



# London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 3 2012

November 2012



**CAMRADATA**  
*Pension Reporting*

## Summary

The assets of the Fund are considered in terms of four broadly 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 1¼% 2037, 5% Index-linked Treasury Gilt 0¼% 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>Goldman Sachs Benchmark</i>
Legal & General	<i>L&amp;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 Fund Performance by Manager as at 30th September 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.
<b>Total Fund</b>		<b>637,012</b>	<b>100.0</b>	<b>100.0</b>	<b>2.0</b>	<b>11.6</b>	<b>7.1</b>	<b>7.6</b>
	<i>New Liability Benchmark + 2.2% p.a.</i>				<i>(2.0)</i>	<i>7.4</i>	<i>10.7</i>	<i>11.5</i>
	<i>Difference</i>				<i>4.0</i>	<i>4.2</i>	<i>(3.6)</i>	<i>(3.9)</i>
<b>UK Equity Mandate</b>		<b>153,085</b>	<b>24.0</b>	<b>22.5</b>				
	<b>Majedie</b>				7.0	16.2	9.1	9.2
	<i>FTSE All Share + 2% p.a.</i>				5.2	19.6	8.0	10.2
	<i>Difference</i>				1.8	<i>(3.4)</i>	1.1	<i>(1.0)</i>
<b>Overseas Equity Mandate</b>		<b>150,011</b>	<b>23.5</b>	<b>22.5</b>				
	<b>MFS</b>				4.3	19.6	8.7	9.2
	<i>MFS Custom Benchmark</i>				4.2	19.1	6.7	8.3
	<i>Difference</i>				0.1	0.5	2.0	0.9
<b>Dynamic Asset Allocation Mandates</b>		<b>185,599</b>	<b>29.1</b>	<b>30.0</b>	<b>1.4</b>	<b>5.4</b>	<b>4.3</b>	<b>6.5</b>
	<b>Barings</b>	115,042	18.1	18.8	1.8	6.4	4.9	6.4
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
	<i>Difference</i>				0.6	1.4	0.0	1.6
	<b>Ruffer</b>	70,558	11.1	11.2	0.7	3.6	3.2	7.3
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	5.0	4.9	4.8
	<i>Difference</i>				<i>(0.5)</i>	<i>(1.4)</i>	<i>(1.7)</i>	2.5
<b>Matching Fund</b>		<b>136,325</b>	<b>21.4</b>	<b>25.0</b>	<b>(4.6)</b>	<b>5.3</b>	<b>5.6</b>	<b>4.8</b>
	<i>Liability Benchmark + 1% p.a.</i>				<i>(2.3)</i>	6.2	9.5	10.4
	<i>Difference</i>				<i>(2.3)</i>	<i>(0.9)</i>	<i>(3.9)</i>	<i>(5.6)</i>
	<b>Goldman Sachs</b>	61,248	9.6	12.5	2.7	5.2	2.3	2.7
	<i>Goldman Sachs Benchmark</i>				0.7	3.0	2.9	2.8
	<i>Difference</i>				2.0	2.2	<i>(0.6)</i>	<i>(0.1)</i>
	<b>Legal &amp; General</b>	75,077	11.8	12.5	<i>(9.8)</i>	5.4	8.5	6.7
	<i>L&amp;G Benchmark</i>				<i>(5.3)</i>	16.4	21.4	18.5
	<i>Difference</i>				<i>(4.5)</i>	<i>(11.0)</i>	<i>(12.9)</i>	<i>(11.8)</i>
<b>Private Equity</b>		<b>11,992</b>	<b>1.9</b>	<b>0.0</b>	<b>1.3</b>	<b>8.8</b>	<b>13.7</b>	<b>13.0</b>
	<b>Invesco</b>	6,813	1.1	0.0	0.5	14.6	18.0	17.4
	<b>Unicapital</b>	5,179	0.8	0.0	2.4	1.4	8.3	7.3

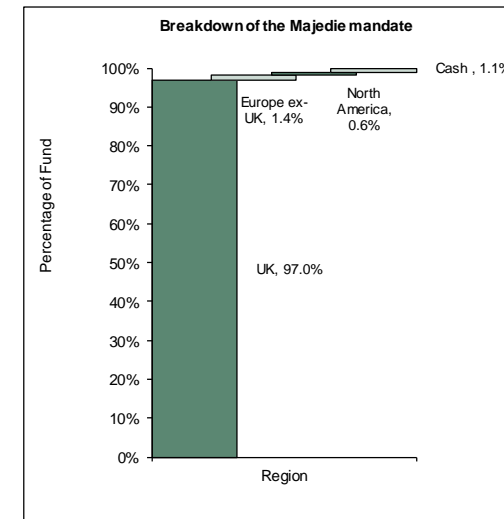
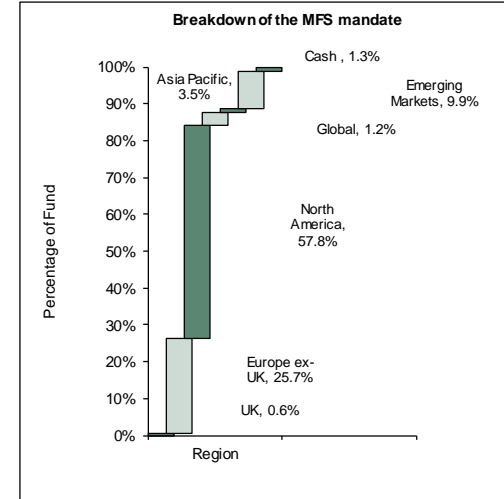
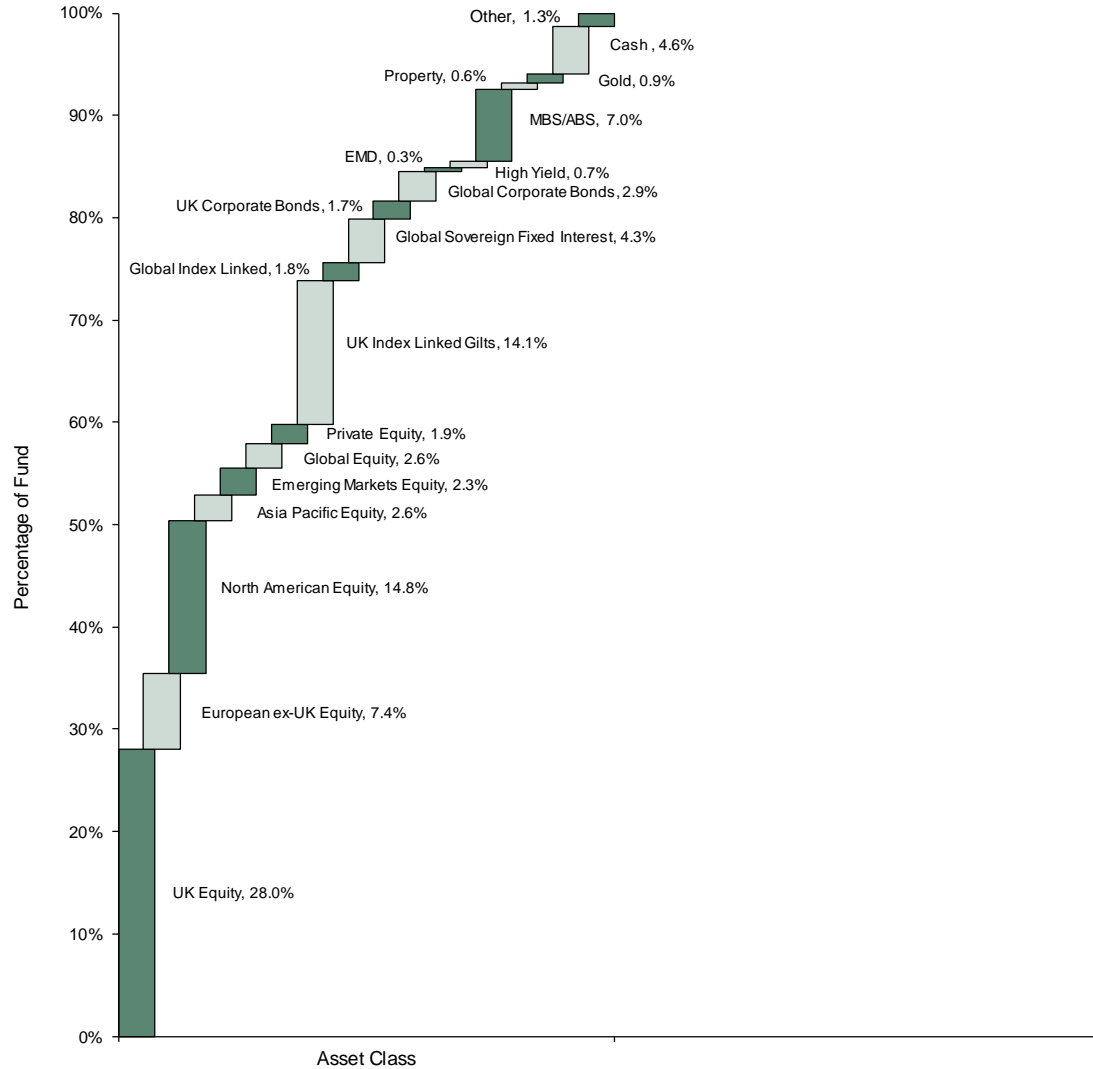
Notes:

- 1) Over the 3 months to 30 September 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 30th June 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th September 2012 £000	% of Total Fund	Target % of Total Fund
<b>Total Fund</b>		<b>626,189</b>	<b>100.0</b>	<b>(1,439)</b>	<b>9,436</b>	<b>2,726</b>	<b>0</b>	<b>637,012</b>	<b>100.0</b>	<b>100.0</b>
<b>UK Equity Mandate</b>	<b>Majedie</b>	<b>143,121</b>	<b>22.9</b>	<b>-</b>	<b>8,159</b>	<b>1,781</b>	<b>-</b>	<b>153,085</b>	<b>24.0</b>	<b>22.5</b>
<b>Overseas Equity Mandate</b>	<b>MFS</b>	<b>143,807</b>	<b>23.0</b>	<b>-</b>	<b>5,658</b>	<b>523</b>	<b>-</b>	<b>150,011</b>	<b>23.5</b>	<b>22.5</b>
<b>Dynamic Asset Allocation Mandates</b>		<b>183,088</b>	<b>29.2</b>	<b>-</b>	<b>2,061</b>	<b>421</b>	<b>-</b>	<b>185,599</b>	<b>29.1</b>	<b>30.0</b>
	Barings	113,029	18.1	-	1,967	28	-	115,042	18.1	18.8
	Ruffer	70,060	11.2	-	94	393	-	70,558	11.1	11.2
<b>Matching Fund</b>		<b>142,901</b>	<b>22.8</b>	<b>1</b>	<b>(6,599)</b>	<b>(0)</b>	<b>0</b>	<b>136,325</b>	<b>21.4</b>	<b>25.0</b>
	Goldman Sachs	59,654	9.5	(0)	1,584	-	0	61,248	9.6	12.5
	Legal & General	83,246	13.3	1	(8,184)	(0)	-	75,077	11.8	12.5
<b>Private Equity</b>		<b>13,271</b>	<b>2.1</b>	<b>(1,440)</b>	<b>157</b>	<b>2</b>	<b>-</b>	<b>11,992</b>	<b>1.9</b>	<b>0.0</b>
	Invesco	7,742	1.2	(966)	36	0	-	6,813	1.1	0.0
	Unicapital	5,529	0.9	(473)	121	2	-	5,179	0.8	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 September 2012**



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

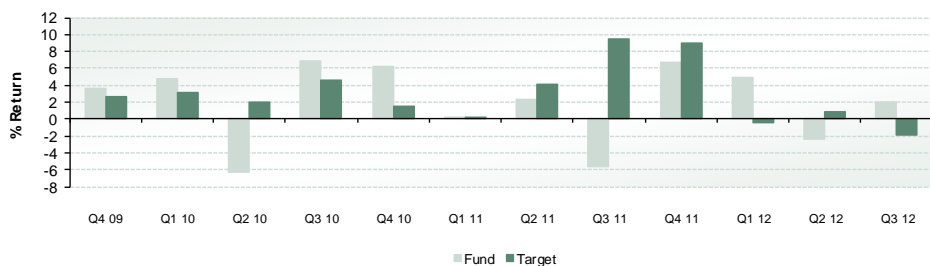
## Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	1.96	11.55	7.09	7.61	3.82
<b>Target</b>	-1.96	7.40	10.70	11.47	2.81

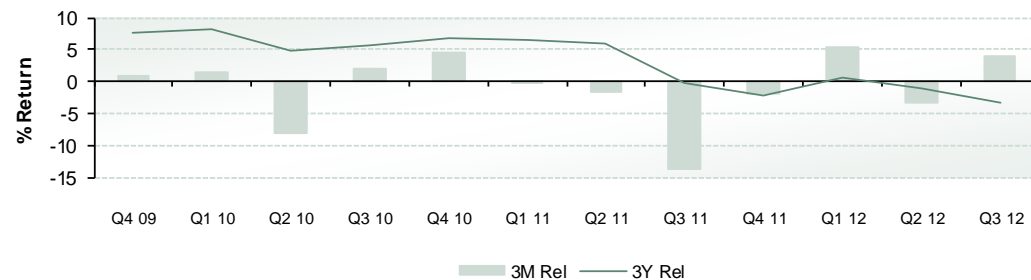
The Fund outperformed its liability benchmark by 3.92% over the quarter, returning 1.96% compared to the target of -1.96%. The return of an on-risk attitude for many investors drove this strong relative return. The Fund's performance of 11.55% over the year was ahead of its target by 4.15%. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

## Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96
<b>Target</b>	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96

## Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00
<b>3Y Rel</b>	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46

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 Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	6.96	16.20	9.09	9.20	9.22
<b>Target</b>	5.21	19.56	8.00	10.19	7.44

### Quarterly Manager update

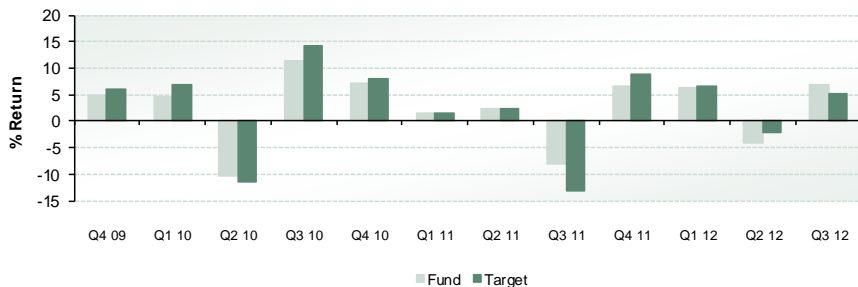
**Organisation** No significant changes over the quarter.

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

**Performance** The fund performance was 6.96% over the quarter, 1.75% ahead of its target. Over 12 months, the portfolio was 3.36% behind its target. The portfolio's long position in Barclays, who benefited from some signs of improvement in economic outlook, and position in Nokia, who have started to meet market expectations, aided performance. However, the portfolio's positions in ENRC and Hewlett-Packard hindered the overall performance.

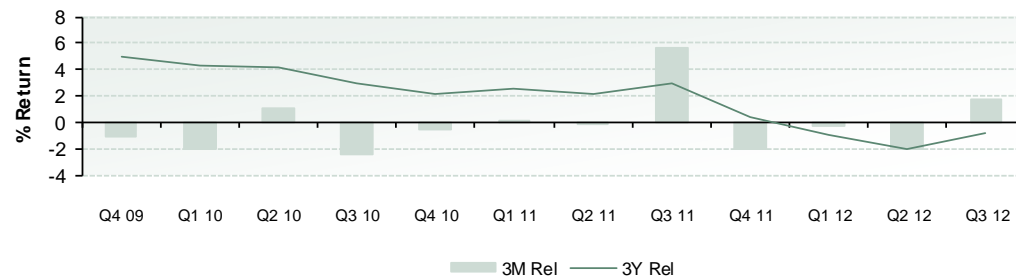
**Process** No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	4.80	4.73	-10.47	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96
<b>Target</b>	5.99	6.93	-11.35	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21

### Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	-1.12	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66
<b>3Y Rel</b>	4.96	4.35	4.11	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90



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 Fund Performance**



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	4.31	19.62	8.67	9.21	9.05
<b>Target</b>	4.20	19.08	6.65	8.31	7.83

**Quarterly Manager update**

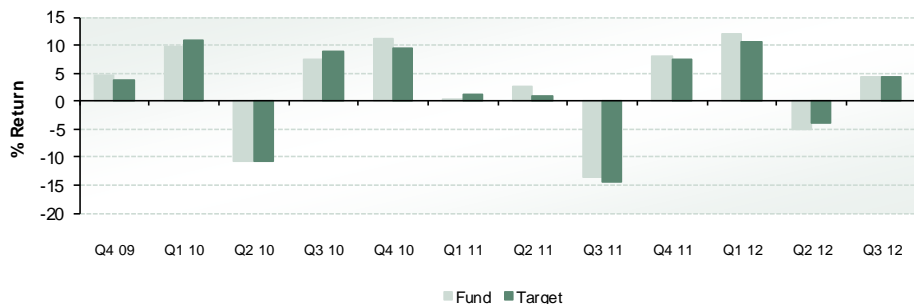
**Organisation** No significant changes over the quarter.

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

**Performance** The performance over the quarter was 4.31%, 0.11% ahead of the target. Over 12 months, the fund was 0.54% ahead of its target. Stock selection in technology, special products & services and industrial goods & services as well as individual stocks: Publicis Groupe, Inditex and BM&F Bovespa aided performance. However, stock selection in basic materials and health care as well as the portfolio's currency position and individual stocks: Li & Fung, Danone, LVMH, Expeditors International of Washington and being underweight in Apple detracted from performance over the quarter.

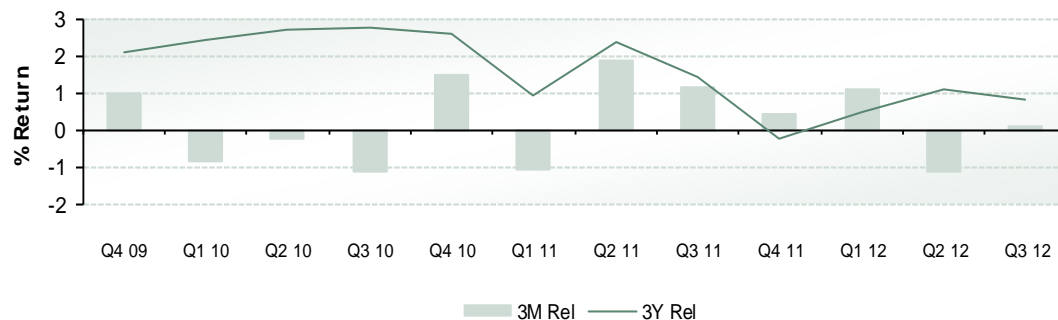
**Process** No significant changes over the quarter.

**Three Years Rolling Quarterly Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	4.74	9.83	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31
<b>Target</b>	3.73	10.80	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20

**Three Years Rolling Relative Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	0.98	-0.87	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11
<b>3Y Rel</b>	2.11	2.39	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83



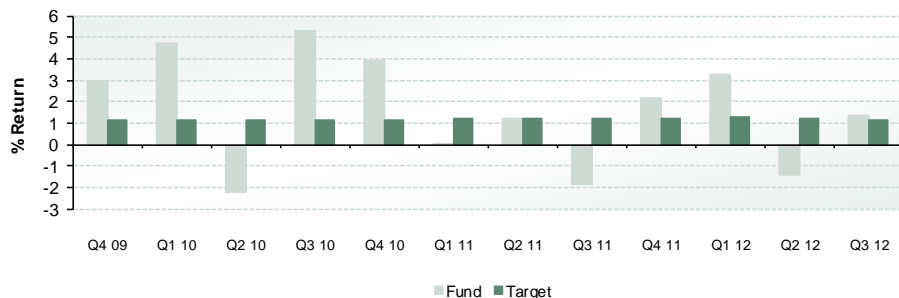
## Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	1.37	5.41	4.30	6.51	9.08
<b>Target</b>	1.17	4.99	4.91	4.84	4.97

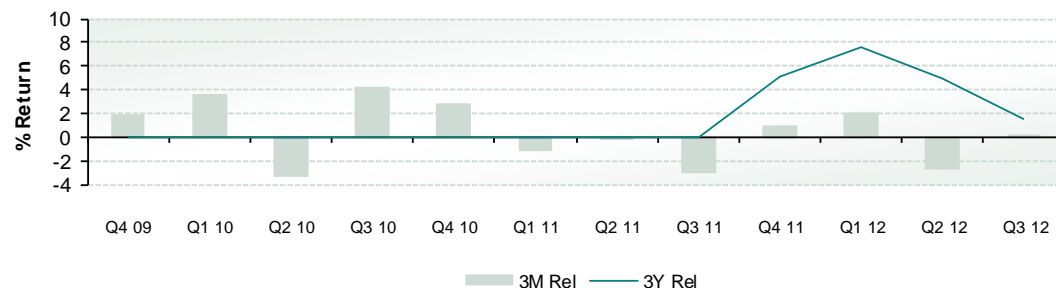
The performance of the group over the quarter was 1.37%, the LIBOR-based target returned 1.17%. The strong performance of equity markets over the quarter helped drive this outperformance. Over the past 12 months, performance has been 0.42% ahead of the target, as Barings has beaten its target and has a higher target allocation than Ruffer.

## Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37
<b>Target</b>	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17

## Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	5.10	7.54	4.97	1.59

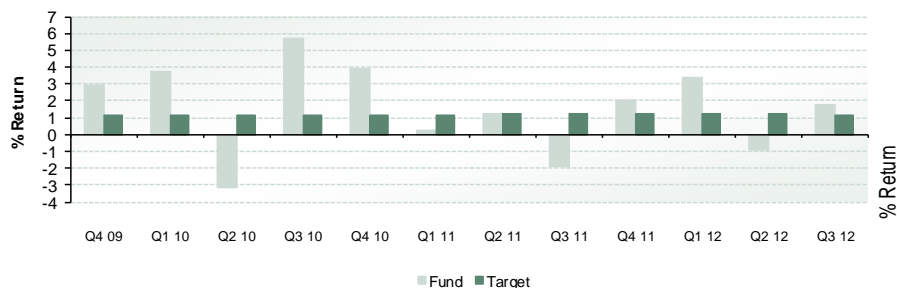
Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

**Historical Fund Performance**



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	1.78	6.40	4.87	6.37	8.19
<b>Target</b>	1.17	4.99	4.91	4.84	5.36

**Three Years Rolling Quarterly Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	2.94	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78
<b>Target</b>	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17

**Quarterly Manager update**

**Organisation** Christopher Mahon has been hired as the replacement for Toby Nangle who left Barings late last year. Mahon has over 13 years' experience in financial markets and joins from Momentum asset management where he was head of investment strategy.

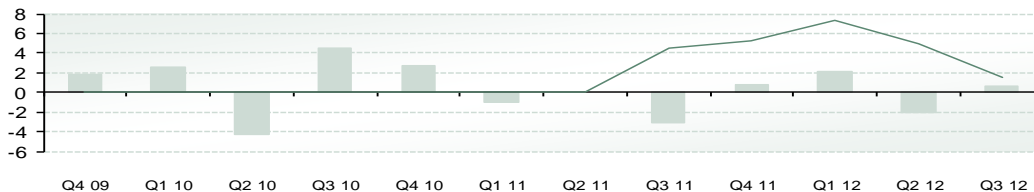
**Product** No significant changes over the quarter.

**Performance** The fund performance was 1.78% over the quarter, 0.61% ahead of its target. Over 12 months, the fund is 1.41% ahead of target. The strongest returns in the quarter came from equities in the Pacific region and Europe. Greek stocks and banks soared in price as investors started to believe that disaster might be averted after all. However, "safe haven" government bonds fared poorly, with the US long bond badly hit, while the UK index linked market suffered from fears that the government might change the way inflation is calculated for the Retail Price Index.

**Process** Barings have made changes to their operational and administrative procedures, intended to improve the control and visibility over these operations and increase the security of the assets. These changes include:

1. From 31 October, all disinvestments from the DAA fund will only be paid into bank accounts.
2. All standard investments and disinvestments will be managed directly by the fund administrator, Northern Trust, with Barings continuing to monitor the trading process.
3. From October 2012, valuations and contract notes will be emailed directly from Northern Trust.

**Three Years Rolling Relative Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	1.60
<b>3Y Rel</b>	-	-	-	-	-	-	-	4.51	5.26	7.38	4.90	1.46

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.

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 Fund Performance**



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	0.71	3.59	3.18	7.30	12.30
<b>Target</b>	1.17	4.99	4.91	4.84	5.36

**Quarterly Manager update**

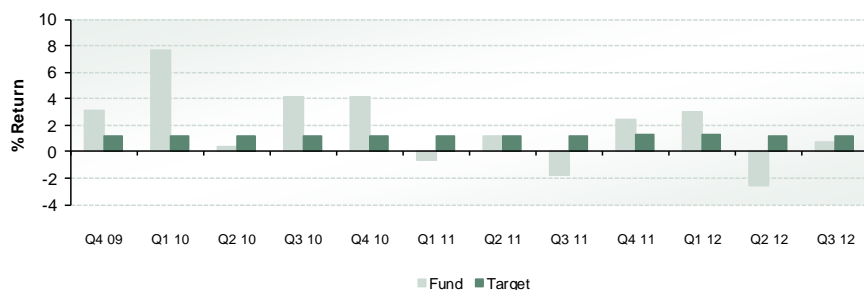
**Organisation** No significant changes over the quarter.

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

**Performance** The fund performance was 0.71% over the quarter, 0.46% behind its target. Over 12 months, the fund was 1.40% below the target. The portfolio made losses from its significant exposure to long-dated index-linked gilts as did its US Dollar position. However, gold prices benefitted from expectations of further QE this along with strong equity stock selection aided performance.

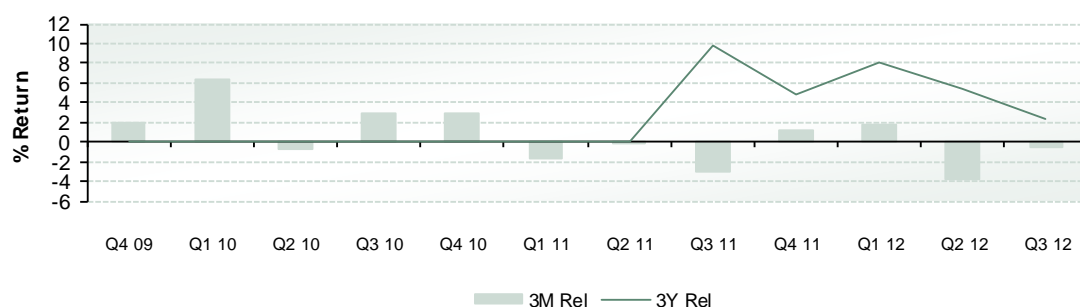
**Process** No significant changes over the quarter.

**Three Years Rolling Quarterly Returns**



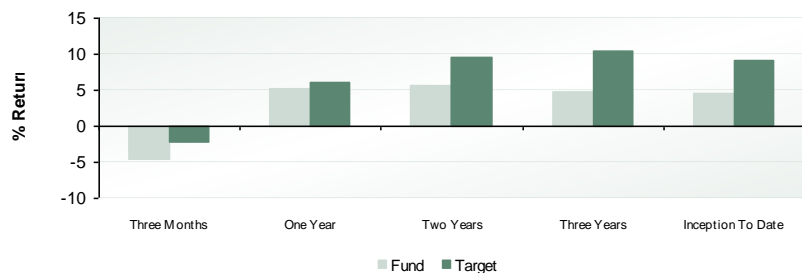
	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	3.12	7.64	0.41	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71
<b>Target</b>	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17

**Three Years Rolling Relative Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45
<b>3Y Rel</b>	-	-	-	-	-	-	-	9.79	4.86	8.01	5.34	2.35

## Historical Fund Performance

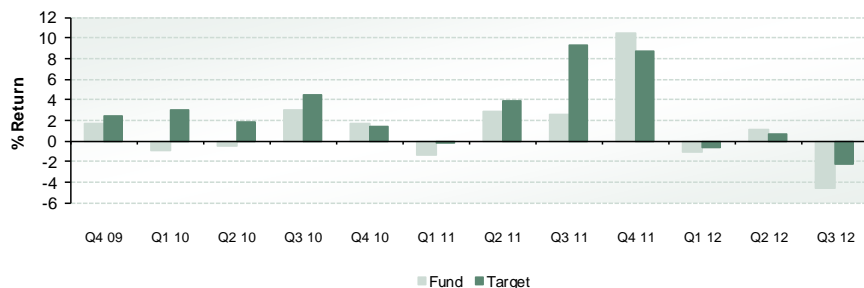


	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	-4.60	5.32	5.60	4.82	4.62
<b>Target</b>	-2.25	6.15	9.53	10.42	9.21

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.

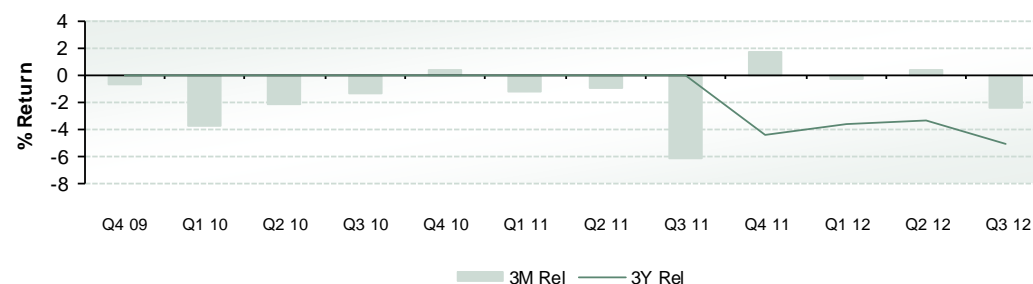
The performance of the Matching Fund over the quarter of -4.60% was 2.35% behind its gilts-based liability benchmark. The Matching Fund return of 5.32% over the year was 0.83% below target.

## Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60
<b>Target</b>	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25

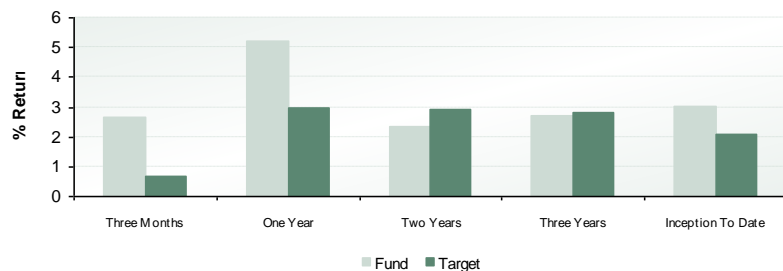
## Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07

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 Fund Performance**



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	2.67	5.20	2.33	2.72	3.05
<b>Target</b>	0.68	2.97	2.90	2.82	2.11

**Quarterly Manager update**

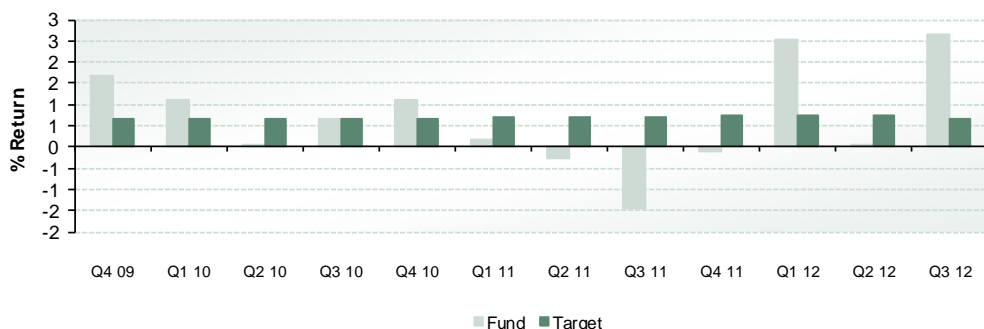
**Organisation** No significant changes over the quarter.

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

**Performance** The fund performance was 2.67% over the quarter, 1.99% ahead of its target. Over 12 months, performance was 2.23% ahead of the target. The outperformance was led predominantly by the fund's cross-sector and collateralised selection strategies, whilst the corporate selection strategy offset some of the outperformance.

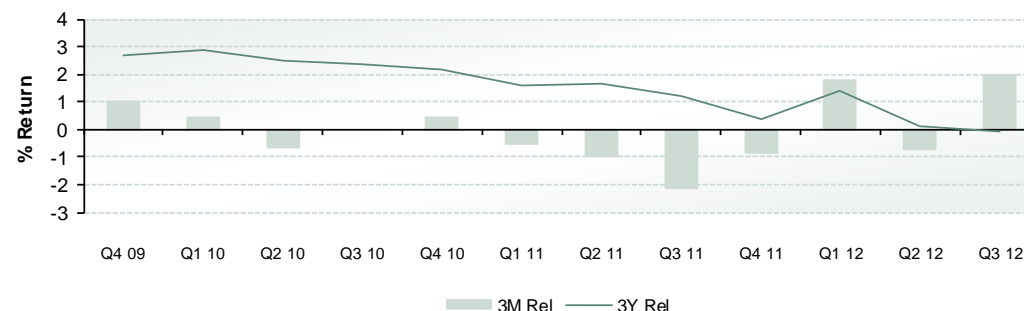
**Process** No significant changes over the quarter.

**Three Years Rolling Quarterly Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	1.66	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67
<b>Target</b>	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68

**Three Years Rolling Relative Returns**



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98
<b>3Y Rel</b>	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10

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 Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	-9.81	5.43	8.52	6.67	3.43
<b>Target</b>	-5.27	16.37	21.40	18.54	4.30

### Quarterly Manager update

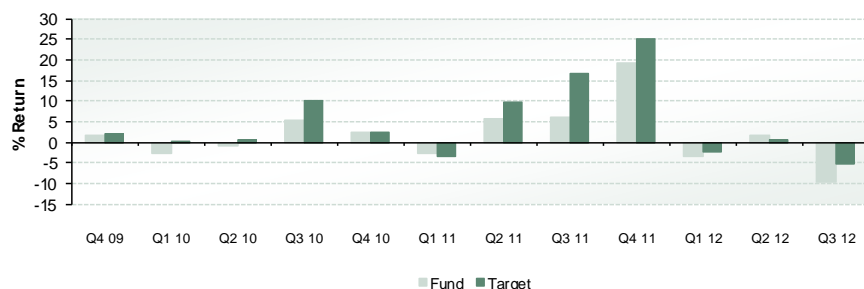
**Organisation** No significant changes over the quarter.

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

**Performance** The fund performance was -9.81% over the quarter, 4.54% behind its bespoke target. Over 12 months, performance was 10.94% behind the target.

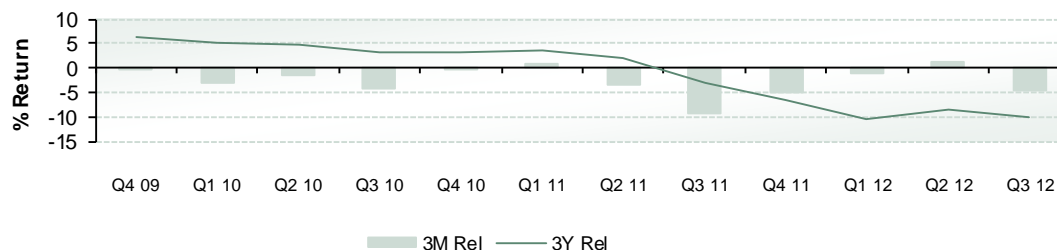
**Process** No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>Fund</b>	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81
<b>Target</b>	2.08	0.36	0.39	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27

### Three Years Rolling Relative Returns



	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
<b>3M Rel</b>	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79
<b>3Y Rel</b>	6.29	5.20	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01

After a difficult second quarter, Q3 2012 brought the return of an on-risk attitude for many investors, driven largely by expectations of central bank policy response. Late in the quarter, and after months of speculation, the European Central Bank (ECB) and the US Federal Reserve (Fed) both delivered in respect of these expectations to provide increased liquidity to markets in the coming months. While this is welcome news, questions remain over the long-term sustainability of the recovery in risky asset prices as economic fundamentals are still struggling to match the market upturn.

Global equity markets performed well in general over the quarter with emerging markets returning 5.5%. Elsewhere, European equity markets were up 8.0%, whilst UK and US equities rose 4.7% and 6.3% respectively. In credit markets, both emerging market debt and high yield corporate credit continued to perform strongly, returning 6.9% and 3.3% respectively. In addition, after falling for much of the second quarter, yields on UK gilts and US Treasuries rose across most maturities over quarter 3.

In the UK, the Bank of England (BoE) responded to the continued anaemic growth in the UK by expanding its quantitative easing programme by a further £50bn in July. Economic indicators continue to paint a mixed picture as business confidence hit its highest level for fifteen months and unemployment remained relatively stable, but house prices look to have fallen over the period. As the asset purchase programme comes to an end in November, and with inflation remaining relatively stable below 3%, all eyes are on the BoE as minutes from the monetary policy committee (MPC) meeting in September hint at a further stimulus package in the coming months.

In Europe, ECB president Mario Draghi continued to take steps to try and bring down the cost of borrowing for the peripheral economies. This began in July with a cut in interest rates to a record low of 0.75% and continued with a commitment to “do whatever it takes to preserve the euro”. This, together with the ratification of the ECB bond-buying programme by the German constitutional court, had the effect of reducing borrowing costs for much of Europe over the quarter and ease short-term pressure on struggling economies. Economic indicators for Europe

as a whole, however, continued to worsen as unemployment reached a new high of 11.4%, the Eurozone Purchasing Managers Index (PMI) fell to its lowest level since Q2 2009 and business confidence deteriorated further. With general strikes in Greece and Spain also providing a cause for concern, it looks likely that the implementation of structural reforms needed to preserve the future of the monetary union will continue to be problematic for many governments.

In the US, in what was a widely anticipated move, a third round of quantitative easing was announced in mid September. With output low and unemployment stubbornly high at 7.8%, the Fed revealed that it plans to spend close to \$40bn per month indefinitely on mortgage-backed securities in the hope of lowering long-term interest rates and boosting the American housing market. The move was not without controversy, however, with many republicans criticising the intervention as risking an increase in inflation and being unhelpful to the long-term growth prospects of the economy. The move certainly seemed to help fuel inflation expectations, with the price of gold rising by 10.9% over the quarter.



### CAMRADATA Contact

Operations Team

Operations@camradata.com

020 3327 5600

Marlow House, Lloyd's Avenue, London, EC3A 3AA

### Client Contact

Bob Pearce

Bob.Pearce@lbhf.gov.uk

020 8753 1808

2nd Floor, Town Hall Extension, King Street, Hammersmith, London W6 9JU

### P-Solve Contact

John Conroy

John.Conroy@psolve.com

020 3327 5048

11 Strand, London WC2N 5HR

### Fund Actuary

Graeme Muir, Barnett Waddingham

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

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