# London Borough of Hammersmith & Fulham Pension Fund

## Investment Governance Report – Quarter 3 2011

**November 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 | *FTSE All Share + 2% p.a. over three year rolling periods* |
| MFS | *MFS Custom Benchmark* |
| Barings | *3 month Sterling LIBOR + 4% p.a.* |
| Ruffer | *3 month Sterling LIBOR + 4% p.a.* |
| Goldman Sachs | *3 month Sterling LIBOR + 2% p.a.* |
| Legal & General | *2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.* |

## 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 Peformance by Manager as at 30th September 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. |
|---|---|---|---|---|---|---|---|---|
| **Total Fund** | | **573,724** | **100.0** | **100.0** | **(5.6)** | **2.8** | **5.7** | **9.3** |
| *Liability Benchmark + 1.75% p.a.* | | | | | *9.5* | *16.0* | *14.5* | *9.5* |
| *Difference* | | | | | *(15.1)* | *(13.2)* | *(8.8)* | *(0.2)* |
| **UK Equities** | | **146,091** | **25.5** | **25.0** | | | | |
| | **Majedie** | | | | (8.2) | 2.4 | 5.9 | 11.4 |
| *FTSE All Share + 2% p.a.* | | | | | *(13.1)* | *(2.4)* | *5.8* | *8.1* |
| *Difference* | | | | | *4.9* | *4.8* | *0.1* | *3.3* |
| **Overseas Equities** | | **138,933** | **24.2** | **25.0** | | | | |
| | **MFS** | | | | (13.6) | (1.3) | 4.4 | 8.4 |
| *MFS Custom Benchmark* | | | | | *(14.6)* | *(4.5)* | *3.3* | *6.8* |
| *Difference* | | | | | *1.0* | *3.2* | *1.1* | *1.6* |
| **Dynamic Asset Allocation Mandates** | | **145,637** | **25.4** | **25.0** | **(1.9)** | **3.2** | **7.1** | **-** |
| | **Barings (note 2)** | 108,149 | 18.9 | 18.8 | (1.9) | 3.4 | 6.4 | *10.0* |
| *3 month Sterling LIBOR + 4% p.a.* | | | | | *1.2* | *4.8* | *4.8* | *5.2* |
| *Difference* | | | | | *(3.1)* | *(1.4)* | *1.6* | *4.8* |
| | **Ruffer (note 2)** | 37,488 | 6.5 | 6.2 | (1.8) | 2.8 | 9.2 | *15.5* |
| *3 month Sterling LIBOR + 4% p.a.* | | | | | *1.2* | *4.8* | *4.8* | *5.2* |
| *Difference* | | | | | *(3.0)* | *(2.0)* | *4.4* | *10.3* |
| **Matching Fund** | | **129,463** | **22.6** | **25.0** | **2.5** | **5.9** | **4.6** | **-** |
| *Liability Benchmark + 1% p.a.* | | | | | *9.4* | *15.1* | *13.7* | - |
| *Difference* | | | | | *(6.9)* | *(9.2)* | *(9.1)* | - |
| | **Goldman Sachs** | 58,247 | 10.2 | 12.5 | (1.5) | (0.5) | 1.5 | 1.9 |
| *3 month Sterling LIBOR + 2% p.a.* | | | | | *0.7* | *2.8* | *2.8* | *0.6* |
| *Difference* | | | | | *(2.2)* | *(3.3)* | *(1.3)* | *1.3* |
| | **Legal & General (note 3)** | 71,216 | 12.4 | 12.5 | 6.0 | 11.7 | 7.3 | 8.6 |
| *2 x FTSE + 15yr IL Gilts - LIBOR p.a.* | | | | | *16.7* | *26.7* | *19.6* | *11.9* |
| *Difference* | | | | | *(10.7)* | *(15.0)* | *(12.3)* | *(3.3)* |
| **Private Equity** | | **13,599** | **2.4** | **0.0** | **2.7** | **18.9** | **15.1** | - |
| | **Invesco** | 7,242 | 1.3 | 0.0 | 6.8 | 21.5 | 18.8 | - |
| | **Unicapital** | 6,357 | 1.1 | 0.0 | (1.7) | 15.8 | 10.4 | - |

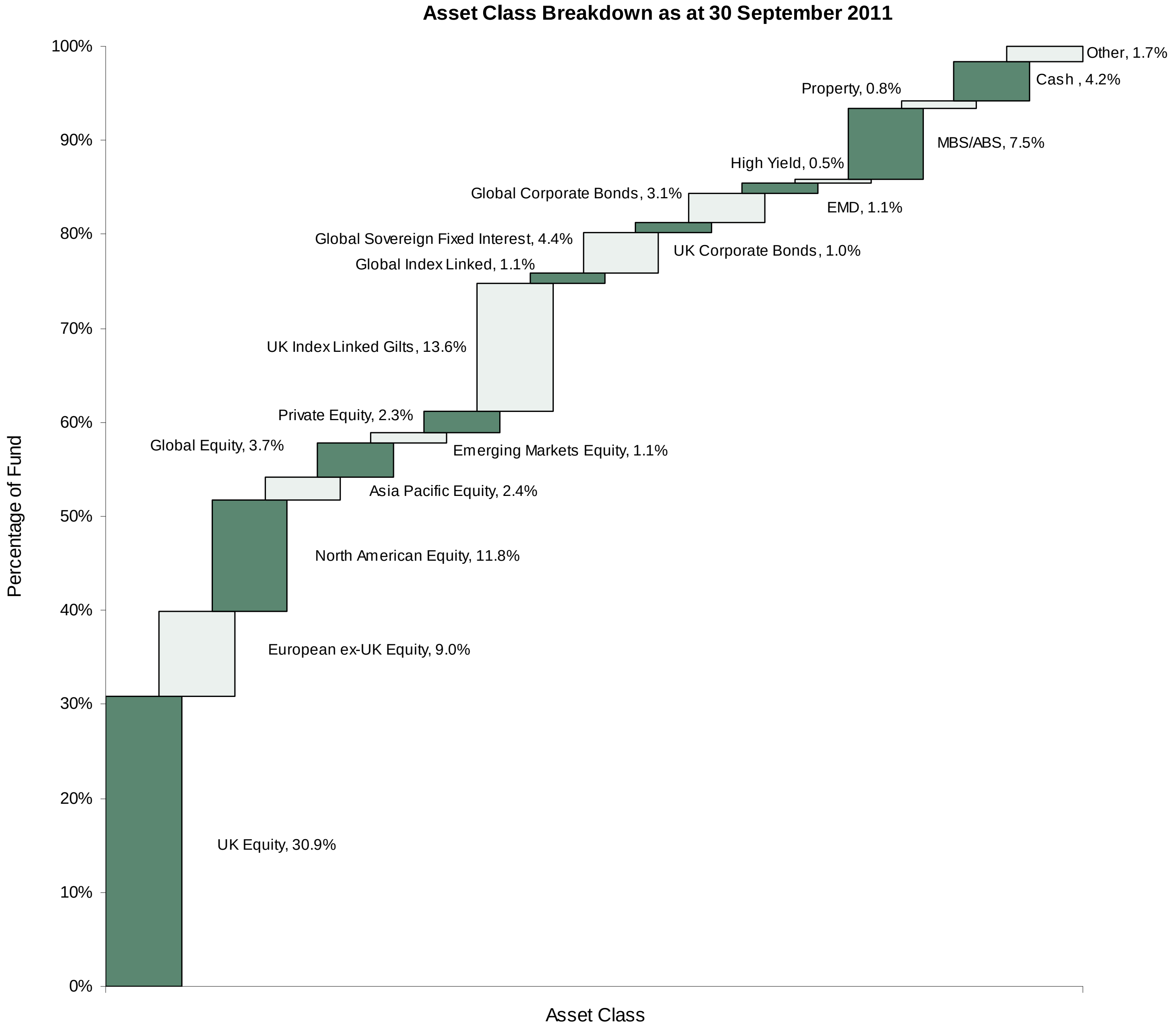
Notes:

1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
2) 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.

# Asset Reconciliation and Valuation

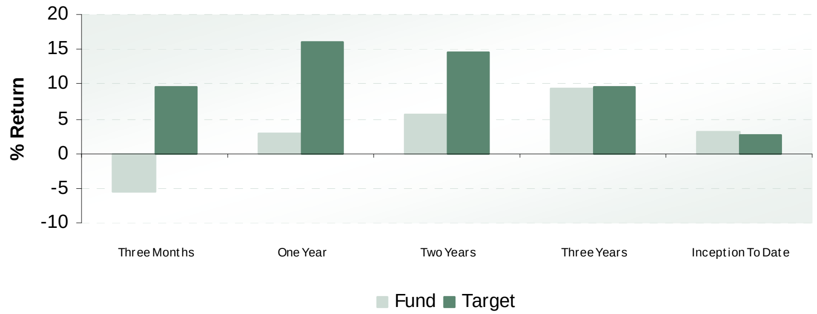
| Fund | Manager | Closing Market Value as at 30th June 2011 £000 | % of Total Fund | Net Investment £000 | Appreciation £000 | Income Received £000 | Fees £000 | Closing Market Value as at 30th September 2011 £000 | % of Total Fund | Target % of Total Fund |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Fund** | | **607,716** | **100.0** | **12** | **(36,868)** | **2,864** | **(16)** | **573,724** | **100.0** | **100.0** |
| **UK Equities** | **Majedie** | **159,060** | **26.2** | **-** | **(14,817)** | **1,848** | **-** | **146,091** | **25.5** | **25.0** |
| **Overseas Equities** | **MFS** | **160,836** | **26.5** | **(16)** | **(22,327)** | **440** | **(16)** | **138,933** | **24.2** | **25.0** |
| **Dynamic Asset Allocation Mandates** | | **148,374** | **24.4** | **27** | **(2,959)** | **195** | **-** | **145,637** | **25.4** | **25.0** |
| | Barings | 110,201 | 18.1 | 27 | (2,079) | - | - | 108,149 | 18.9 | 18.75 |
| | Ruffer | 38,173 | 6.3 | - | (880) | 195 | - | 37,488 | 6.5 | 6.25 |
| **Matching Fund** | | **126,311** | **20.8** | **-** | **3,152** | **0** | **-** | **129,463** | **22.6** | **25.0** |
| | Goldman Sachs | 59,102 | 9.7 | - | (854) | 0 | - | 58,247 | 10.2 | 12.5 |
| | Legal & General | 67,209 | 11.1 | - | 4,006 | - | - | 71,216 | 12.4 | 12.5 |
| **Private Equity** | | **13,135** | **2.2** | **1** | **83** | **380** | **-** | **13,599** | **2.4** | **0.0** |
| | Invesco | 6,666 | 1.1 | - | 575 | 1 | - | 7,242 | 1.3 | 0.0 |
| | Unicaptial | 6,469 | 1.1 | 1 | (492) | 379 | - | 6,357 | 1.1 | 0.0 |

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




Notes: Breakdown has been estimated by CAMRADATA based on the available manager data.

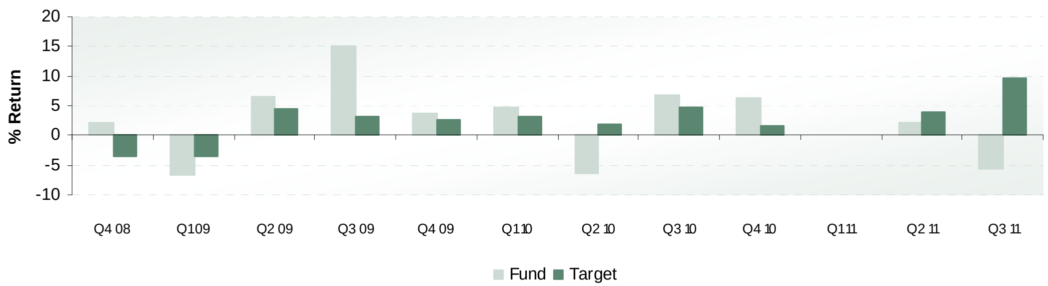
Historical Plan Performance




| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -5.62 | 2.80 | 5.69 | 9.27 | 3.19 |
| Target | 9.54 | 15.98 | 14.50 | 9.51 | 2.57 |

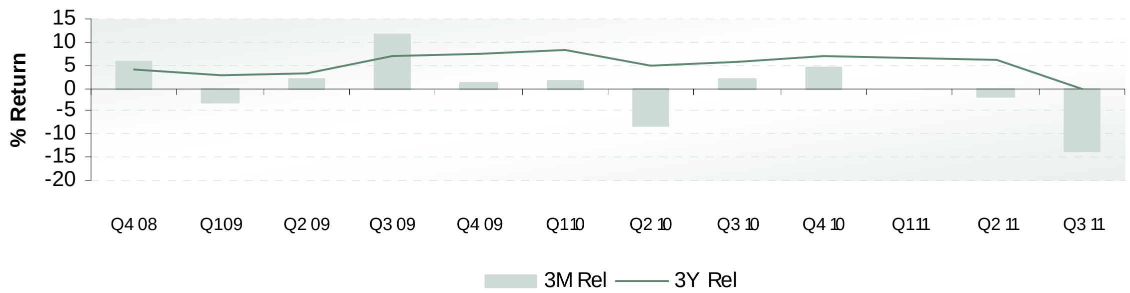
The Fund underperformed its liability benchmark by 15.16% over the quarter, returning -5.62% compared to the target of 9.54%. The relative underperformance was driven by a severe drop-off in global equity prices and relatively weak corporate credit markets amidst falling secure sovereign debt yields. The Fund's performance of 2.80% over the year was behind its target by 13.18%, as it suffered from the underperformance this quarter. Overall the Fund has underperformed on a one and three year basis but has beaten its target since inception.

Three Years Rolling Quarterly Returns




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 2.03 | -6.68 | 6.46 | 15.21 | 3.59 | 4.75 | -6.34 | 6.87 | 6.20 | 0.14 | 2.27 | -5.62 |
| Target | -3.61 | -3.50 | 4.47 | 3.09 | 2.57 | 3.21 | 2.00 | 4.68 | 1.57 | 0.17 | 4.07 | 9.54 |

Three Years Rolling Relative Returns



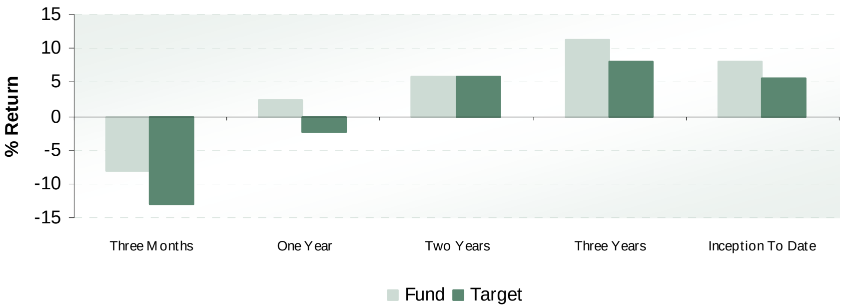

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | 5.85 | -3.29 | 1.90 | 11.76 | 1.00 | 1.49 | -8.18 | 2.09 | 4.56 | -0.03 | -1.73 | -13.84 |
| 3Y Rel | 4.13 | 2.79 | 3.37 | 7.14 | 7.52 | 8.10 | 4.86 | 5.57 | 6.83 | 6.55 | 5.98 | -0.22 |

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

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**

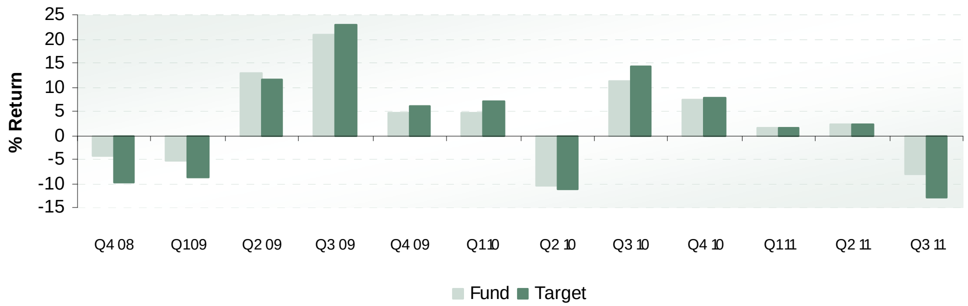



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -8.15 | 2.42 | 5.86 | 1137 | 8.11 |
| Target | -13.05 | -2.44 | 5.79 | 8.13 | 5.57 |

## Quarterly Manager update

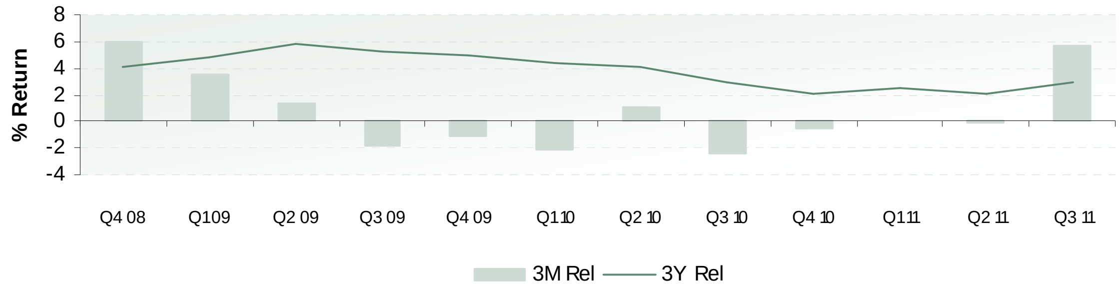
| | |
|---|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The fund performance was -8.15% over the quarter, 4.90% ahead of its target. Over 12 months, the portfolio was 4.86% ahead of its target. The portfolio's short positions in Rio Tinto, suffered from a fall off in commodity prices driven by a general global slowdown, and bearings supplier SKF, hit by its exposure to European markets, aided performance over the quarter. However, the long positions in BAE systems, facing a growing pensions deficit and uncertainty regarding the outlook for US defence spending, and pharmaceutical company Sanofi, who announced under-whelming company specific newsflow on near-term trading and guidance, were detrimental to overall performance. |
| Process | No significant changes over the quarter. |

**Three Years Rolling Quarterly Returns**




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | -4.38 | -5.47 | 12.97 | 20.72 | 4.80 | 4.73 | -10.47 | 1136 | 7.29 | 156 | 2.34 | -8.15 |
| Target | -9.74 | -8.63 | 11.43 | 22.94 | 5.99 | 6.93 | -11.35 | 14.17 | 7.90 | 153 | 2.41 | -13.05 |

**Three Years Rolling Relative Returns**

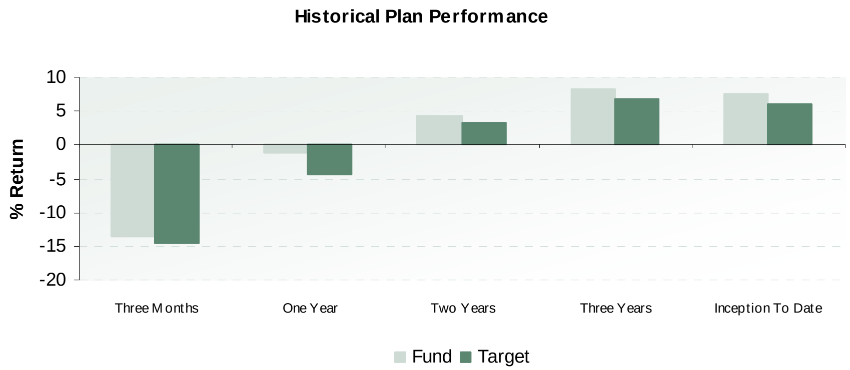



| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | 5.94 | 3.46 | 138 | -181 | -1.12 | -2.06 | 0.99 | -2.46 | -0.57 | 0.03 | -0.07 | 5.64 |
| 3Y Rel | 4.13 | 4.88 | 5.82 | 5.27 | 4.96 | 4.35 | 4.11 | 2.93 | 2.11 | 2.48 | 2.13 | 3.00 |

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.

# MFS

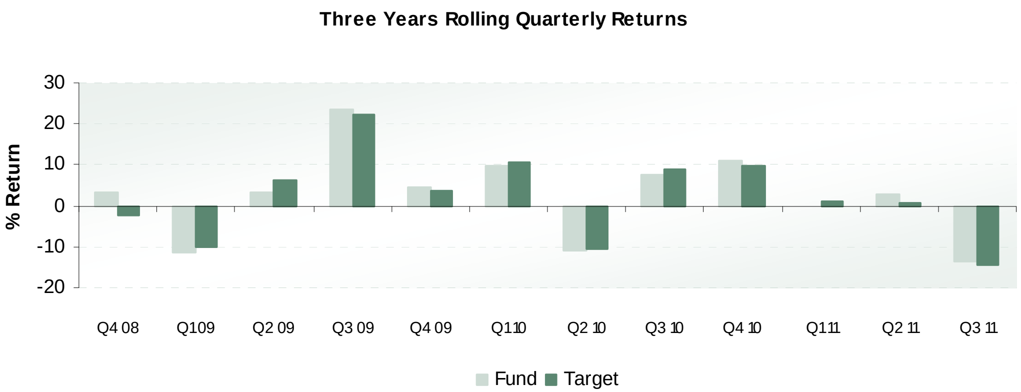
MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.



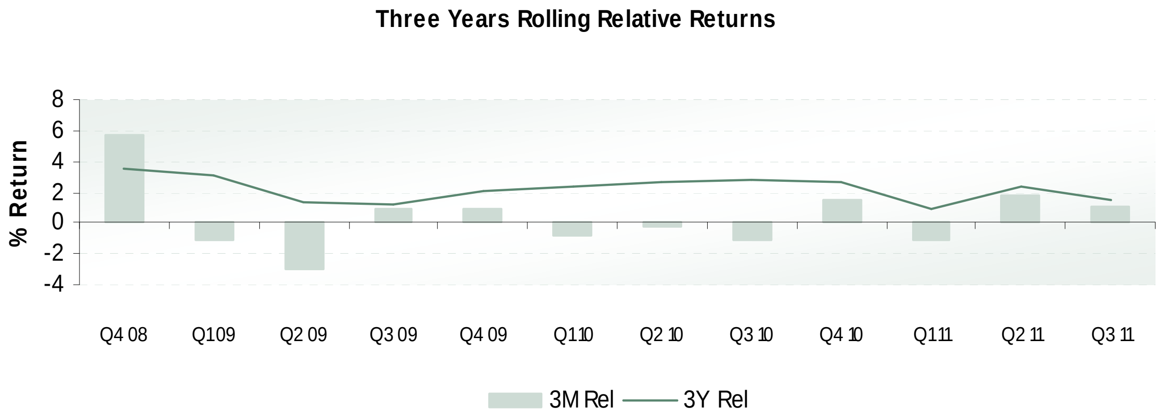

| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -13.61 | -1.27 | 4.35 | 8.36 | 7.41 |
| Target | -14.56 | -4.48 | 3.29 | 6.82 | 6.08 |

## Quarterly Manager update

| | |
|---|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The performance over the quarter was -13.61%, 0.95% ahead of the target. Over 12 months, the fund was 3.21% ahead of its target. Stock selection in autos & housing and basic materials we well as underweight positions in autos & housing and energy aided performance as did individual stock holdings in Colgate-Palmolive, Diageo, Reckitt Benckiser, Visa, Target, HOYA, Cisco Systems and Nike. The modest allocation to cash, held for transactional purposes, also positively impacted relative performance as markets depreciated. Stock selection in health care, leisure and retailing as well as an underweight position in utilities & communications and overweight Euro exposure was detrimental to performance. Individual holdings of Erste Group Bank, Schneider Electric, Heineken, Linde, Akzo Nobel, State Street, UBS and not holding Apple also detracted from performance over the quarter. |
| Process | No significant changes over the quarter. |



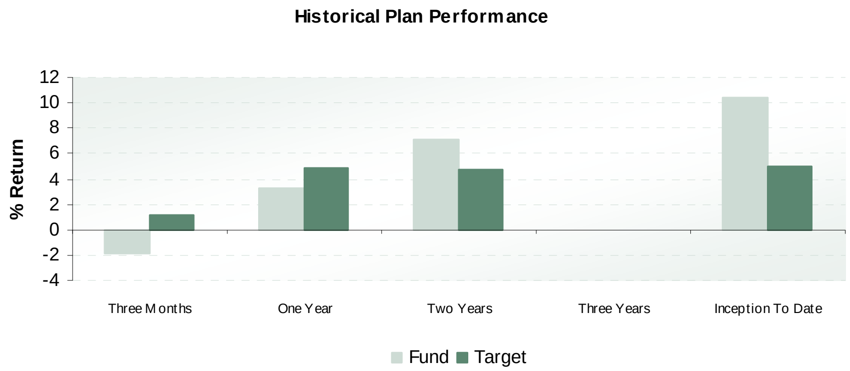

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 3.29 | -11.21 | 3.23 | 23.43 | 4.74 | 9.83 | -10.85 | 7.54 | 11.19 | 0.04 | 2.73 | -13.61 |
| Target | -2.22 | -10.25 | 6.44 | 22.30 | 3.73 | 10.80 | -10.65 | 8.77 | 9.57 | 1.16 | 0.86 | -14.56 |




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | 5.64 | -1.07 | -3.02 | 0.92 | 0.98 | -0.87 | -0.22 | -1.13 | 1.48 | -1.11 | 1.85 | 1.11 |
| 3Y Rel | 3.50 | 3.02 | 1.32 | 1.21 | 2.11 | 2.39 | 2.71 | 2.76 | 2.59 | 0.90 | 2.38 | 1.44 |

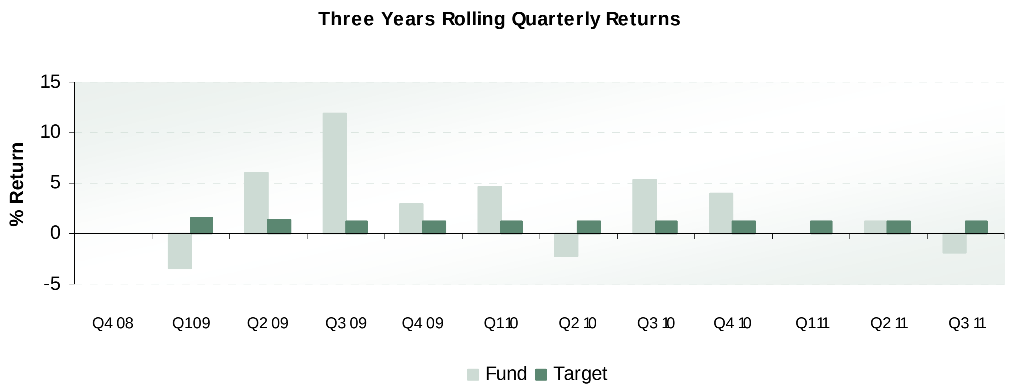
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

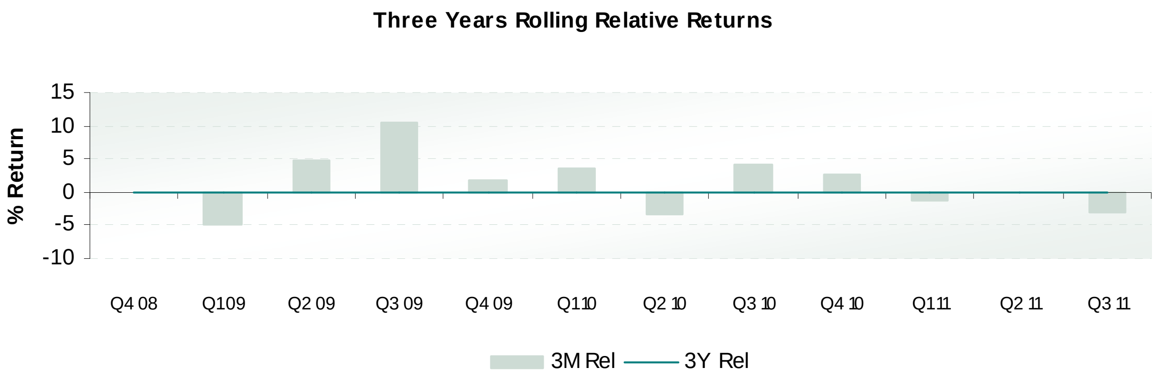
# Dynamic Asset Allocation Group




| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -1.86 | 3.21 | 7.07 | - | 10.44 |
| Target | 1.21 | 4.84 | 4.76 | - | 4.96 |

The performance of the group over the quarter was -1.86%, the LIBOR-based target returned 1.21%. Both Barings and Ruffer suffered similar falls but took tactical positions in less volatile assets classes to protect from severe market falls over the quarter. Over the past 12 months, performance has been 1.63% below target, as both managers have underperformed the target.



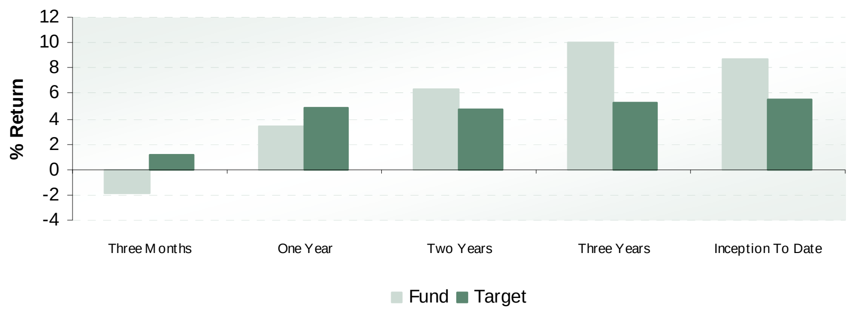

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | - | -3.38 | 6.10 | 11.82 | 2.99 | 4.73 | -2.22 | 5.32 | 3.94 | 0.01 | 1.18 | -1.86 |
| Target | - | 1.50 | 1.33 | 1.19 | 1.14 | 1.14 | 1.16 | 1.17 | 1.17 | 1.18 | 1.19 | 1.21 |

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | - | -4.81 | 4.71 | 10.51 | 1.83 | 3.54 | -3.34 | 4.10 | 2.74 | -1.16 | -0.01 | -3.03 |
| 3Y Rel | - | - | - | - | - | - | - | - | - | - | - | - |

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.

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**

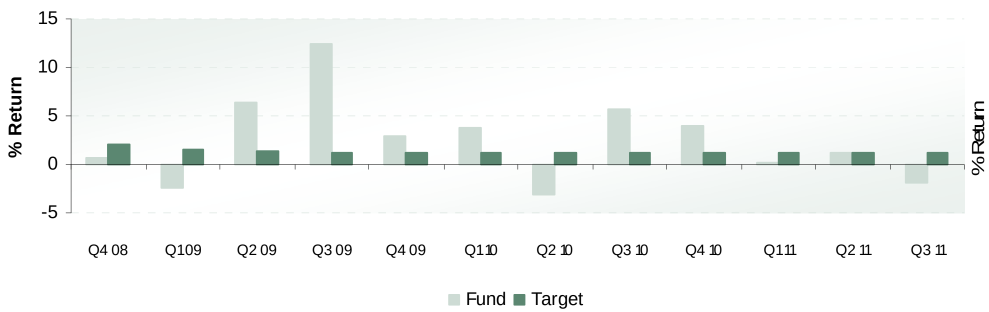



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| **Fund** | -189 | 3.36 | 6.35 | 9.98 | 8.76 |
| **Target** | 121 | 4.84 | 4.76 | 5.23 | 5.47 |

## Quarterly Manager update

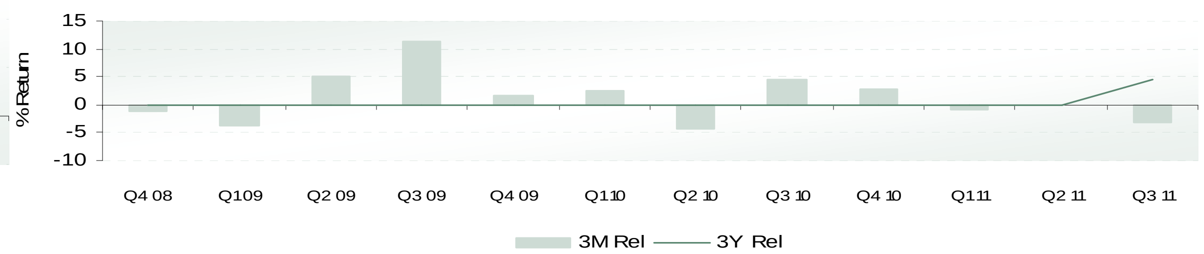
| | |
|---|---|
| Organisation | Baring Asset Management has appointed John Burns as Chief Operating Officer. He takes over from John Misselbrook who is retiring at the end of 2011 after a decade with the firm. Burns joins Barings from his position as COO at Visor Capital in Almaty, Kazakhstan, a boutique investment bank with an FSA-authorised UK subsidiary. Prior to this he spent three years with Fidelity International as Head of European Risk Management and 10 years with Schroder Investment Management. |
| Product | As reported last quarter, 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 -1.89% over the quarter, 3.10% behind its target. Over 12 months, the fund is 1.48% below target. The biggest contribution over the quarter came from conventional Gilts and UK index-linked bonds.<br>This was offset by equity exposure and weak performance from large chunks of the European bond market. |
| Process | No significant changes over the quarter. |

**Three Years Rolling Quarterly Returns**




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** | 0.67 | -2.42 | 6.42 | 12.50 | 2.94 | 3.77 | -3.12 | 5.73 | 3.88 | 0.22 | 119 | -189 |
| **Target** | 2.01 | 150 | 133 | 119 | 114 | 114 | 116 | 117 | 117 | 118 | 119 | 121 |

**Three Years Rolling Relative Returns**



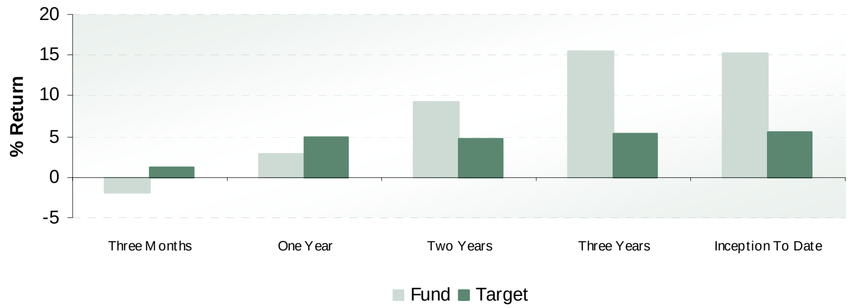

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **3M Rel** | -132 | -3.86 | 5.02 | 11.18 | 178 | 2.59 | -4.23 | 4.51 | 2.68 | -0.95 | 0.00 | -3.06 |
| **3Y Rel** | - | - | - | - | - | - | - | - | - | - | - | 4.51 |

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

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.

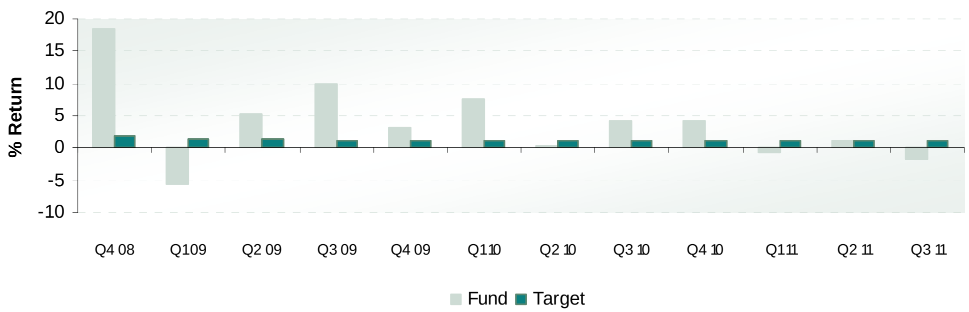
**Historical Plan Performance**




| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -180 | 2.77 | 9.21 | 15.53 | 15.20 |
| Target | 121 | 4.84 | 4.76 | 5.23 | 5.47 |

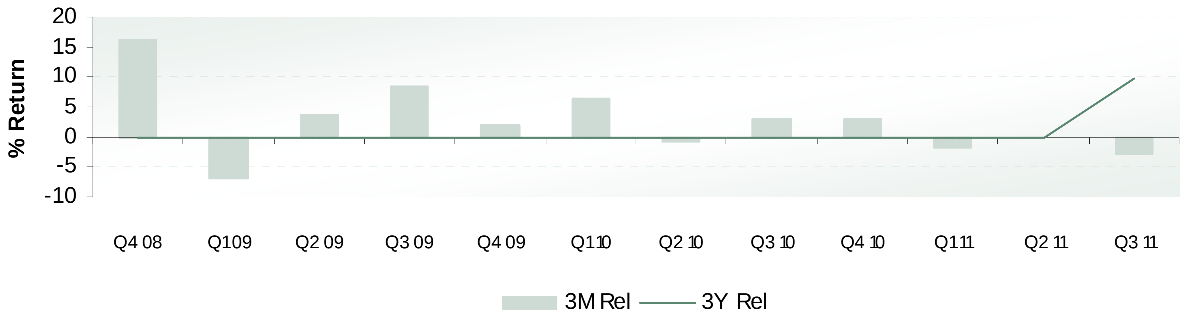
| Quarterly Manager update | |
|---|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The fund performance was -1.80% over the quarter, 3.01% behind its target. Over 12 months, the fund was 2.07% below the target. Performance was harmed by holding economically sensitive assets as growing fears of recession drove down equity prices. Whilst not a major part of the portfolio, holdings such Ericsson, Deutsche Post, BP and Invensys suffered declines. In addition, falling bond yields drove down the net asset value of T&D lower causing a fall in the share price. However, the portfolio's holding of protective assets, such as index-linked bonds and gold equities, provided useful protection. An additional cushion to general market falls was the portfolio's tactical position not to hold Eurozone sovereign debt or bank equities, except one in Japan. |
| Process | No significant changes over the quarter. |

**Three Years Rolling Quarterly Returns**




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 18.47 | -5.49 | 5.17 | 9.81 | 3.12 | 7.64 | 0.41 | 4.13 | 4.11 | -0.61 | 1.13 | -180 |
| Target | 2.01 | 150 | 1.33 | 1.19 | 1.14 | 1.14 | 1.16 | 1.17 | 1.17 | 1.18 | 1.19 | 121 |

**Three Years Rolling Relative Returns**

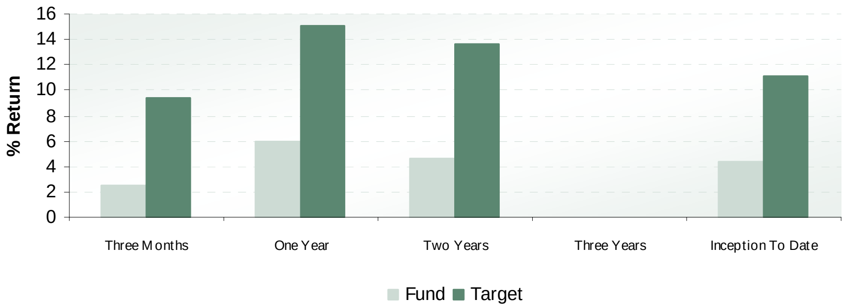



| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | 16.14 | -6.90 | 3.79 | 8.52 | 196 | 6.42 | -0.74 | 2.93 | 2.91 | -177 | -0.06 | -2.97 |
| 3Y Rel | - | - | - | - | - | - | - | - | - | - | - | 9.79 |

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.

# Matching Fund

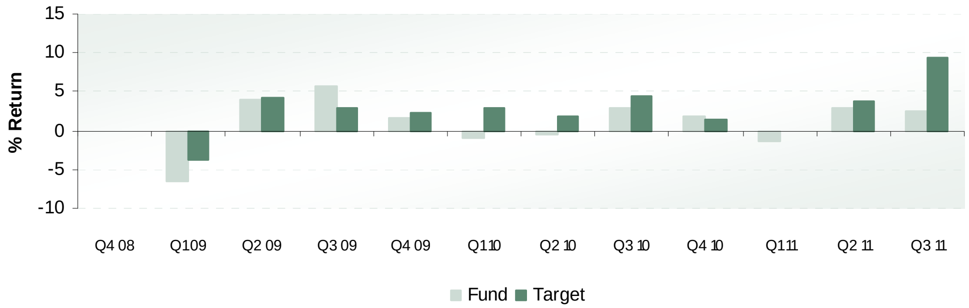
### Historical Plan Performance




| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| **Fund** | 2.50 | 5.89 | 4.58 | - | 4.36 |
| **Target** | 9.35 | 15.14 | 13.66 | - | 11.08 |

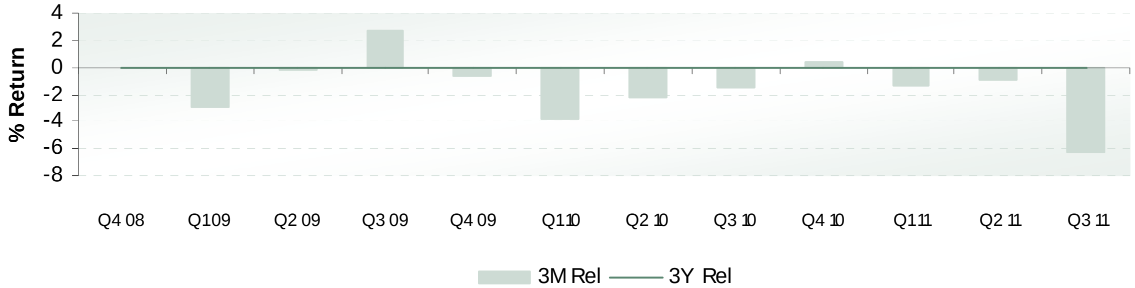
The performance of the Matching Fund over the quarter of 2.50% is 6.85% below its gilts-based liability benchmark. In manager terms, this can be attributed to the negative return achieved by the Goldman Sachs portfolio over the period. However, the bulk of the underperformance can be explained by the limited ability of the existing LGIM mandate to track the Liability Related Benchmark. This is being addressed with a new mandate due for implementation in December 2011. The Matching Fund return of 5.89% over the year was 9.25% below target.

### Three Years Rolling Quarterly Returns




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** | - | -6.45 | 4.04 | 5.66 | 167 | -0.88 | -0.48 | 2.98 | 175 | -132 | 2.90 | 2.50 |
| **Target** | - | -3.68 | 4.28 | 2.90 | 2.38 | 3.02 | 181 | 4.49 | 138 | -0.01 | 3.88 | 9.35 |

### Three Years Rolling Relative Returns

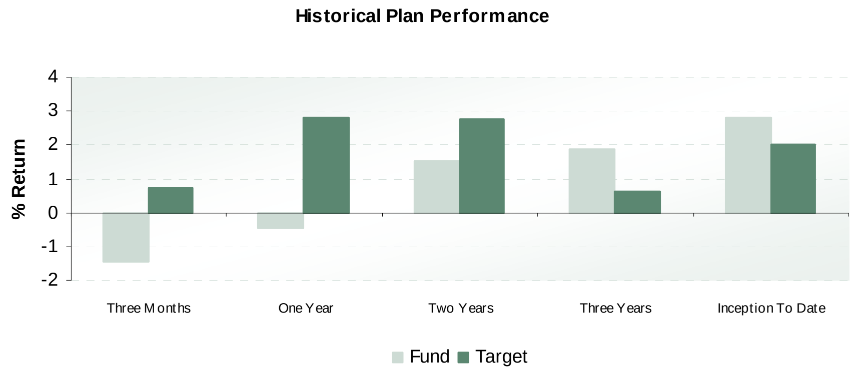



| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **3M Rel** | - | -2.87 | -0.23 | 2.68 | -0.69 | -3.79 | -2.25 | -145 | 0.36 | -131 | -0.94 | -6.26 |
| **3Y Rel** | - | - | - | - | - | - | - | - | - | - | - | - |

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.

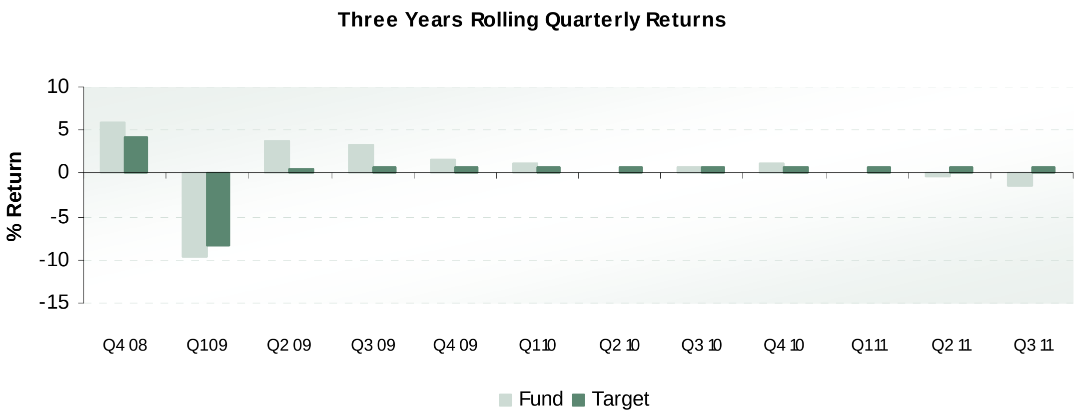
# Goldman Sachs

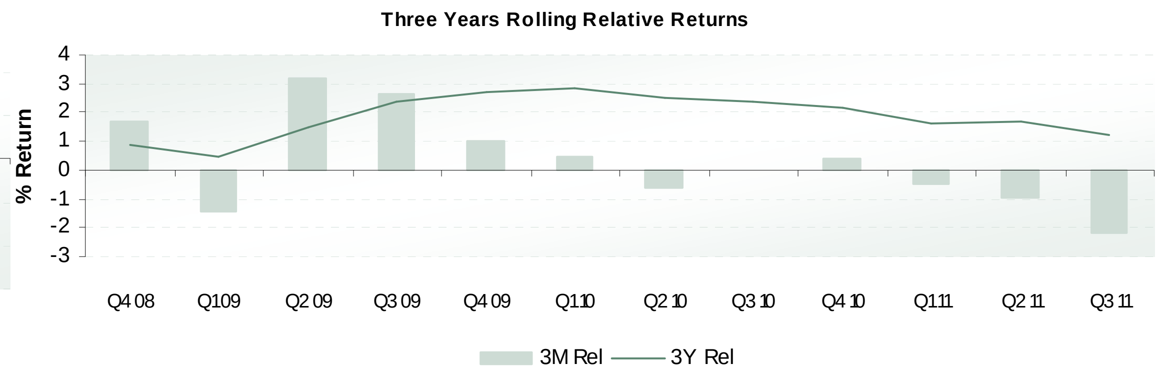
Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 manage an active bond fund.




| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| Fund | -145 | -0.45 | 151 | 185 | 2.81 |
| Target | 0.72 | 2.82 | 2.75 | 0.64 | 2.01 |

| Quarterly Manager update | |
|---|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The fund performance was -1.45% over the quarter, 2.17% behind its target. Over 12 months, performance was 3.27% below the target. The fund's duration and cross-sector and government/agency strategies were the main sources of underperformance over the quarter. |
| Process | No significant changes over the quarter. |




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 5.86 | -9.70 | 3.78 | 3.36 | 166 | 110 | 0.03 | 0.68 | 110 | 0.18 | -0.27 | -145 |
| Target | 4.09 | -8.39 | 0.56 | 0.70 | 0.65 | 0.65 | 0.67 | 0.68 | 0.68 | 0.69 | 0.70 | 0.72 |

| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3M Rel | 170 | -143 | 3.20 | 2.64 | 101 | 0.44 | -0.64 | 0.00 | 0.42 | -0.51 | -0.96 | -2.15 |
| 3Y Rel | 0.90 | 0.47 | 148 | 2.37 | 2.68 | 2.86 | 2.51 | 2.37 | 2.19 | 160 | 168 | 120 |

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.

# *Legal & General*

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.

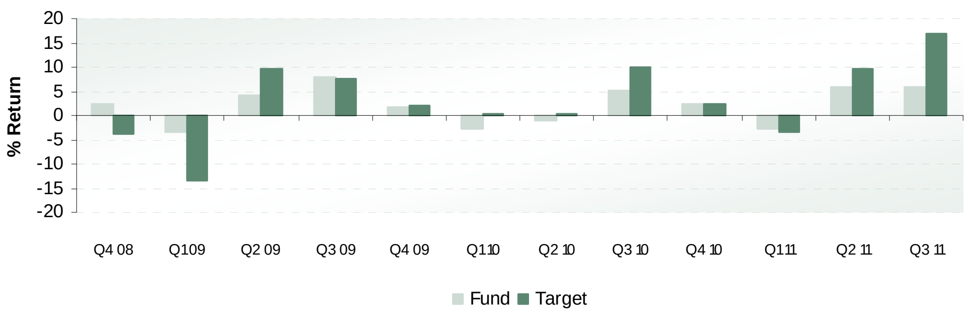
**Historical Plan Performance**


| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---|---|---|---|---|---|
| **Fund** | 5.96 | 1171 | 7.30 | 8.61 | 3.27 |
| **Target** | 16.73 | 26.65 | 19.64 | 1188 | 3.37 |

## Quarterly Manager update

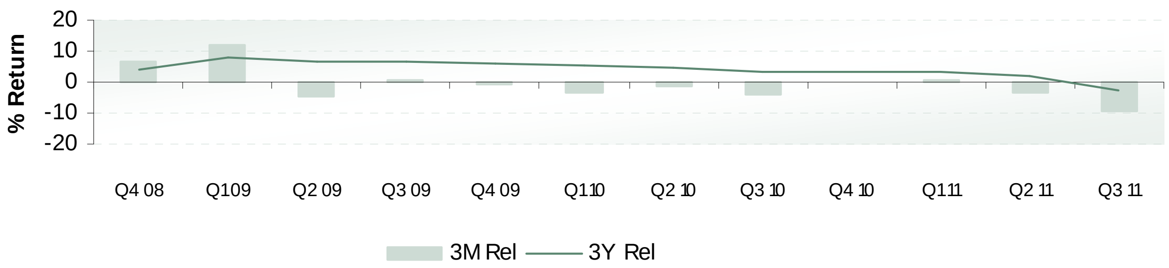
| | |
|---|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The fund performance was 5.96% over the quarter, 10.77% behind its target. Over 12 months, performance was 14.94% behind target. The fund, which is invested 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**




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund** | 2.34 | -3.32 | 4.29 | 7.85 | 168 | -2.69 | -0.96 | 5.18 | 2.34 | -2.69 | 5.85 | 5.96 |
| **Target** | -3.90 | -13.51 | 9.52 | 7.48 | 2.08 | 0.36 | 0.39 | 9.89 | 2.38 | -3.30 | 9.60 | 16.73 |

**Three Years Rolling Relative Returns**




| | Q4 08 | Q1 09 | Q2 09 | Q3 09 | Q4 09 | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **3M Rel** | 6.49 | 11.78 | -4.77 | 0.34 | -0.40 | -3.03 | -134 | -4.29 | -0.04 | 0.63 | -3.42 | -9.23 |
| **3Y Rel** | 4.16 | 8.07 | 6.34 | 6.46 | 6.29 | 5.20 | 4.71 | 3.23 | 3.22 | 3.37 | 189 | -2.92 |

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.

The third quarter of 2011 saw investor confidence plummeting, driven by the ongoing Eurozone debt crisis. This culminated in the realisation that a Greek default, above the voluntary haircut already in place, was a stark possibility and the ensuing political wrangling between Eurozone members. In addition, growth in many of the major economies showed signs of grinding to a halt, sparking fears of a double-dip recession. All this resulted in global equities falling at a rate not seen since the height of the credit crunch in 2008. The consequential risk aversion and flight to safety resulted in plummeting Gilt yields, with the yield on long dated Gilts falling by 77 basis points over the quarter.

Given the continued bad news stemming from the Eurozone it wasn't surprising to see the area experiencing some of the sharpest falls, with the FTSE World Europe (ex-UK) falling by 20.2% over the quarter. In addition, volatility of markets in the region reached extreme levels, prompting financial authorities in France, Spain, Italy and Belgium to temporarily ban short selling on bank shares.

There was also uncertainty in the political response, which resulted in problems when ratifying an increase to the Euro bail-out fund, something that was strongly opposed by the German taxpayer. This did nothing to sooth fears of contagion in the peripheries, as credit ratings agency Moody's downgraded Portuguese and Irish debt to junk status. However, Standard and Poor's kept these sovereigns as investment grade. Elsewhere, the European Central Bank stepped in to provide liquidity to the Spanish and Italian debt markets to help mitigate rising yields. Moody's also wielded the axe on the rating of two of France's biggest banks, Credit Agricole and Societe Generale, after a review of their Greek debt exposure. A third, BNP Paribas, will be kept on negative watch.

Even the region's economic powerhouse, Germany, suffered losses. Seemingly on the hook for much of the Eurozone debt liability and experiencing ailing GDP growth the DAX experienced a series of stark falls during August.

On the other side of the Atlantic, the US also had sovereign debt problems. The quarter began with fevered debate between the Democrats and Republicans over a deal to raise the debt ceiling and avoid a default of its own. Despite a deal being agreed at the 11th hour to raise the limit by $2.4tn, ratings agency Standard & Poor's downgraded long-term credit one notch from AAA to AA+. This set the scene for a difficult period with the FTSE World USA Index finishing 14% lower over the quarter, but it did not appear to change investors' perception of US Treasuries, as yields continued to fall.

In September, the Federal Reserve Open Market Committee announced a scheme dubbed "Operation Twist" to help stimulate the economy. It was designed to put downward pressure on long-term interest rates, by buying up longer term debt, and boost short term rates by selling $400bn of short-dated bonds. The aim is to keep long term rates low, boosting mortgage lending and business loans, without pumping newly created money into the economy. However, the initial reaction about the effectiveness of the strategy was scepticism, with the Dow Jones down by 2.5% immediately after the announcement.

The UK was hit by falling sentiment on all sides, given its reliance on the US and particularly the Eurozone for trade, with the FTSE All Share finishing down by 13.5%. Peak to trough falls were nearly 17%, with August proving to be particularly difficult, seeing some of the largest losses since the collapse of Lehman Brothers in 2008. Bank shares fell sharply on the prospect that the Eurozone debt crisis was spreading to Italy and Spain. They were also affected by worries that growth prospects remain weak and concerns surrounding money market funds providing liquidity for short-term bank funding.

The poor sentiment and increased risk aversion, fuelled by the Eurozone and poor second quarter US GDP figures, swiftly saw many analysts downgrading corporate earnings and growth projections. This was the source of much of the fall as they envisaged a delay on investment plans until the economic outlook brightens.

As the quarter progressed it became increasingly apparent that the Bank of England was no longer considering an increase in interest rates in the near future, instead moving towards a second round of quantitative easing to boost ailing GDP figures, despite persistently high inflation. The Bank believes that the medium term risk of GDP contraction is still significant, with the economy operating well below capacity.

Corporate bonds benefitted from the rally in core government debt, but some of these gains were eroded by a falling appetite for credit risk. Overall corporate debt made ground over the quarter with the total return on the Merrill Lynch Non-Gilt Sterling Index standing at 1.6%. However, more credit worthy issues tended to produce stronger returns.

Against a backdrop of global volatility and waning investor sentiment markets further a field also suffered, with Japanese and Asia Pacific equity markets experiencing double digit losses. China also showed signs of a slowdown in GDP. This sparked a drop off in industrial metal prices, which are strongly correlated with industrial growth and Chinese demand.

Unsurprisingly, emerging markets were also hit hard, with the FTSE All-World Emerging Market Index losing 19% over the quarter. However, Asian emerging market equities tended to perform slightly better than the benchmark, due to a perceived lack of sensitivity to the macroeconomic problems in the US and Eurozone. In contrast Latin markets struggled, suffering from the sell-off in commodity markets as a result of a general global slowdown.

In the UK property market, low transaction levels were a key feature. Returns remained positive, with the IPD Property Index returning 1.9%, but the overall upward momentum began to weaken. Overall capital values were stable, but the strength in London and properties with strong income flows, masked weakness in secondary locations and some retail sectors.

In currency markets, the main feature was weakness of the Euro, which declined against the other major currencies. It was also a poor quarter for Sterling, which weakened as the prospect of further quantitative easing grew. Sterling lost ground against the rising Dollar and a strong Yen, although it did make gains on the distressed Euro.

Source: Datastream

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

IMPORTANT INFORMATION