London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 4 2011

February 2012

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 2.2% 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:

45% Index-linked Treasury Gilt 1¼% 2017, 20% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1⅛% 2037, 5% Index-linked Treasury Gilt 0¾% 2047, 20% Index-linked Treasury Gilt 1¼% 2055.

This Liability Benchmark was last reviewed in December 2011.

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 31st December 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		**611,722**	**100.0**	**100.0**	**6.8**	**3.4**	**7.4**	**10.9**
New Liability Benchmark + 2.2% p.a.					*9.0*	*22.4*	*17.1*	*13.5*
Difference					*(2.2)*	*(19.0)*	*(9.7)*	*(2.6)*
UK Equities		**155,777**	**25.5**	**25.0**				
	Majedie				6.6	1.8	6.8	15.5
FTSE All Share + 2% p.a.					*8.9*	*(1.5)*	*7.2*	*15.1*
Difference					*(2.3)*	*3.3*	*(0.4)*	*0.4*
Overseas Equities		**149,978**	**24.5**	**25.0**				
	MFS				8.0	(4.2)	5.9	10.0
MFS Custom Benchmark					*7.5*	*(6.3)*	*5.2*	*10.3*
Difference					*0.5*	*2.1*	*0.7*	*(0.3)*
Dynamic Asset Allocation Mandates		**148,760**	**24.3**	**25.0**	**2.2**	**1.5**	**6.6**	***10.3***
	Barings	110,359	18.0	18.8	2.1	1.6	5.9	*10.5*
3 month Sterling LIBOR + 4% p.a.					*1.2*	*4.9*	*4.8*	*5.0*
Difference					*0.9*	*(3.3)*	*1.1*	*5.5*
	Ruffer	38,401	6.3	6.2	2.4	1.1	8.9	*10.1*
3 month Sterling LIBOR + 4% p.a.					*1.2*	*4.9*	*4.8*	*5.0*
Difference					*1.2*	*(3.8)*	*4.1*	*5.1*
Matching Fund		**142,959**	**23.4**	**25.0**	**10.4**	**14.9**	**9.0**	***7.5***
Liability Benchmark + 1% p.a.					*8.7*	*21.2*	*16.0*	*12.5*
Difference					*1.7*	*(6.3)*	*(7.0)*	*(5.0)*
	Goldman Sachs	58,183	9.5	12.5	(0.1)	(1.7)	0.6	(0.1)
3 month Sterling LIBOR + 2% p.a.					*0.8*	*2.9*	*2.8*	*(0.4)*
Difference					*(0.9)*	*(4.6)*	*(2.2)*	*0.3*
	Legal & General (note 2)	84,777	13.9	12.5	19.0	29.9	*16.1*	14.2
2 x FTSE + 15yr IL Gilts - LIBOR p.a.					*25.2*	*54.8*	*32.5*	*22.2*
Difference					*(6.2)*	*(24.9)*	*(16.4)*	*(8.0)*
Private Equity		**14,247**	**2.3**	**0.0**	**11.3**	**28.5**	**23.7**	-
	Invesco	8,184	1.3	0.0	14.6	31.5	27.6	-
	Unicapital	6,063	1.0	0.0	7.1	24.4	18.7	-

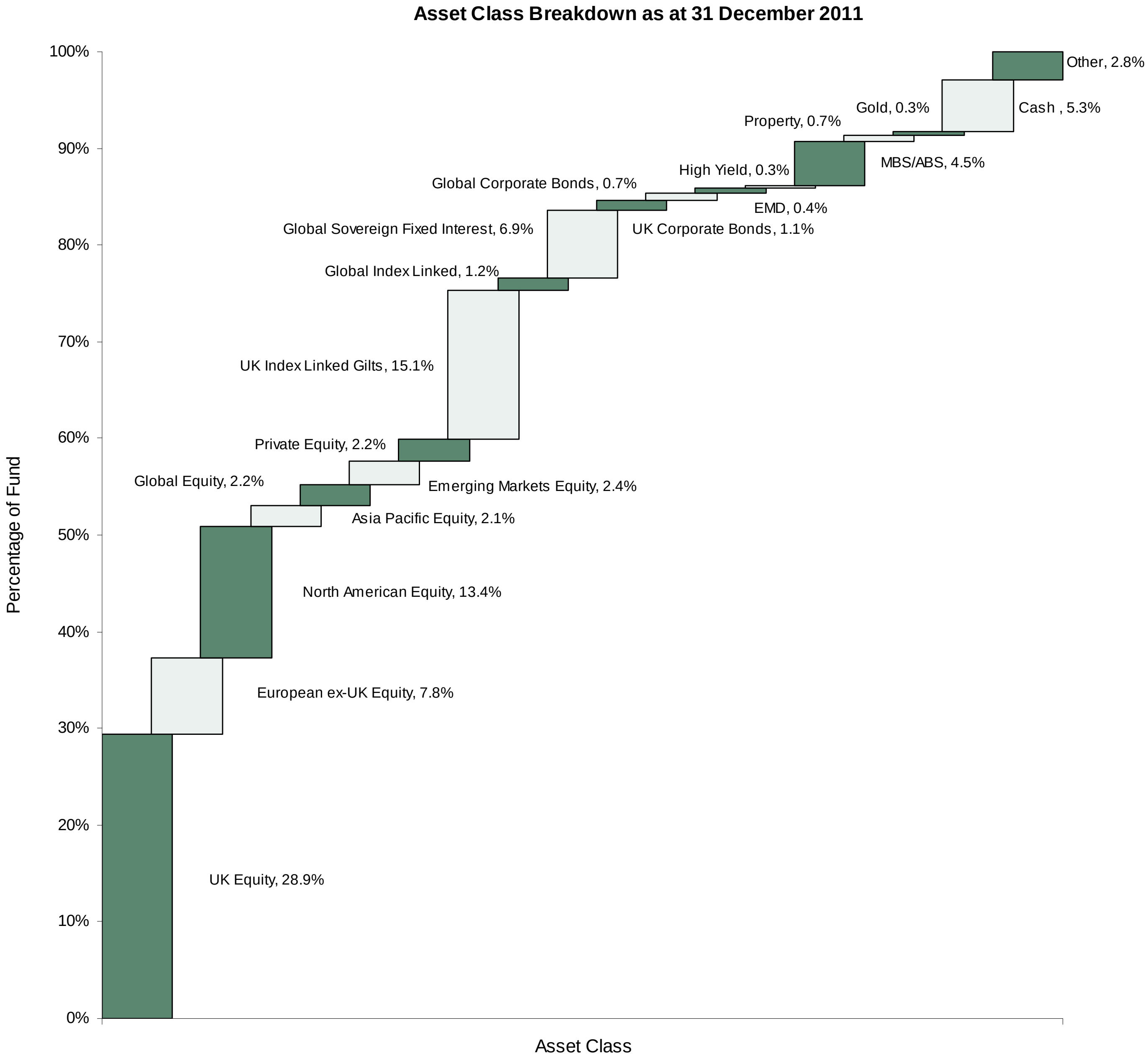
Notes:

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 September 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 31st December 2011 £000	% of Total Fund	Target % of Total Fund
Total Fund		**573,724**	**100.0**	**(930)**	**37,154**	**1,774**	**8**	**611,722**	**100.0**	**100.0**
UK Equities	**Majedie**	**146,091**	**25.5**	**-**	**8,597**	**1,089**	**-**	**155,777**	**25.5**	**25.0**
Overseas Equities	**MFS**	**138,933**	**24.2**	**(8)**	**10,596**	**457**	**8**	**149,978**	**24.5**	**25.0**
Dynamic Asset Allocation Mandates		**145,637**	**25.4**	**(27)**	**2,962**	**188**	**-**	**148,760**	**24.3**	**25.0**
	Barings	108,149	18.9	(27)	2,183	55	-	110,359	18.0	18.75
	Ruffer	37,488	6.5	-	780	133	-	38,401	6.3	6.25
Matching Fund		**129,463**	**22.6**	**-**	**13,495**	**1**	**-**	**142,959**	**23.4**	**25.0**
	Goldman Sachs	58,247	10.2	-	(65)	0	-	58,183	9.5	12.5
	Legal & General	71,216	12.4	-	13,560	1	-	84,777	13.9	12.5
Private Equity		**13,599**	**2.4**	**(895)**	**1,504**	**38**	**-**	**14,247**	**2.3**	**0.0**
	Invesco	7,242	1.3	(114)	1,056	(0)	-	8,184	1.3	0.0
	Unicaptial	6,357	1.1	(781)	449	38	-	6,063	1.0	0.0

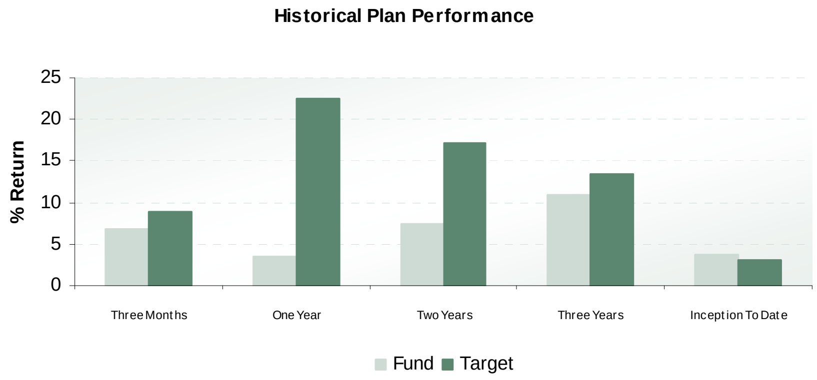
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

Fund Breakdown



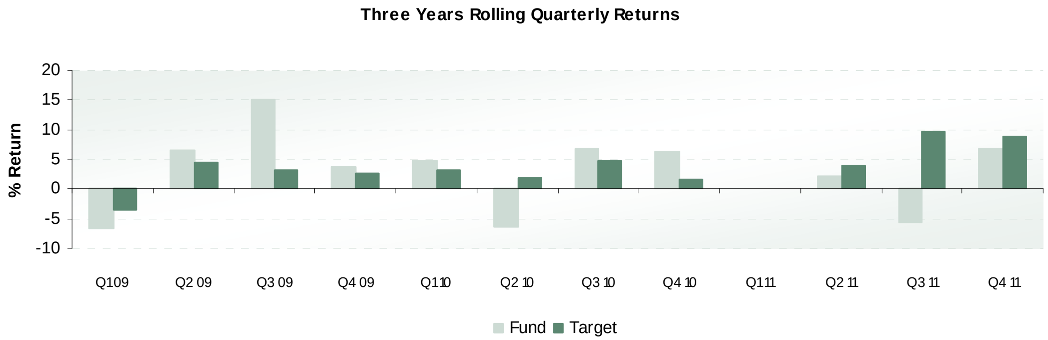
Notes: Breakdown has been estimated by CAMRADATA based on the available manager data.

Overall Performance

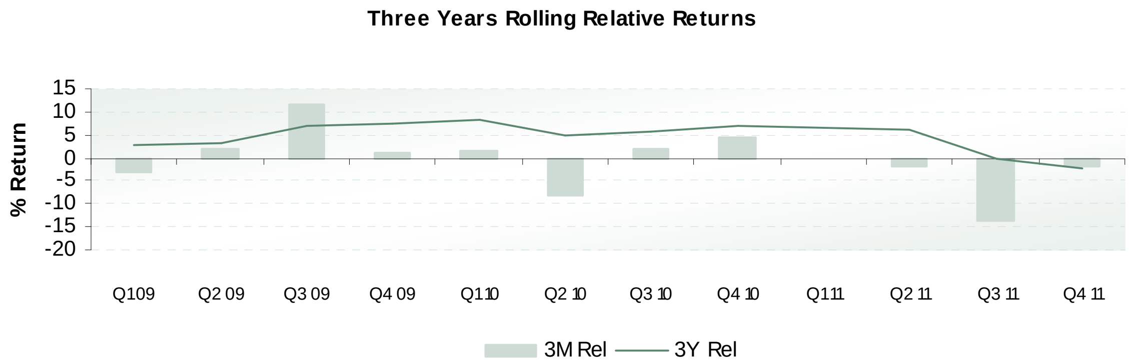


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	6.79	3.42	7.37	10.94	3.69
Target	8.98	22.43	17.06	13.46	3.11

The Fund underperformed its liability benchmark by 2.19% over the quarter, returning 6.79% compared to the target of 8.98%. Whilst the overall performance was strong, making up the losses incurred last quarter, continued market volatility and a flight to safety resulting in gilt yields falling further caused the underperformance. The Fund's performance of 3.42% over the year was behind its target by 19.01%, as it suffered from the underperformance over the third quarter of 2011. The Fund has also underperformed over longer periods.



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79
Target	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98



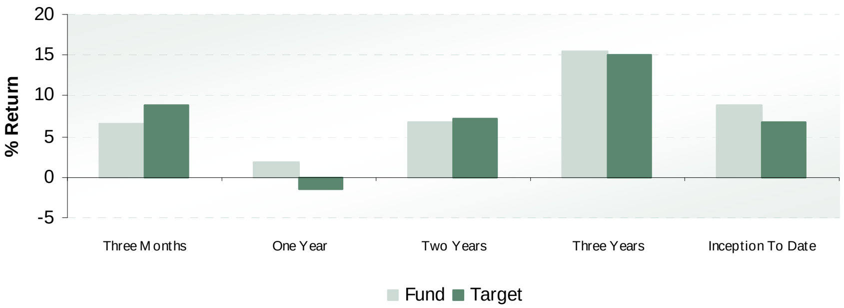
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01
3Y Rel	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22

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

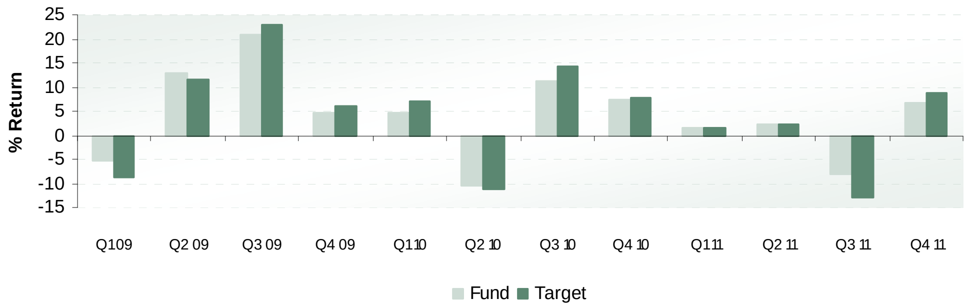


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	6.63	179	6.78	15.49	8.88
Target	8.92	-152	7.24	15.12	6.77

Quarterly Manager update

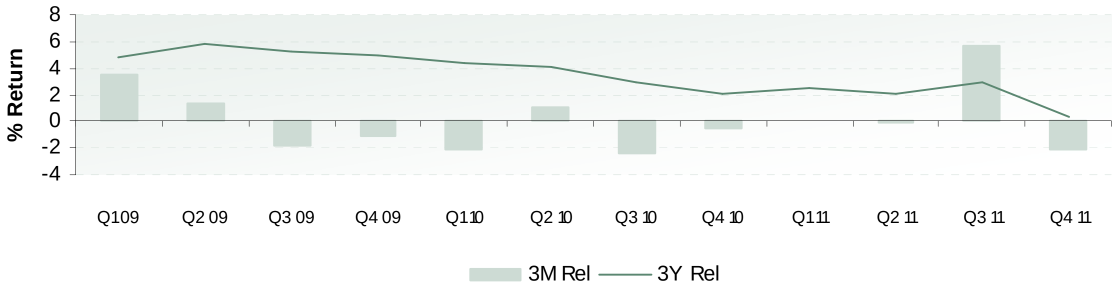
Organisation	No significant changes over the quarter.
Product	The Majedie Tortoise Fund has reached its planned capacity limit and therefore they are closing it. Majedie have built in a small amount of extra capacity for the future cash flow requirements of our existing clients. Majedie will also follow its normal policy of recycling any outflows to new investors, as appropriate.
Performance	The fund performance was 6.63% over the quarter, 2.29% behind its target. Over 12 months, the portfolio was 3.31% ahead of its target. The portfolio's short positions in Rolls Royce, who struck a lucrative deal with US firm Pratt & Witney, and AGK, which rebounded significantly over the quarter, harmed performance. However, the portfolios positions in Pfizer and BP aided the overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-5.47	12.97	20.72	4.80	4.73	-10.47	11.36	7.29	156	2.34	-8.15	6.63
Target	-8.63	11.43	22.94	5.99	6.93	-11.35	14.17	7.90	153	2.41	-13.05	8.92

Three Years Rolling Relative Returns



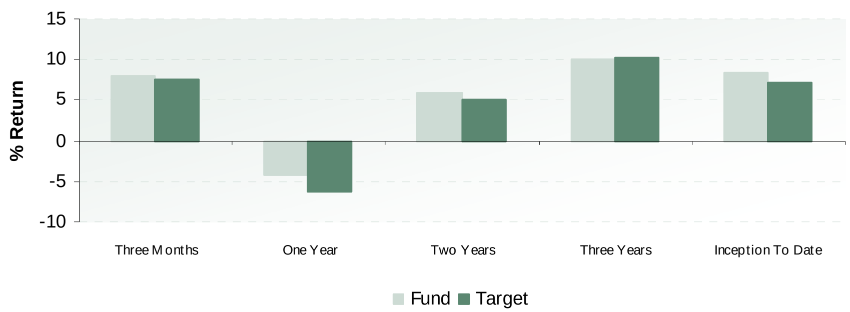
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	3.46	138	-181	-112	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10
3Y Rel	4.88	5.82	5.27	4.96	4.35	4.11	2.93	2.11	2.48	2.13	3.00	0.32

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.

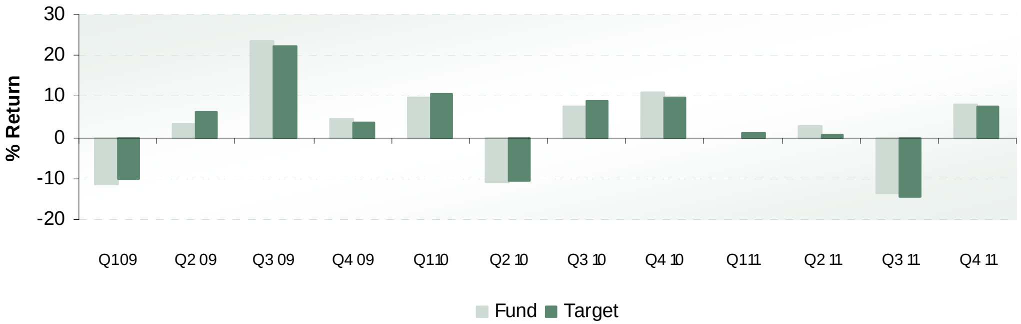
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	7.96	-4.15	5.94	9.97	8.41
Target	7.49	-6.29	5.15	10.25	7.05

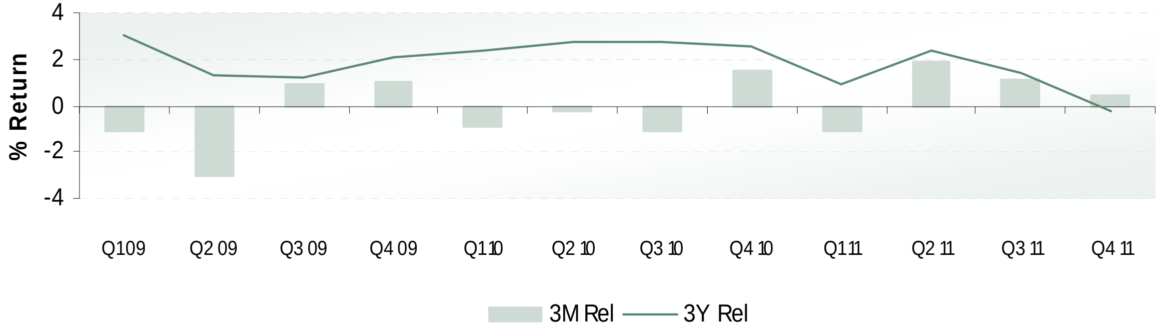
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was 7.96%, 0.47% ahead of the target. Over 12 months, the fund was 2.14% ahead of its target. Stock selection in technology, basic materials and financial services aided performance as did individual stock holdings in National Oilwell Varco, Pernod-Ricard, Dun & Bradstreet, WW Grainger and not owning Amazon.com. However, stock selection in health care and industrial goods & services as well as an underweight position and stock selection in transportation was detrimental to performance. Individual holdings of Oracle, Philip Morris International, Credit Suisse, Inditex, Shin-Etsu Chemical, Danone and Lojas Renner also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-11.21	3.23	23.43	4.74	9.83	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96
Target	-10.25	6.44	22.30	3.73	10.80	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49

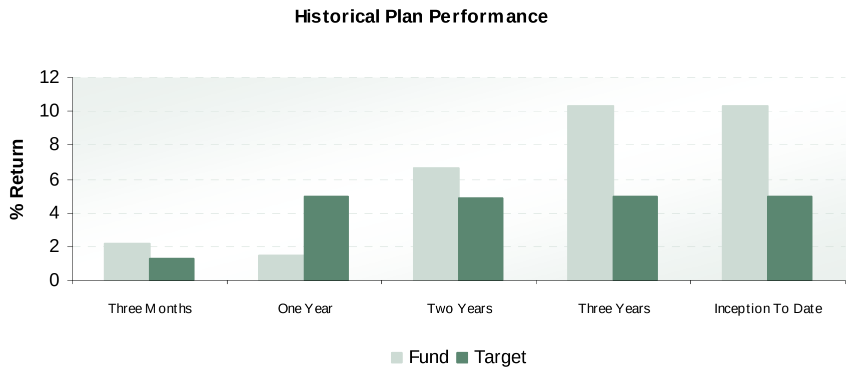
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-107	-3.02	0.92	0.98	-0.87	-0.22	-1.13	148	-1.11	185	1.11	0.44
3Y Rel	3.02	132	121	2.11	2.39	2.71	2.76	2.59	0.90	2.38	144	-0.25

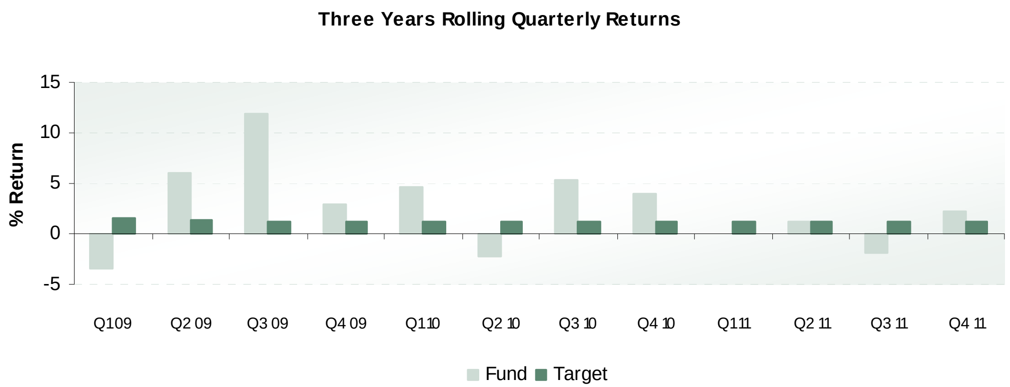
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

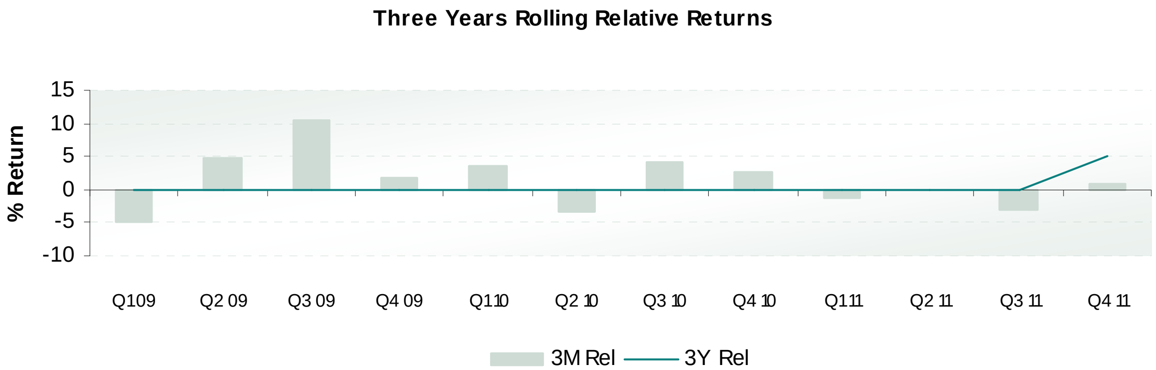
Dynamic Asset Allocation Group



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.16	1.45	6.64	10.32	10.32
Target	1.24	4.91	4.82	4.97	4.97

The performance of the group over the quarter was 2.16%, the LIBOR-based target returned 1.24%. Both Barings and Ruffer enjoyed similar gains by tactical positions in less volatile assets classes to protect from market uncertainty over the quarter. Over the past 12 months, performance has been 3.46% below target, as both managers have underperformed the target.





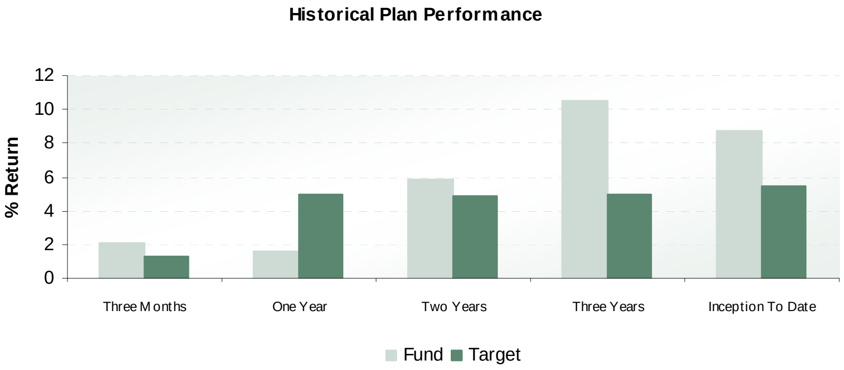
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16
Target	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 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	0.91
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	5.10

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.

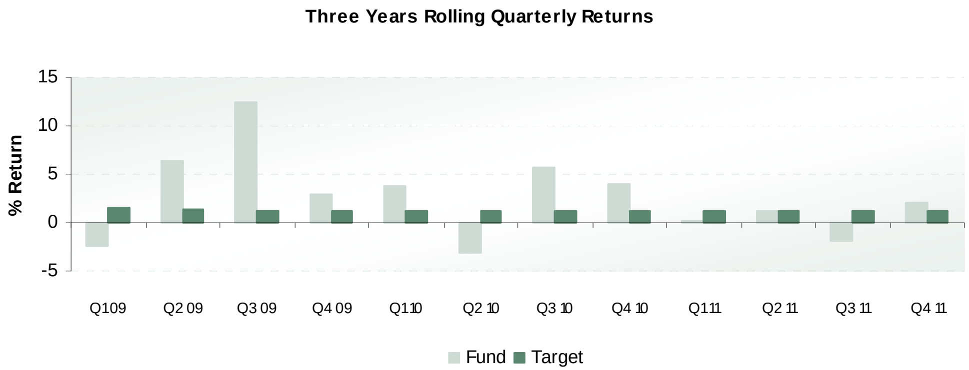
Barings

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.

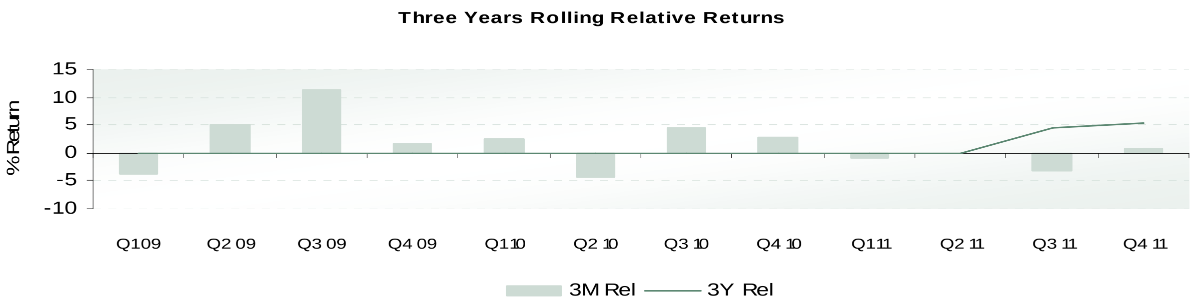


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.07	157	5.90	10.49	8.74
Target	124	4.91	4.82	4.97	5.44

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.07% over the quarter, 0.83% ahead of its target. Over 12 months, the fund is 3.34% below target. The fund was able to make gains by taking a relatively defensive position, Australian, long Canadian and UK bonds were the main contribution to performance. The holding in multinational equity funds and a global agriculture fund also boosted returns. However, the short position in FTSE futures and exposure to gold was detrimental to overall performance.
Process	No significant changes over the quarter.



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73	3.88	0.22	1.19	-189	2.07
Target	150	133	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	121	124

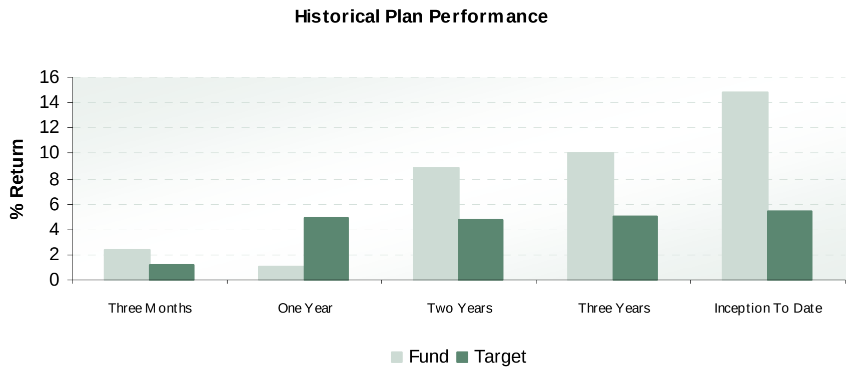


	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-3.86	5.02	11.18	178	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82
3Y Rel	-	-	-	-	-	-	-	-	-	-	4.51	5.26

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.

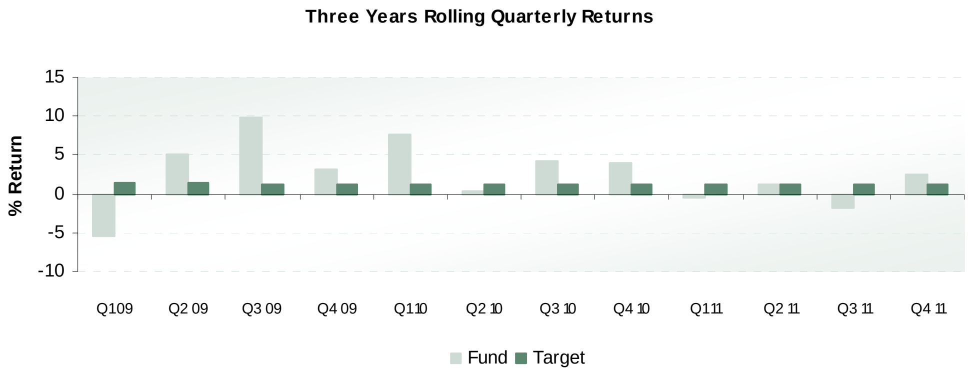
Ruffer

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.

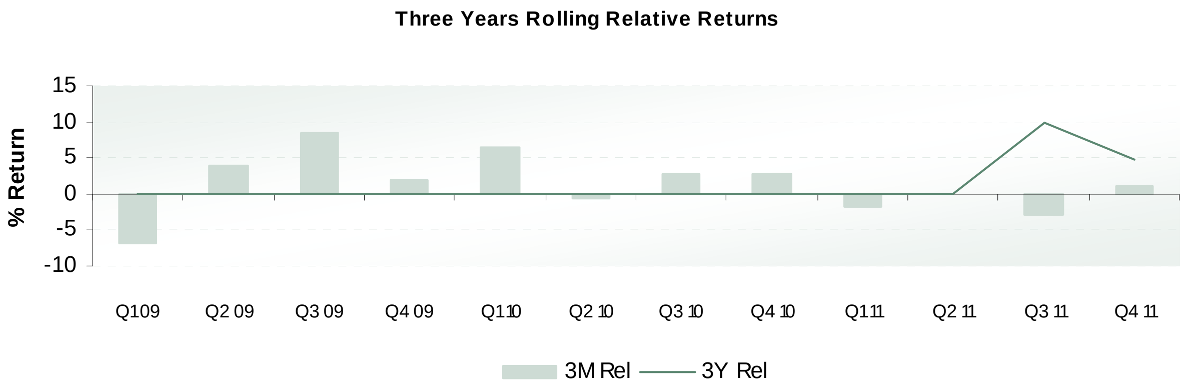


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.44	111	8.85	10.07	14.82
Target	124	4.91	4.82	4.97	5.44

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.44% over the quarter, 1.20% ahead of its target. Over 12 months, the fund was 3.80% below the target. The portfolio also took a relatively defensive position with index-linked bonds, large multinational equity holdings and US Dollar exposure being the main drivers of performance. However, Australian and Canadian Dollar put warrants lost ground as on risk assets recovered. The portfolio's exposure to gold was also detrimental to performance.
Process	No significant changes over the quarter.



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-5.49	5.17	9.81	3.12	7.64	0.41	4.13	4.11	-0.61	1.13	-180	2.44
Target	150	133	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	121	124

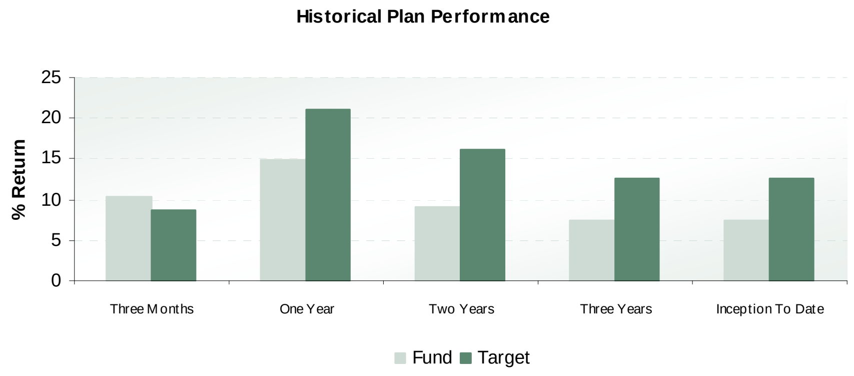


	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-6.90	3.79	8.52	196	6.42	-0.74	2.93	2.91	-177	-0.06	-2.97	1.19
3Y Rel	-	-	-	-	-	-	-	-	-	-	9.79	4.86

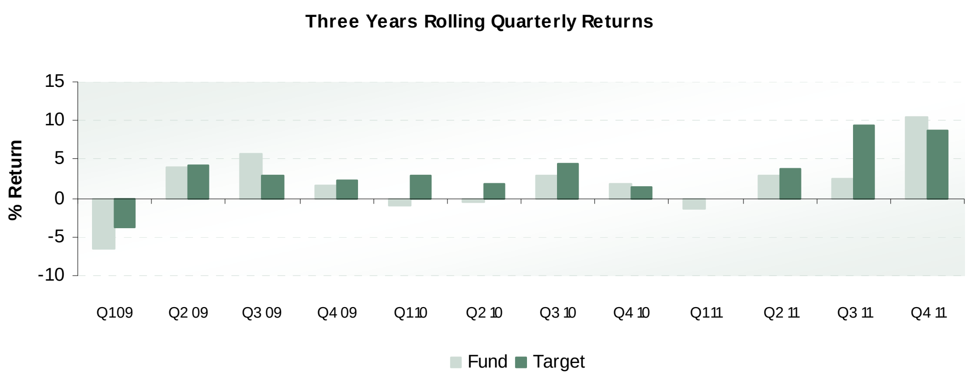
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Matching Fund

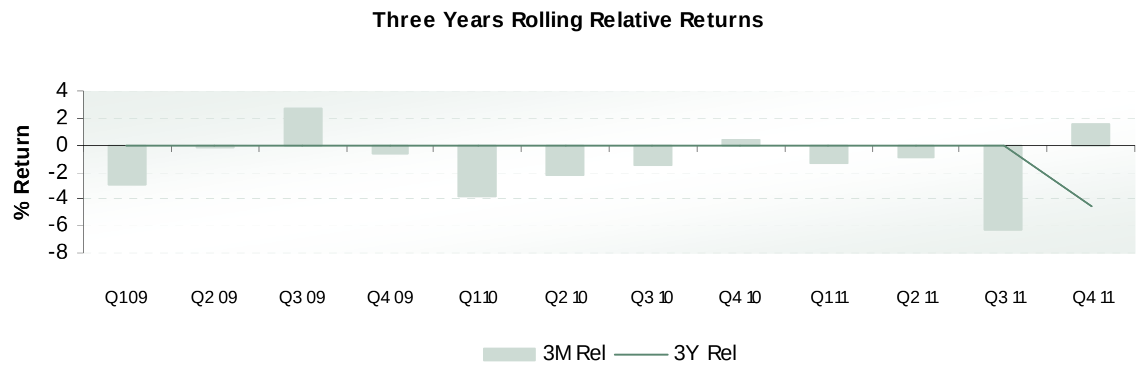
The performance of the Matching Fund over the quarter of 10.42% is 1.75% below its gilts-based liability benchmark. This can be attributed to holding long dated index-linked gilts. However, this should not mask the limited ability of the existing LGIM mandate to track the Liability Related Benchmark. This is being addressed with a new mandate. The Matching Fund return of 14.92% over the year was 6.24% below target.



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	10.42	14.92	8.99	7.49	7.49
Target	8.67	21.16	16.02	12.52	12.52



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-6.45	4.04	5.66	167	-0.88	-0.48	2.98	175	-132	2.90	2.50	10.42
Target	-3.68	4.28	2.90	2.38	3.02	181	4.49	138	-0.01	3.88	9.35	8.67



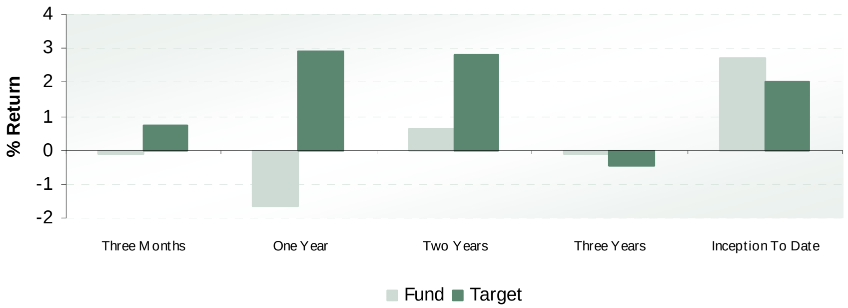
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-145	0.36	-131	-0.94	-6.26	161
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-4.47

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.

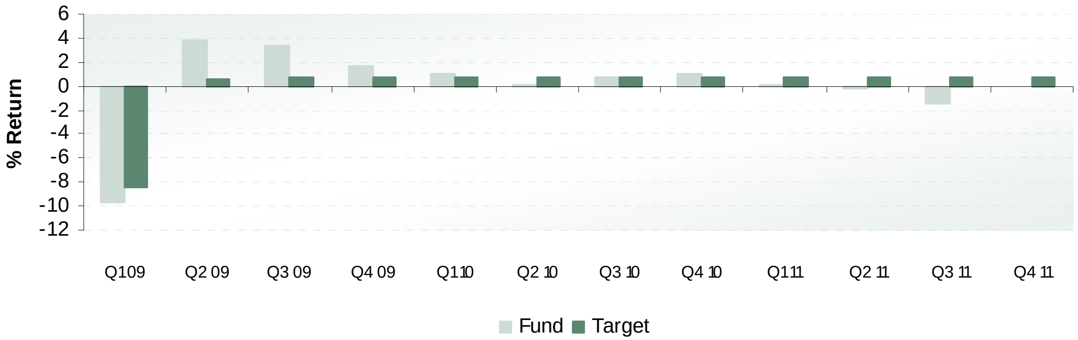
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-0.11	-165	0.62	-0.10	2.71
Target	0.75	2.89	2.80	-0.44	2.04

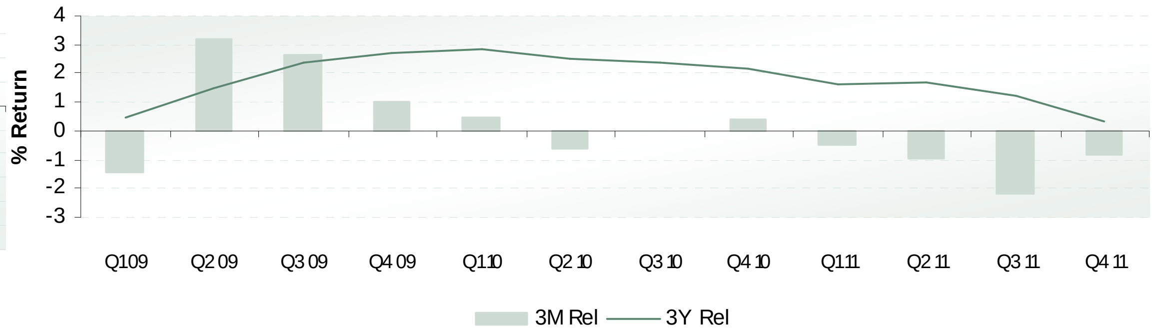
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -0.11% over the quarter, 0.86% behind its target. Over 12 months, performance was 4.54% below the target. The fund's country and currency strategies were the main sources of underperformance over the quarter. However, the EMD strategy delivered positive excess returns.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-9.70	3.78	3.36	166	1.10	0.03	0.68	1.10	0.18	-0.27	-145	-0.11
Target	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75

Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-143	3.20	2.64	101	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85
3Y Rel	0.47	148	2.37	2.68	2.86	2.51	2.37	2.19	160	168	120	0.34

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

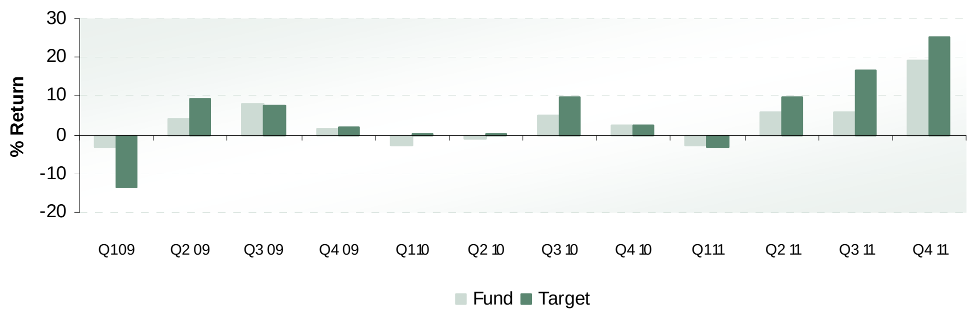
Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in July 2009 following the investment structure review.

Historical Plan Performance

	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	19.04	29.93	16.10	14.23	4.66
Target	25.16	54.83	32.47	22.18	5.17

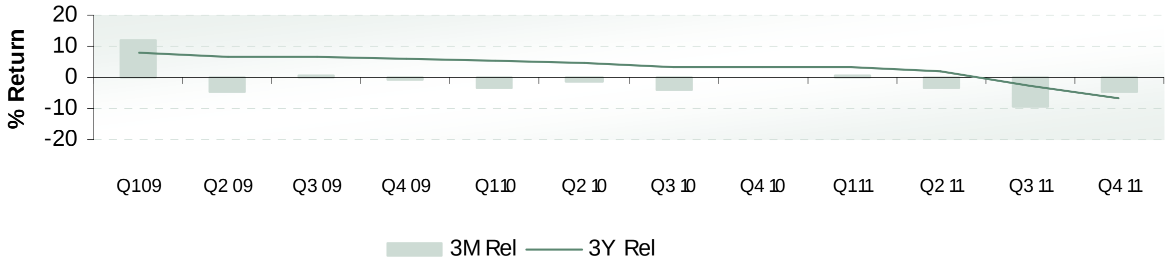
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 19.04% over the quarter, 6.12% behind its target. Over 12 months, performance was 24.90% behind target. The fund, which is invested in 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



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-3.32	4.29	7.85	168	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04
Target	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38	-3.30	9.60	16.73	25.16

Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	1178	-4.77	0.34	-0.40	-3.03	-134	-4.29	-0.04	0.63	-3.42	-9.23	-4.89
3Y Rel	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22	3.37	189	-2.92	-6.51

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.

The fourth quarter has once again been a rollercoaster ride for investors. Whilst the majority of asset classes and regions made ground over the final part of 2011 this tended to mask volatility in all markets as prices reacted strongly to the news of the day, mostly coming from the Eurozone.

As the Sovereign Euro Debt crisis continued, both the Greek and Italian Prime Ministers stepped down. Loukas Papademos replaced George Papandreou and former European commissioner Mario Monti replaced Silvio Berlusconi. Berlosconi was forced out as, amongst other things, Italy's debt became unsustainable with sovereign yields in excess of 7%.

During the December EU summit, a treaty change aimed at imposing fiscal discipline across EU countries was vetoed by David Cameron. Cameron reasoned that the changes would be detrimental for the UK Financial sector. In the following weeks other member states voiced concerns leaving the crisis unresolved at year end.

With politicians seemingly unable to find a long-term credible solution to the growing debt crisis, the European Central Bank offered 3 year loans, cut interest rates by 50bps and cut reserve requirements to support the Eurozone banking system. This was seen by the markets as a positive step towards bolstering the economy. Although only time will tell if the ECB's measures will improve bank lending and ease fears about the stability of some of Europe's biggest banks and its peripheral economies.

As the festive period drew nearer, sentiment improved in the major European economies to generally leave their equity in positive territory over the quarter. This was scant consolation for many investors however, who have experienced a sharp price contraction over the year, typified by the CAC40 returning -13.4%.

Compared to some of the major western economies, the UK seemed to be holding quite well. However, the outlook for the retail sector looks weak for 2012. It was a difficult Christmas on the high street as electronics and entertainment retailers, including Dixons, Comet, HMV and Game, reported sharp annual falls in sales, as did supermarket chain Tesco. Also looking at 2011 as a whole, credit card spending has fallen by 4% year on year, a sign that consumers are becoming more conscious about their personal debt and are possibly concerned over the UK outlook.

UK debt markets saw positive returns for the quarter. Looking at the annual returns for 2011, 1-3 year gilts returned 3.2%. The FTSE 100 had a strong quarter, returning 9.4%. However, this was not enough to recover the losses from the previous three quarters, the index returned -2.2% for the year. Despite the strong quarterly performance, volatility was marked with daily variations in the FTSE100 of up to 3.7% (see *figure 1* below).

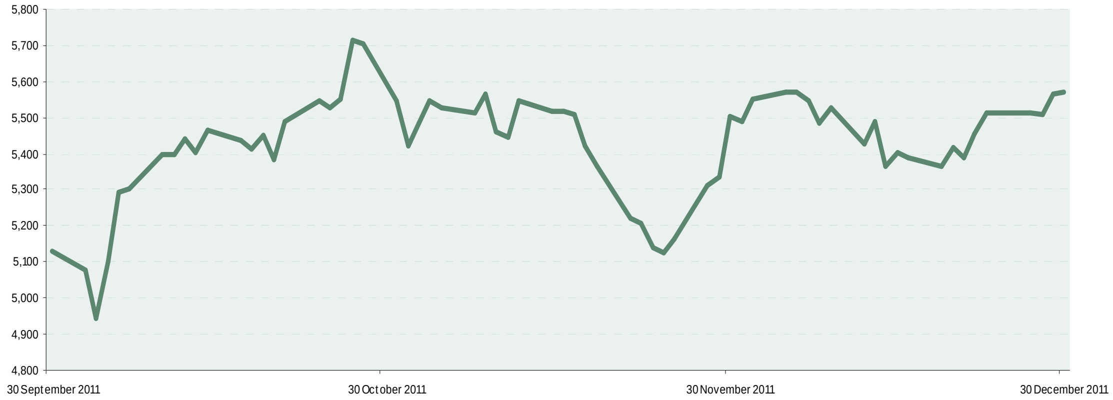


Figure 1 – Progression of the FTSE100 Index over quarter 4 2011.

Sentiment did grow off the back of a unanimous vote by the Bank of England on a £75bn extension to its asset purchase programme.

As a result of the volatility, Gilt yields continued to fall across the length of the curve with 15 year yields down by 45bps over the period. However, the implied inflation curve remained fairly stable, particularly towards the longer end (see *figure 2* overleaf).

Contagion of Eurozone issues also impacted the US, as did a downward revision of quarter three GDP growth. There was some positive news as unemployment fell to a 2 year low of 8.6%. However, investor sentiment in the US is still relatively low, following the downgrade of US Government Debt in quarter three. This is reflected in credit spreads, which remain high, at levels last seen during 2009.

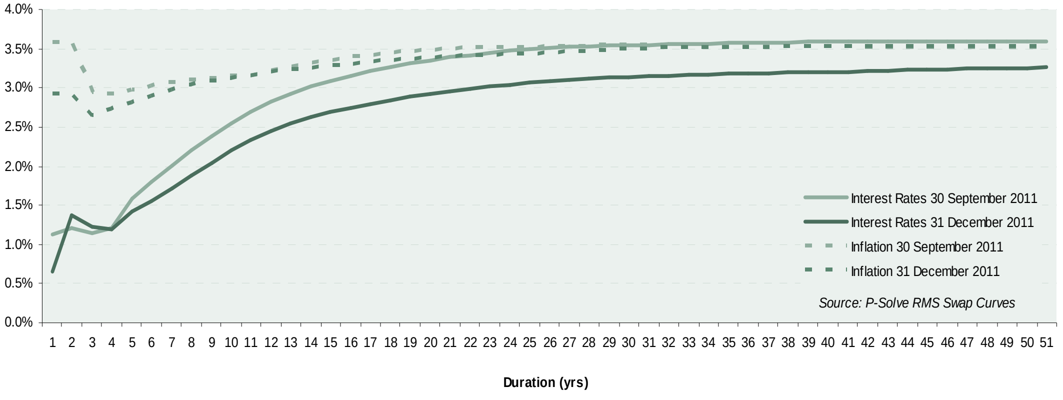


Figure 2 – Prevailing inflation and interest rates over quarter 4 2011.

Looking at individual US sector performance, all the debt sectors ended the year in positive territory, with US Aggregate Government Debt outperforming all major sectors including High Yield. 1-3 Year Government Debt returned 1.6% over the quarter. US High Yield had a strong quarter returning 6.2%, as risk appetite appeared to return.

The co-ordinated action taken by the Fed and five other major central banks to ease the dollar funding pressure and other encouraging data resulted in US stock markets having a strong quarter and recovering all the losses in 2011, the S&P 500 ended the year 2.2% higher.

Equity markets in Japan struggled and were one of the few markets to retreat over the quarter. The strength of the Japanese Yen, as well as the ongoing European debt crisis, weighed on external demand for Japanese goods. Worried about the country's post-quake recovery, the Japanese government stepped in to drive the Yen lower to aid exporting firms. In addition, The Bank of Japan expanded its asset purchase programme by 5tn Yen (£41bn) in a bid to boost growth.

The rest of Asia fared slightly better with equity markets as a whole, up on the quarter. This was despite China predicting a grim and complicated 2012 for the global economy. However, policy makers reassured investors that monetary policy would be prudent and that the currency, the Yuan, would remain basically stable. With the aim of ensuring stable growth and price increases for the year ahead.

However, the region faced added uncertainty following the death of North Korean leader Kim Jong-il and the perceived instability and threat of conflict that came with the appointment of his successor, Kim Jong-un. Strong performance of a number of electronics companies in South Korea helped offset the effect of the leadership change.

The emerging markets, as measured by the FTSE All-World Emerging Market Index, produced positive returns over the quarter (+3.9%), driven by a rally in October. However, they did tend to underperform developed markets given investors' fragile risk appetite, as a result of macroeconomic problems in the Eurozone. It was therefore unsurprising to learn that EMEA markets underperformed the broader emerging markets over the quarter.

Sources: Datastream, P-Solve RMS.

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