



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2012

September 2012



CAMRADATA
Pension Reporting

Summary

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

The UK Equity Mandate is managed by Majedie and the Overseas Equity Mandate by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer. 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 1½% 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	<i>FTSE All Share + 2% p.a. over three year rolling periods</i>
MFS	<i>MFS Custom Benchmark</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>L&G Benchmark</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 2012

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		626,189	100.0	100.0	(2.4)	3.3	9.6	12.1
	<i>New Liability Benchmark + 2.2% p.a.</i>				0.9	16.9	14.4	13.4
	<i>Difference</i>				(3.3)	(13.6)	(4.8)	(1.3)
UK Equity Mandate		143,121	22.9	22.5				
	Majedie				(4.1)	(0.2)	11.3	13.7
	<i>FTSE All Share + 2% p.a.</i>				(2.1)	(1.2)	12.5	16.1
	<i>Difference</i>				(2.0)	1.0	(1.2)	(2.4)
Overseas Equity Mandate		143,807	23.0	22.5				
	MFS				(5.1)	(0.9)	10.3	15.5
	<i>MFS Custom Benchmark</i>				(4.0)	(2.4)	9.0	14.3
	<i>Difference</i>				(1.1)	1.5	1.3	1.2
Dynamic Asset Allocation Mandates		183,089	29.2	30.0	(1.4)	2.1	6.3	10.1
	Barings	113,029	18.1	18.8	(0.9)	2.6	6.9	10.0
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
	<i>Difference</i>				(2.1)	(2.4)	2.0	5.2
	Ruffer	70,060	11.2	11.2	(2.6)	1.0	4.9	10.4
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
	<i>Difference</i>				(3.8)	(4.0)	0.0	5.6
Matching Fund		142,901	22.8	25.0	1.0	13.2	9.7	8.5
	<i>Liability Benchmark + 1% p.a.</i>				0.6	15.5	13.2	12.3
	<i>Difference</i>				0.4	(2.3)	(3.5)	(3.8)
	Goldman Sachs	59,654	9.5	12.5	0.0	1.0	1.3	3.0
	<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	3.0	2.9	2.8
	<i>Difference</i>				(0.7)	(2.0)	(1.6)	0.2
	Legal & General	83,246	13.3	12.5	1.8	23.9	17.2	13.2
	<i>L&G Benchmark</i>				0.4	43.4	30.8	23.6
	<i>Difference</i>				1.4	(19.5)	(13.6)	(10.4)
Private Equity		13,271	2.1	0.0	(0.3)	10.2	16.3	13.7
	Invesco	7,742	1.2	0.0	1.9	21.7	18.2	18.9
	Unicapital	5,529	0.9	0.0	(3.2)	(2.7)	13.7	7.1

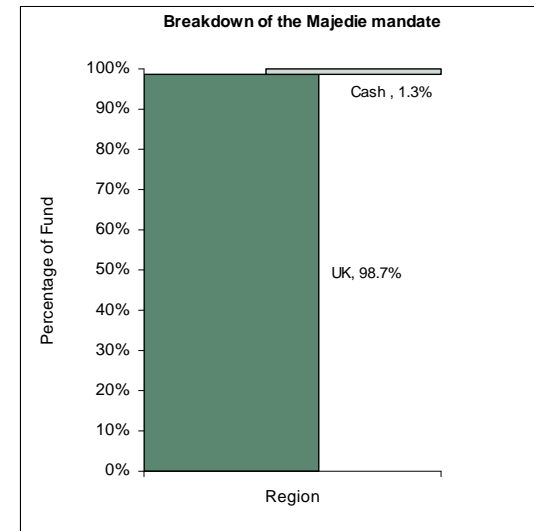
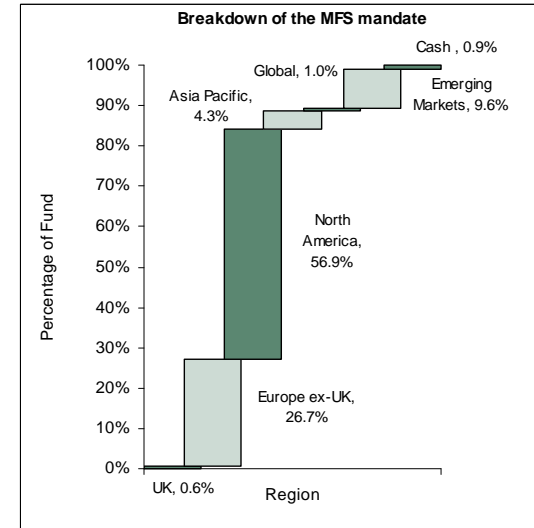
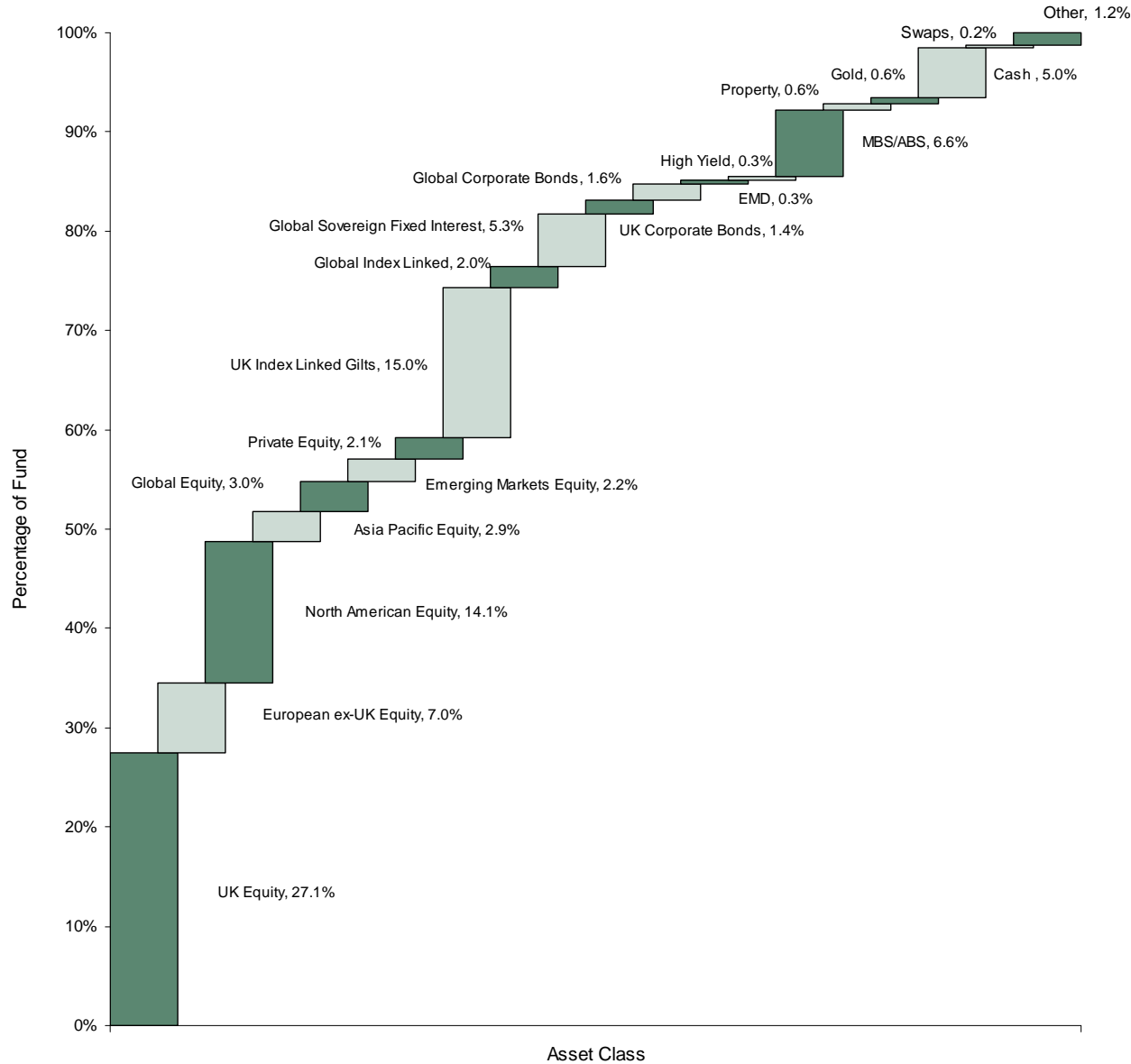
Notes:

- 1) Over the 3 months to 30 June 2012, 3 Month LIBOR returned 0.2%, over a 12 month period the return was 1.0%.
- 2) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.
- 3) Returns are shown gross of fees throughout.
- 4) Figures may be affected by rounding.

Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 31st March 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2012 £000	% of Total Fund	Target % of Total Fund
Total Fund		641,524	100.0	175	(18,227)	2,616	-	626,189	100.0	100.0
UK Equity Mandate	Majedie	165,495	25.8	(16,000)	(7,628)	1,229	-	143,121	22.9	22.5
Overseas Equity Mandate	MFS	167,829	26.2	(16,000)	(9,097)	1,048	-	143,807	23.0	22.5
Dynamic Asset Allocation Mandates		153,629	23.9	32,000	(2,935)	370	-	183,088	29.2	30.0
	Barings	114,060	17.8	-	(1,077)	28	-	113,029	18.1	18.8
	Ruffer	39,569	6.2	32,000	(1,857)	342	-	70,060	11.2	11.2
Matching Fund		141,441	22.0	-	1,437	0	-	142,901	22.8	25.0
	Goldman Sachs	59,637	9.3	-	8	-	-	59,654	9.5	12.5
	Legal & General	81,804	12.8	-	1,430	0	-	83,246	13.3	12.5
Private Equity		13,131	2.0	175	(5)	(31)	-	13,271	2.1	0.0
	Invesco	7,600	1.2	-	141	0	-	7,742	1.2	0.0
	Unicaptial	5,530	0.9	175	(146)	(31)	-	5,529	0.9	0.0

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 2012



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

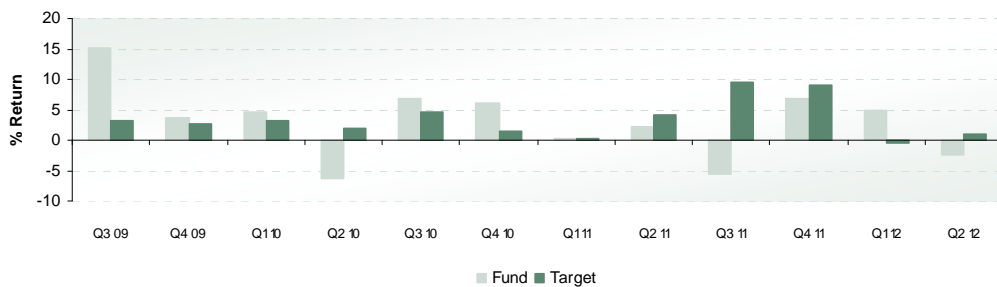
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-2.42	3.26	9.62	12.08	3.74
Target	0.94	16.89	14.39	13.35	3.02

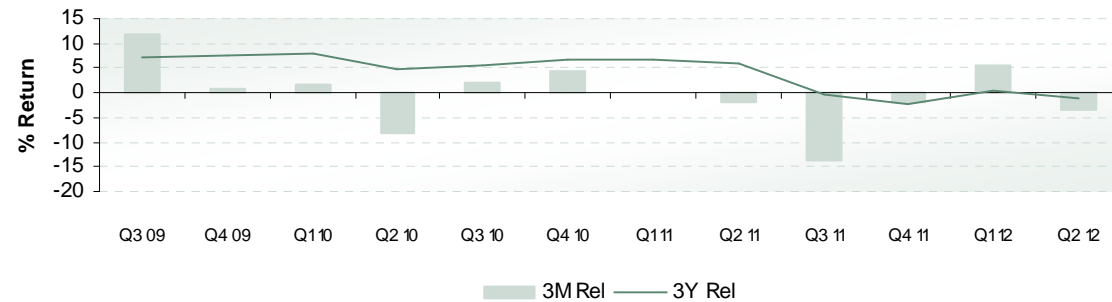
The Fund underperformed its liability benchmark by 3.36% over the quarter, returning -2.42% compared to the target of 0.94%. Continued volatility in equity markets combined with falling gilt yields caused this underperformance. The Fund's performance of 3.36% over the year was behind its target by 13.63%, as it suffered from the underperformance of on-risk assets over the third quarter of 2011 and this quarter. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	15.21	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42
Target	3.09	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	11.76	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33
3Y Rel	7.14	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12

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	-4.10	-0.22	11.31	13.70	8.50
Target	-2.14	-1.18	12.51	16.07	6.92

Quarterly Manager update

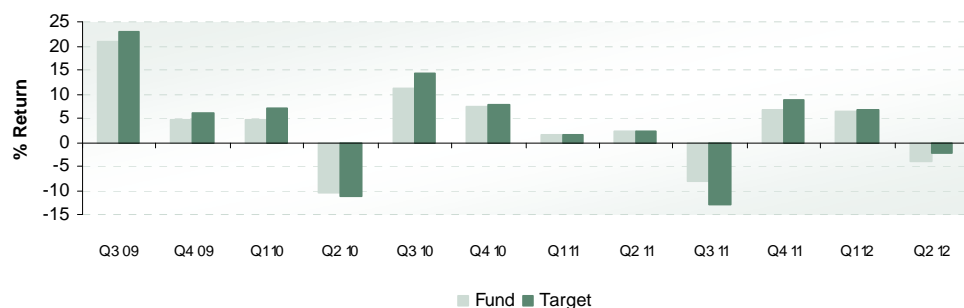
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was -4.10% over the quarter, 1.96% behind its target. Over 12 months, the portfolio was 0.96% ahead of its target. The portfolio's long position in Nokia, who continued to post disappointing results, and long position in Barclays, who were fined for their part in the LIBOR manipulation scandal, harmed performance. However, the portfolios positions in Carnival and Petrofac aided the overall performance.

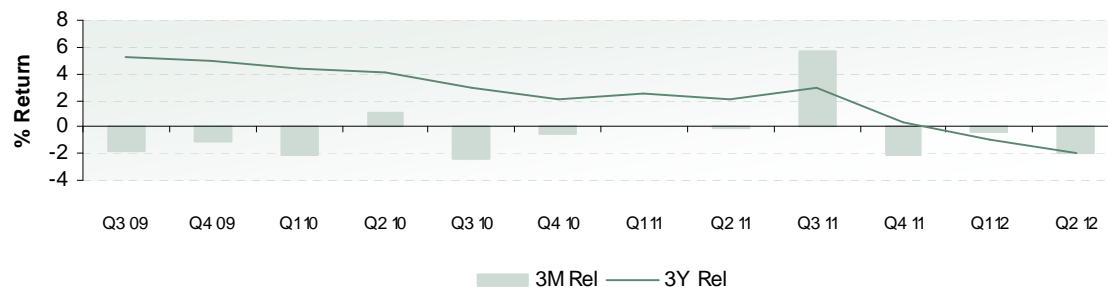
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	20.72	4.80	4.73	-10.47	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10
Target	22.94	5.99	6.93	-11.35	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14

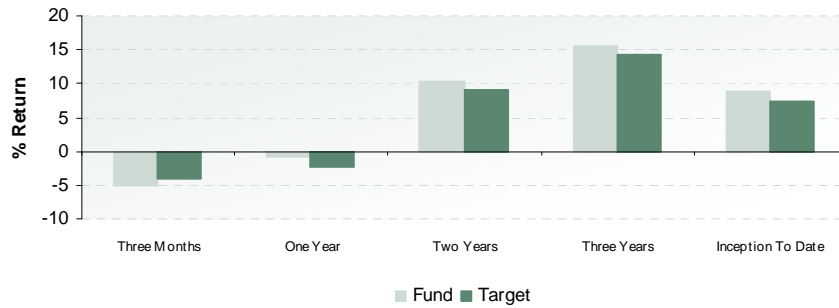
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	-1.81	-1.12	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00
3Y Rel	5.27	4.96	4.35	4.11	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04

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	-5.08	-0.93	10.34	15.51	8.73
Target	-3.97	-2.35	8.97	14.25	7.47

Quarterly Manager update

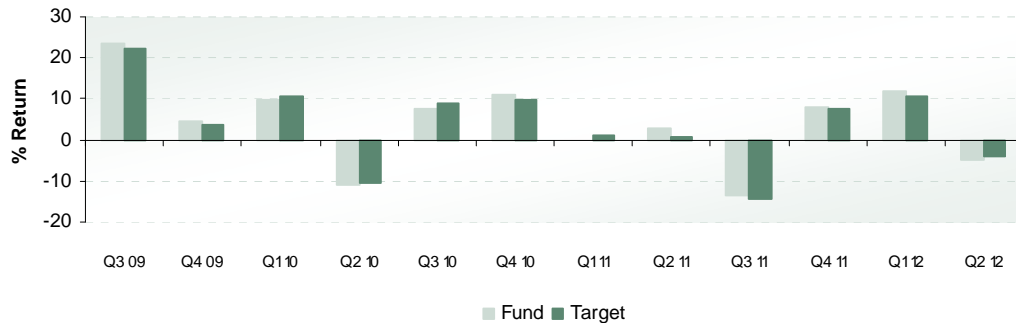
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The performance over the quarter was -5.08%, 1.11% behind the target. Over 12 months, the fund was 1.42% ahead of its target. Stock selection in energy, basic materials and technology aided performance. Additionally an underweight position in energy and individual stock holdings in Colgate-Palmolive, Inditex, Perno Ricard, Visa and not holding QUALCOMM. However, stock selection in financial services, retailing and transportation was detrimental to performance. Individual holdings of Sensata Technologies, Check Point Software Technologies, Coca-Cola and the funds exposure to the Euro also detracted from performance over the quarter.

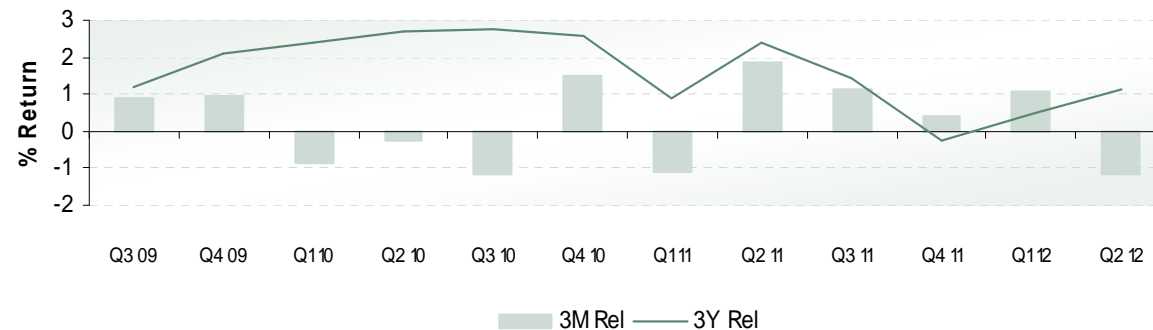
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	23.43	4.74	9.83	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08
Target	22.30	3.73	10.80	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97

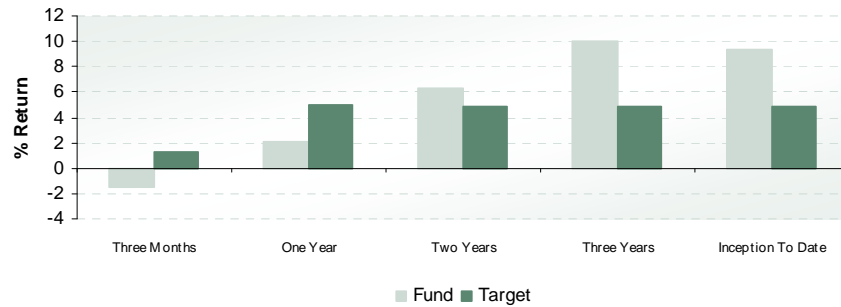
Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	0.92	0.98	-0.87	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16
3Y Rel	1.21	2.11	2.39	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10

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. Returns are gross of fees.

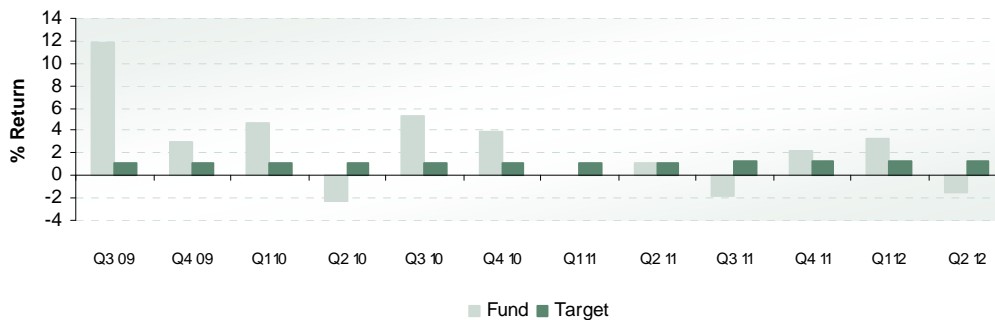
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	-1.44	2.05	6.32	10.05	9.33
Target	1.23	5.03	4.91	4.84	4.89

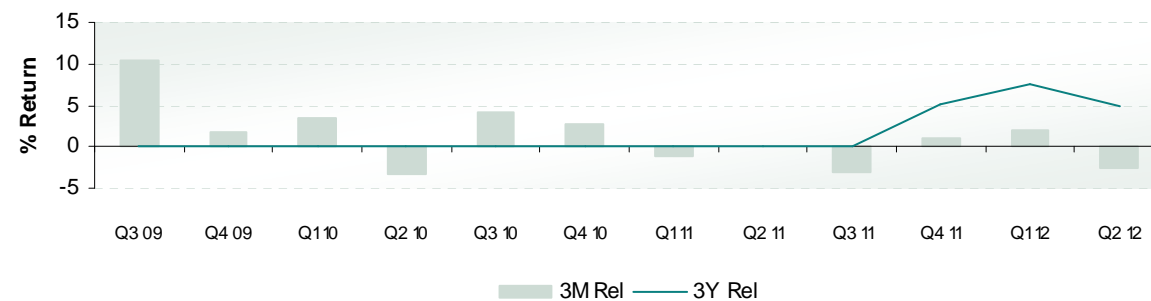
The performance of the group over the quarter was -1.44%, the LIBOR-based target returned 1.23%. The increased exposure of Ruffer to equities resulted in it suffering larger losses than the Barings fund over the period. Over the past 12 months, performance has been 2.98% below target, as both managers have underperformed the target.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.8	-1.86	2.16	3.27	-1.44
Target	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64
3Y Rel	-	-	-	-	-	-	-	-	-	5.10	7.54	4.97

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	-0.90	2.57	6.89	9.98	8.24
Target	123	5.03	4.91	4.84	5.40

Quarterly Manager update

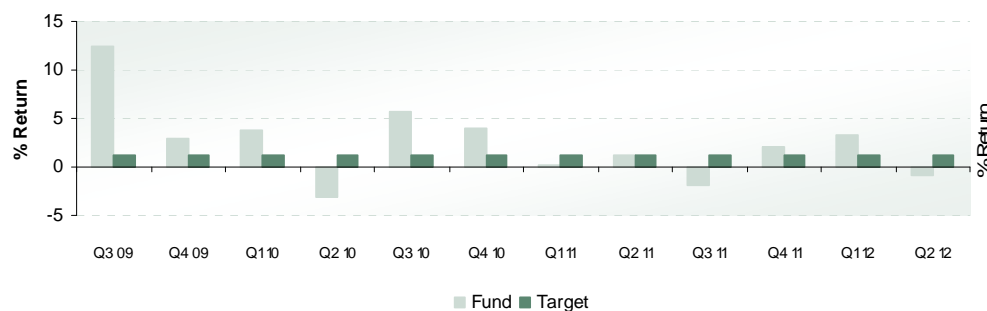
Organisation Baring Asset Management has appointed Eric Poon as regional head of its institutional business for Asia ex-Japan, and Alexander Garton as a director in client services and relationship development.

Product No significant changes over the quarter.

Performance The fund performance was -0.90% over the quarter, 2.13% behind its target. Over 12 months, the fund is 2.46% below target. The largest detractor in performance came from the UK equity holdings, however the fund did move to reduce its equity holding to protect value. The largest positive contribution came from non-UK government bonds with US 30 year bonds the single largest contributor.

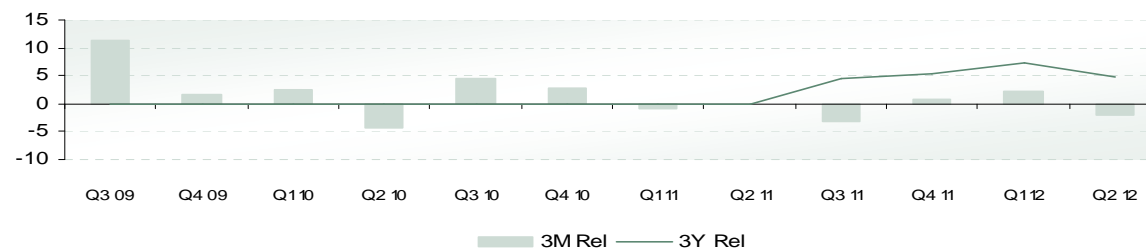
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	12.50	2.94	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90
Target	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	11.18	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10
3Y Rel	-	-	-	-	-	-	-	-	4.51	5.26	7.38	4.90

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	-2.55	101	4.91	10.44	12.93
Target	123	5.03	4.91	4.84	5.40

Quarterly Manager update

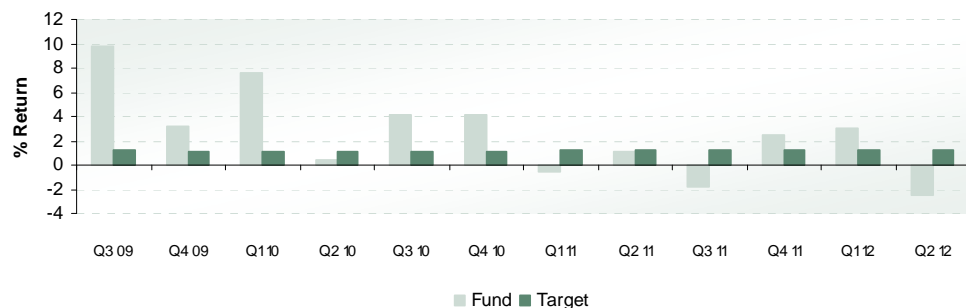
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was -2.55% over the quarter, 3.78% behind its target. Over 12 months, the fund was 4.02% below the target. The portfolio made losses from an increased exposure to equities, particularly its holding in JP Morgan which fell on the back of \$2bn trading losses revealed in May. However, the portfolio was able to limit losses by its stock selection policies and bias towards resilient companies who display sound balance sheets and a strong cash-flow history.

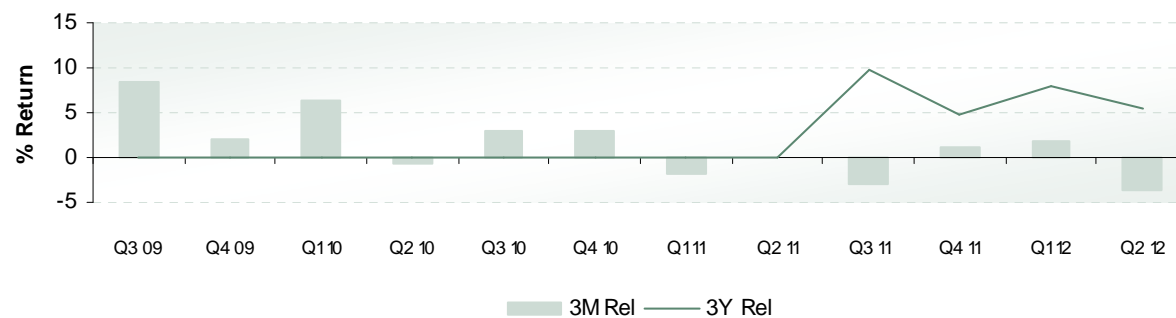
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	9.81	3.12	7.64	0.41	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55
Target	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	8.52	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73
3Y Rel	-	-	-	-	-	-	-	-	9.79	4.86	8.01	5.34

Historical Plan Performance

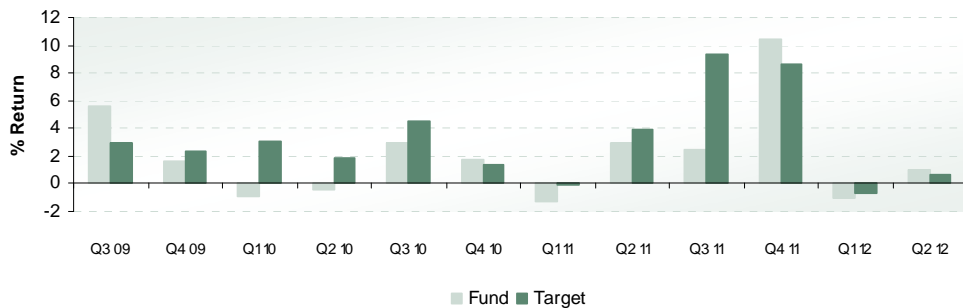


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.03	13.16	9.72	8.45	6.38
Target	0.64	15.54	13.24	12.32	10.61

During the first quarter of the year LGIM implemented a new Matching Fund solution for the Fund, the solution has created a bespoke mandate within the confines of a pooled fund. This now allows the Fund access to use a broad toolkit of matching assets as appropriate for prevailing market conditions. It aims to enhance the ability to manage risk whilst also allowing for a slightly higher return from the matching assets.

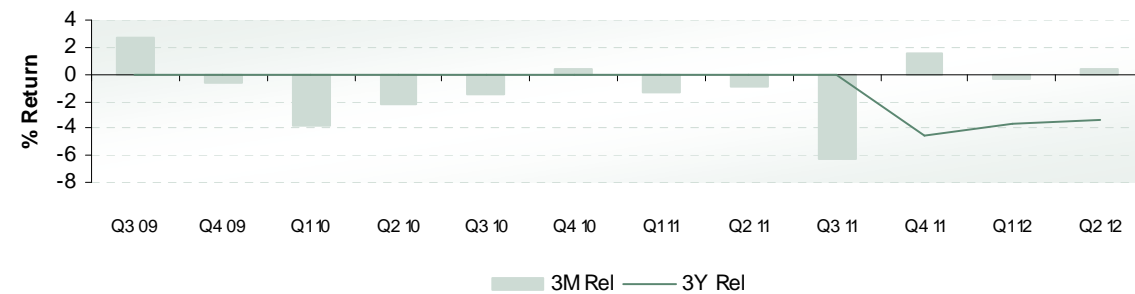
The performance of the Matching Fund over the quarter of 1.03% was 0.39% ahead of its gilts-based liability benchmark. The Matching Fund return of 13.16% over the year was 2.38% below target.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03
Target	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39
3Y Rel	-	-	-	-	-	-	-	-	-	-4.47	-3.64	-3.45

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 managed an active bond fund.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	0.03	0.98	1.34	2.95	2.84
Target	0.74	3.01	2.90	2.83	2.09

Quarterly Manager update

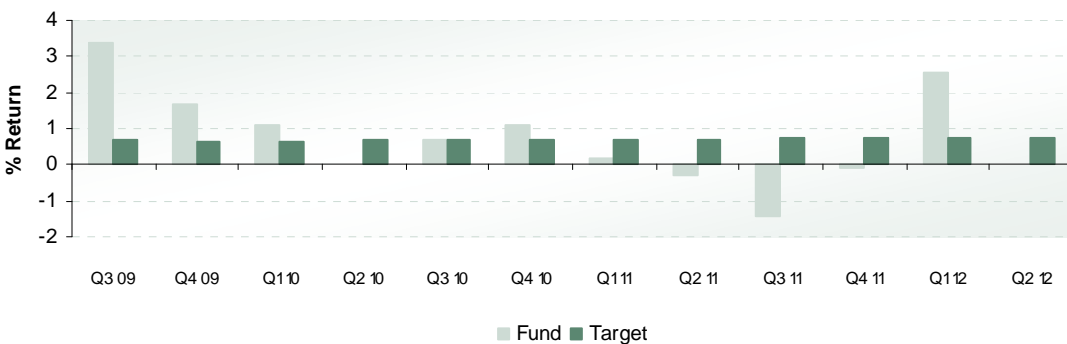
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 0.03% over the quarter, 0.71% behind its target. Over 12 months, performance was 2.03% below the target. The underperformance was led predominantly by the funds duration and government/agency selection strategies. However, the emerging market debt selection strategy did aid performance.

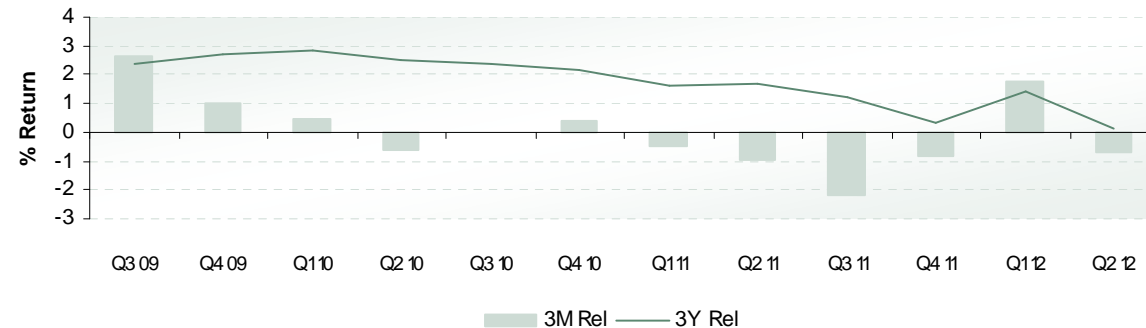
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	3.36	1.66	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03
Target	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70
3Y Rel	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12

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 the first quarter of 2012, although performance has been blended with the previous holding in the LGIM 2055 Index-Linked Gilt Fund.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.76	23.87	17.20	13.23	4.33
Target	0.38	43.39	30.75	23.63	4.82

Quarterly Manager update

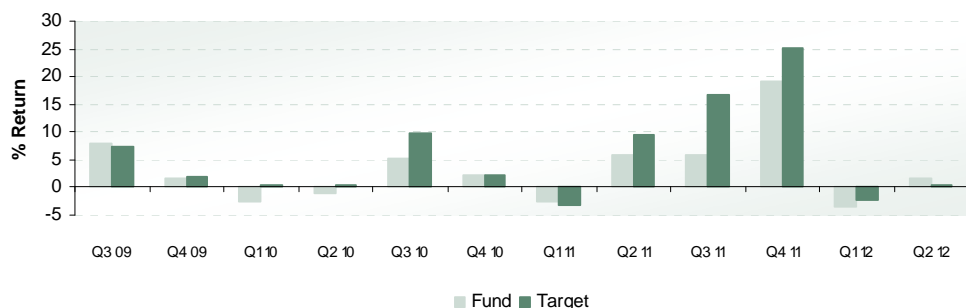
Organisation Legal & General has appointed Nigel Wilson as its next group chief executive. Wilson joined as group chief financial officer in 2009, and will work in an interim basis immediately until he takes over from Tim Breedon in June. Breedon will step down as a board member, but will remain in an advisory role until 31 December 2012.

Product No significant changes over the quarter.

Performance The fund performance was 1.76% over the quarter, 1.38% ahead of its new bespoke target. Over 12 months, performance was 19.52% behind the new target.

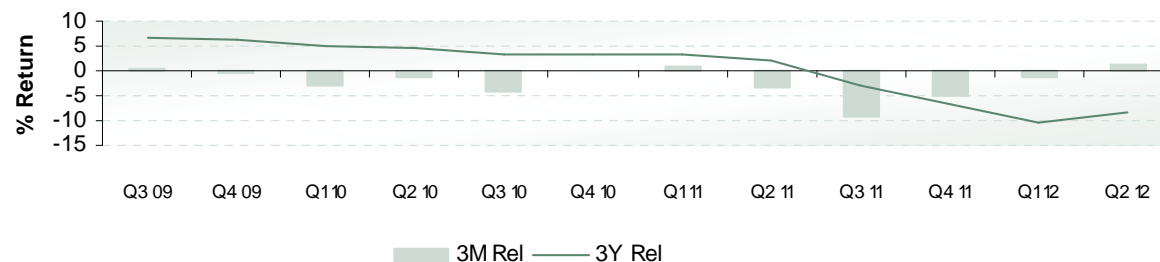
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Fund	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76
Target	7.48	2.08	0.36	0.39	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38

Three Years Rolling Relative Returns



	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
3M Rel	0.34	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37
3Y Rel	6.46	6.29	5.20	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41

Following a positive start to the year, investor sentiment deteriorated over the second quarter of 2012. As the effects of the European Central Bank's (ECB) Long Term Refinancing Operation (LTRO) waned, appetite for risk fell and consequently, equity markets also suffered.

There were further woes in the Eurozone, with the spotlight on Spain, and to a lesser extent Italy, whilst the possibility of a Greek exit raised concerns. The newly elected pro-bailout party in Greece made an imminent exit unlikely. However, they announced that they were seeking concessions over the austerity measures demanded by the European Union (EU) and the International Monetary Fund (IMF), which may jeopardise future loan tranches.

Late in the quarter, the EU summit concluded with a deal whereby the Eurozone's rescue funds were allowed to recapitalise Spanish banks and to buy sovereign bonds in the market and was the catalyst for the Euro's largest daily gain in 8 months, and a subsequent fall in Spanish and Italian Government Bond yields.

The much feared UK double dip recession was confirmed in April, and much of the media focus towards the end of quarter in the UK was dominated by the Barclays interest rate manipulation story. Meanwhile, there was some encouraging news however, with the ONS announcing the number of people out of work fell by 65,000 to 2.58 million in the three months to May; this translated to an unemployment rate of 8.1%, down from 8.3% in the previous quarter.

The progress of equities was largely event driven, with the newly elected Greek government, Spanish banking bailout and Chinese slowdown being the focal points of investor contention. The first two months of the quarter proved to be the most costly for risk assets and investors sought the relative safety of gilts; consequently UK gilt yields were comparable to all time lows.

Looking at the annual returns, all UK debt sectors posted positive returns, the UK Gilts All Stocks Index returned 15.9%. The FTSE 100 had a difficult quarter, losing 2.3% and was in negative territory over the year, returning -2.7%. The Bank of England (BoE) decided against a further round of quantitative easing (QE).

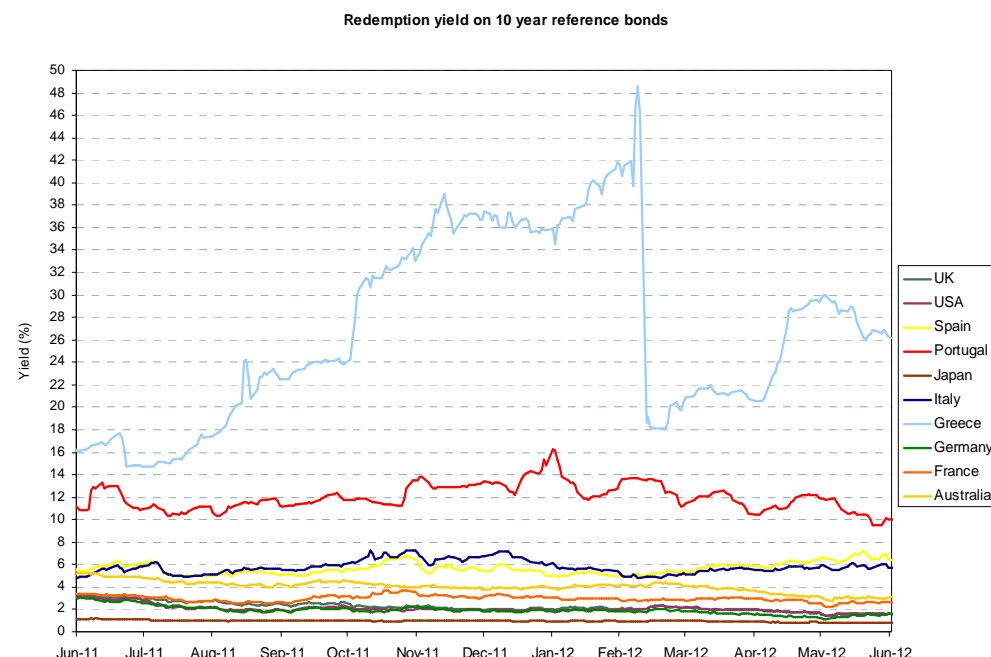


Figure 1 – Redemption Yields on 10 year Government bonds

Economic data from the US was mixed, with growth continuing but at a slower pace. The US economy continued to shield itself from the continued problems in the Eurozone with the Federal Open Market Committee (FOMC) voting to extend its programme known as Operation Twist, under which the US central bank sells short term securities (specifically those with durations of less than 3 years) and uses the proceeds to buy long-term securities (those with maturities of 6 to 30 years), thereby putting downward pressure on longer term-interest rates.

Looking at individual US sector performance, government and agency debt sectors posted positive returns making up at least some of the losses from the first 3 months of the year. The stock markets struggled however, the S&P 500 lost 2.8% over the quarter as the US government also announced a downgrade of their GDP estimate.

The Eurozone problems showed no sign of abating, with activity at European businesses hit a near three-year low in May according to a survey by Markit. Its index, based on a survey of purchasing managers in the manufacturing and service sector, fell to a 35 month low in May. In response, the euro fell to a 22 month low.

There didn't appear to be any more clarity regarding the political response either. A change in leadership in France with the presidency going to Francois Hollande and talk of a possible Greek exit from the Eurozone added to the uncertainty.

Towards the end of the quarter, the ECB was able to somewhat ease near-term pressures on sovereign bond markets with authorities agreeing in principle to allow the Eurozone rescue funds to recapitalise banks directly. This eased the pressure on peripheral governments.

Cumulative GBP return since June 2011 of FTSE World Indices

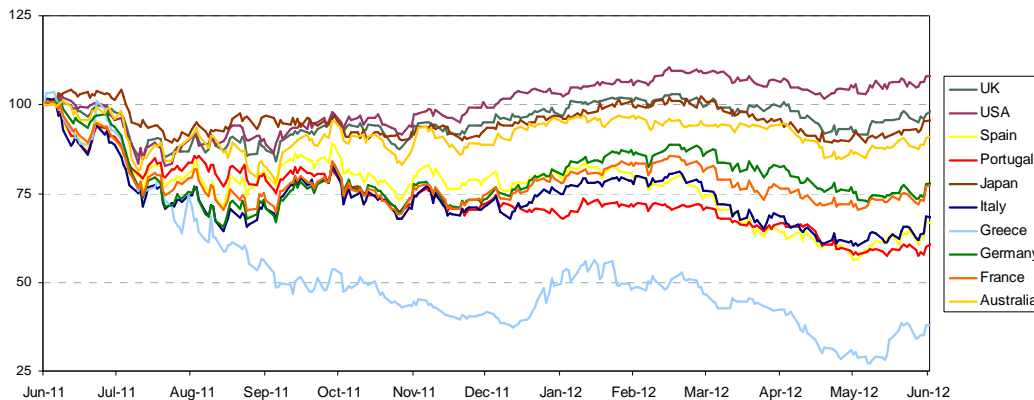


Figure 2 – Cumulative GBP return of FTSE World Indices

Along with the continuing Eurozone debt crisis, uncertainty surrounding the US macroeconomic data and perceived potential slowdown in US recovery caused Asian equity markets to fall over the quarter.

There was also a suggestion that there has been a slowdown in the Chinese economy. The HSBC Purchasing Managers Index, the earliest monthly

economic indicator of China's industrial activity, fell to a seven-month low of 48.1 in June.

The Japanese equity market fell over the quarter. The Policy Board of the Bank of Japan voted to leave interest rates at near zero levels, and commented that whilst the economy had shown signs of picking up it had remained stagnant over the quarter. The FTSE World Japan Equity Index posted a return of -5.5% and -4.8% over the quarter and year respectively.

The FTSE All-World Emerging Market Index returned -5.9% and -14.3% over the quarter and year respectively and underperformed the FTSE All-World Index as emerging market countries were affected by a "risk-off" trade early in the quarter and local currency weakness.

Elsewhere, Latin American emerging market countries underperformed relative to other emerging market countries.

Source: Datastream.

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

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