performance of the Matching Fund over the quarter of 2.90% is 0.98% below its gilts-based liability benchmark. This can be attributed negative return achieved by the Goldman Sachs portfolio over the period. The Matching Fund return of 6.39% over the year was 3.63% below target, this was also due to the relative underperformance the Goldman Sachs mandate.

### Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-	-	-6.45	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90
<b>Target</b>	-	-	-3.68	4.28	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88

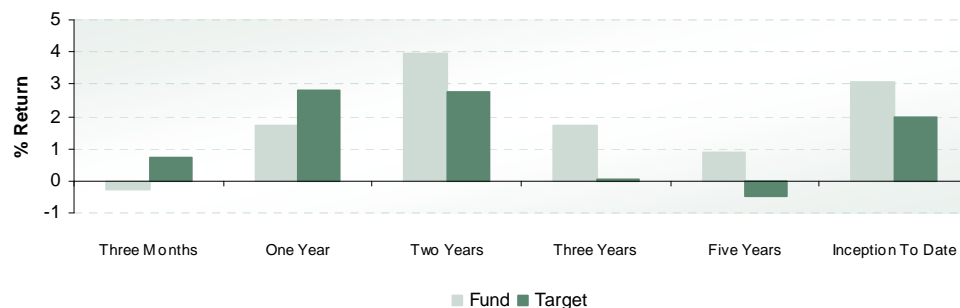
### Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-	-	-	-

Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 manage an active bond fund.

### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	-0.27	1.70	3.95	1.71	0.87	3.07
<b>Target</b>	0.70	2.79	2.74	0.03	-0.48	1.98

### Quarterly Manager update

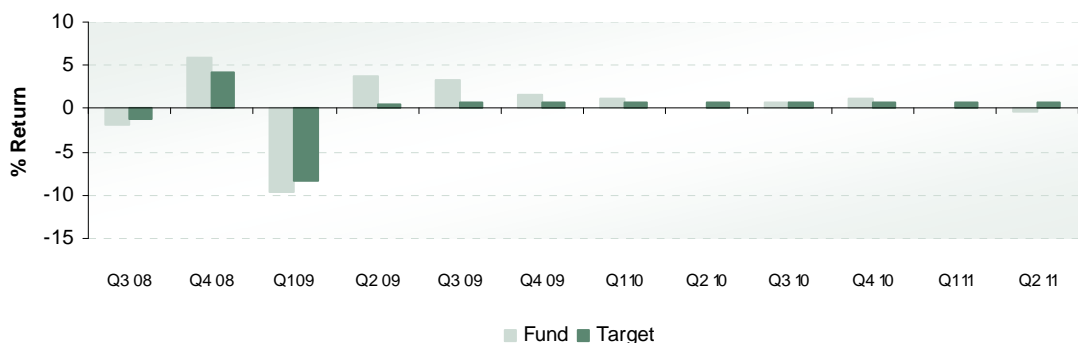
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was -0.27% over the quarter, 0.97% behind its target. Over 12 months, performance was 1.09% below the target. The fund's duration and cross-sector strategies were the main sources of underperformance over the quarter.

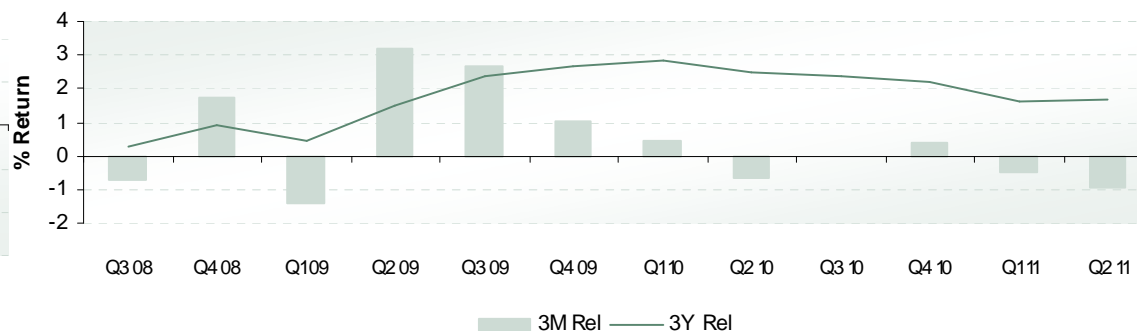
**Process** No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10	0.03	0.68	1.10	0.18	-0.27
<b>Target</b>	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70

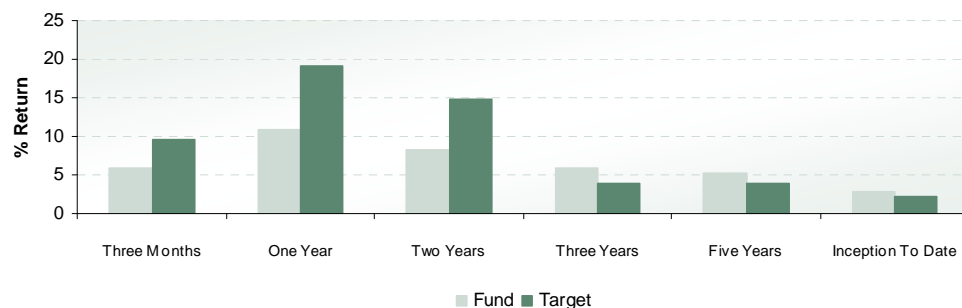
### Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96
<b>3Y Rel</b>	0.27	0.90	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68

Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in July 2009 following the investment structure review.

### Historical Plan Performance

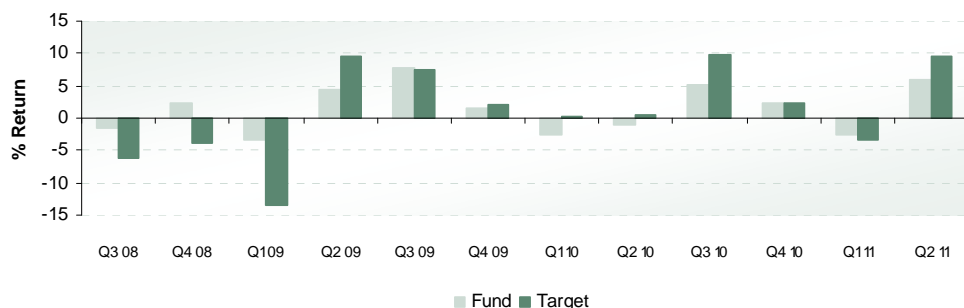


	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
<b>Fund</b>	5.85	10.88	8.25	5.96	5.23	2.84
<b>Target</b>	9.60	19.23	14.80	3.99	3.83	2.12

### Quarterly Manager update

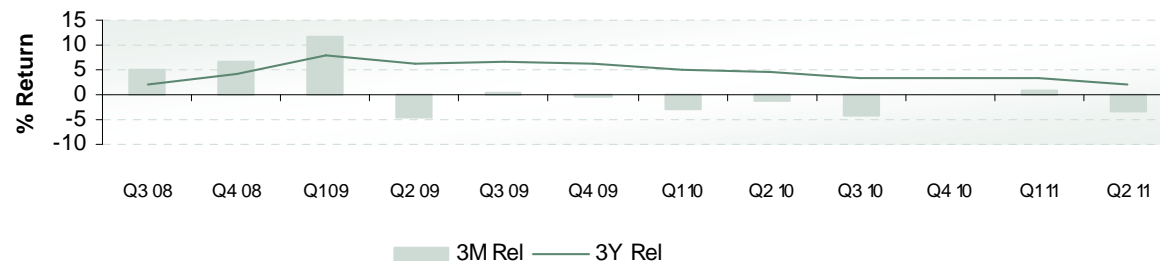
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 5.85% over the quarter, 3.75% behind its target. Over 12 months, performance is 8.35% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again broadly tracked its market benchmark over the quarter and has continued to track its market benchmark since inception.
Process	No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>Fund</b>	-1.60	2.34	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85
<b>Target</b>	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38	-3.30	9.60

### Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
<b>3M Rel</b>	4.97	6.49	11.78	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42
<b>3Y Rel</b>	2.03	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22	3.37	1.89

The second quarter of 2011 was again turbulent as the Greek sovereign debt crisis heightened and fears surrounding the sustainability of the current debt structure in the US began to surface. Despite this, the majority of asset classes made ground over the quarter, although equities outside Europe were generally down.

The FTSE All-Share rose by 1.9% over the period. April showed an improvement on the high street driven by the hot weather and royal wedding, although in contrast May's figures showed a drop of 1.4%. May also saw the long-awaited review of the banking industry, the Vickers report, published. The report outlined recommendations that banks ring-fence their retail businesses from their riskier investment banking arms and increase the amount of core tier one capital they hold. Late June brought about a rally in prices as the Greek Parliament approved austerity measures, increasing the possibility of a second bail-out helping a late push of the FTSE100 index back towards the 6,000 mark.

News in the Eurozone was unsurprisingly dominated by the Greek crisis, although equities in the region proved resilient, returning 1.1% over the quarter for Euro investors. The gains were driven by a pick-up in mergers and acquisitions activity and strong corporate results. A mid quarter lull mirrored the experience within the UK but this was in part offset by stronger than expected retail sales and the actions taken by the Greek Parliament.

In contrast to the marginal growth in equity values in Europe, the rest of the world's equity markets tended to decline.

In the US, performance was affected by disappointing employment, housing and consumer spending figures which resulted in growth expectations being downgraded. Weakening retail sales in May also

indicated growing caution amongst consumers; this was exacerbated by the ongoing supply issues following the Japanese earthquake in the first quarter of the year. An increase in US factory orders, boosted by strong export demands, gave some hope. However, the subsequent doubts surrounding the current US debt ceiling continues to cast a shadow over the US economy.

Japanese markets also lost ground with the FTSE All-World Japan falling by 2.2% over the quarter. The small rise in prices came off the back of encouraging news regarding the country's recovery from the Tsunami earlier in the year and increased manufacturing output. However, TEPCO (Tokyo Electric Power Company) continued to face difficulties following the nuclear disaster, though the market reacted well to the Cabinet's passing of a draft bill to allow TEPCO to pay compensation and remain solvent.

Rising inflation expectations, interest rates and a general slowdown in the rest of the Asia Pacific region, particularly in China and India, proved detrimental to investment returns. India was badly affected as manufacturing grew at its slowest pace for nine months. China also showed a general slowdown with its non-manufacturing industries expanding at their slowest pace in four months. This increased speculation that the government may ease monetary tightening policies aimed at taming inflation.

In the wider emerging markets, Latin America lost ground compared to other regions. Brazil dragged down the index as its central bank increased interest rates to 12% in April to combat rising inflation expectations. However, credit rating agency Fitch, increased the country's rating following a successful handover of presidential power to Dilma Rouseff and an improving fiscal position and sustained growth rate. Elsewhere, Russia, which has recently been benefiting from an

energy resource driven windfall, was hit by a fall in oil prices over the quarter.

In sovereign debt markets, a general trend towards risk-aversion driven by growing investor concerns caused a flight to safer assets. For UK Gilts this meant a gradual fall in yields with fixed interest gilts returning 2.5% over the quarter while rising inflation expectations lead to a 4.0% return on index-linked Gilts. Conversely, in peripheral countries where questions remain regarding the security of sovereign debt, yields tended to rise.

The Bank of England's base rate continued to remain on hold at 0.5%, with the Monetary Policy Committee's minutes of the June meetings showing a 7-2 split on the decision. The minutes also suggested that the Committee believe that above target inflation is being driven by temporary factors, including weak Sterling, commodity prices remaining relatively high and a VAT increase in January. This could imply that any increase in the base rate would be delayed until 2012 at the earliest.

Corporate bonds produced returns at a slightly lower level to sovereign debt, with UK corporate bonds returning 1.9% over the quarter. The gains came off the general feeling of risk aversion in the market, driving investors to the fixed interest markets, with investment grade credit producing slightly higher returns than high yield bonds.

The UK commercial property market remains quiet with valuations flat in most regions and only central London making positive ground. Returns were positive however with the IPD All Property Monthly Index returning 2.1%, but again gains were primarily driven by strong income streams instead of capital growth.

Commodities performed particularly poorly over the period with the Goldman Sachs Commodity Total Return Index contracting by 7.9% over the quarter. This was driven in part by the International Energy Agency, who released 60 million barrels of oil onto the market driving down the price of crude oil. The relative slowdown in China was also a contributing factor with the value of base metals and soft commodities also down. The value of Gold did however manage to buck this trend on its way to an all time high at the start of July.



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Datasource: Data has been sourced from the Custodian, Northern Trust, and the Managers.

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