

London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 4 2012

This report is addressed to the Audit & Pensions Committee of the London Borough of Hammersmith & Fulham Pension Fund only.

– Not for onward distribution

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&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 Unicapital which is invested almost entirely in Europe.

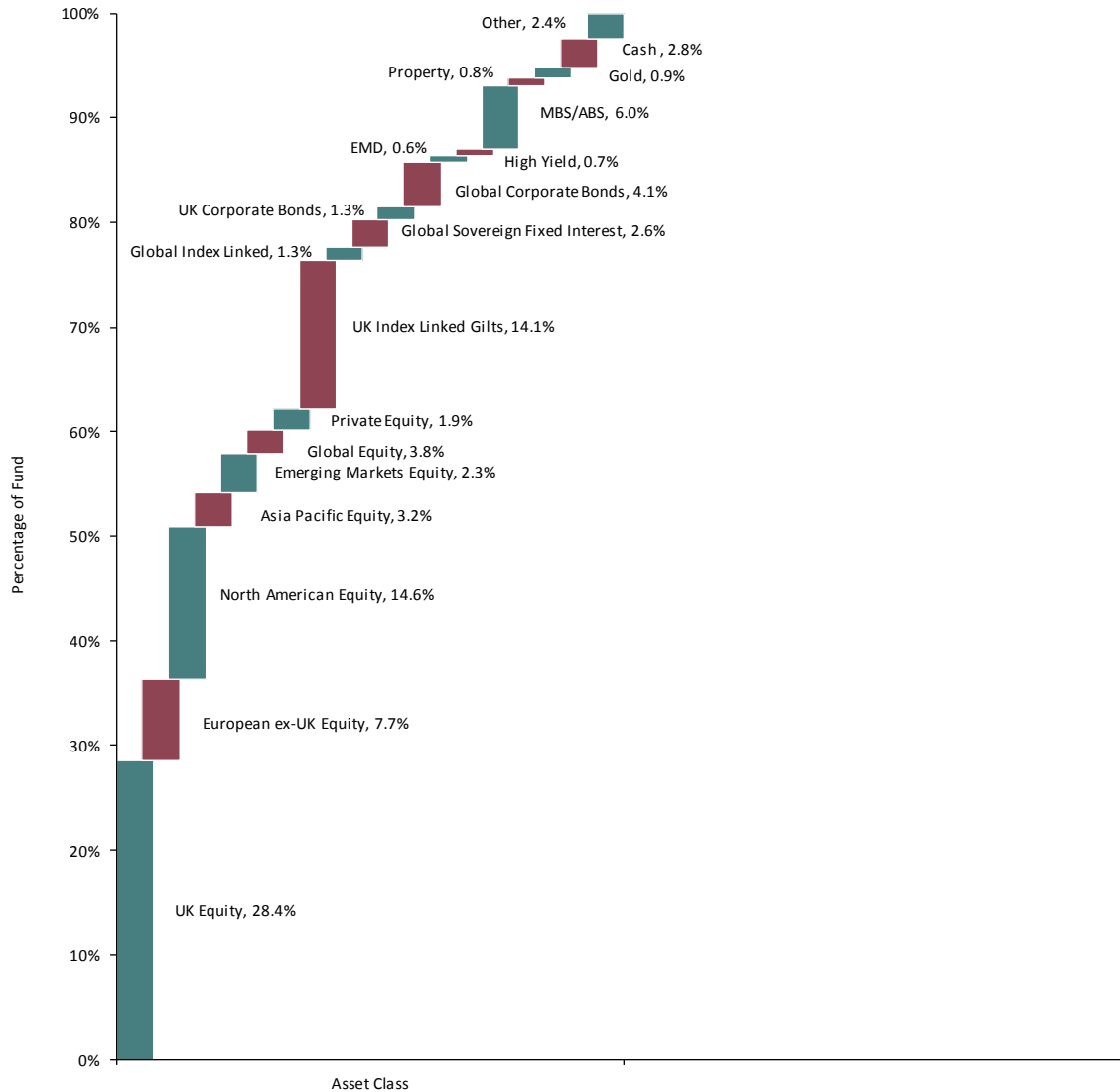
Asset Reconciliation and Valuation

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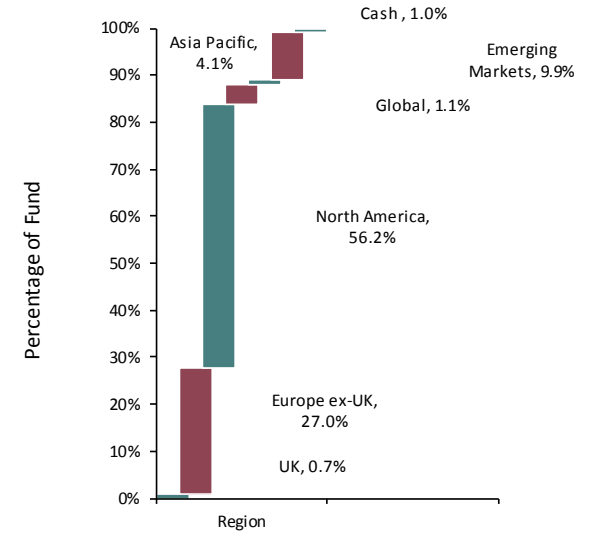
Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 30th September 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 31st December 2012 £000	% of Total Fund	Target % of Total Fund
Total Fund		637,012	100.0	(10,045)	29,125	1,512	0	657,705	100.0	100.0
UK Equity Mandate	Majedie	153,085	24.0	(6,000)	10,349	764	-	158,221	24.1	22.5
Overseas Equity Mandate	MFS	150,011	23.5	(4,000)	4,264	525	0	150,823	22.9	22.5
Dynamic Asset Allocation Mandates		185,599	29.1	-	3,744	222	-	189,594	28.8	30.0
	Barings	115,042	18.1	-	1,497	29	-	116,586	17.7	18.8
	Ruffer	70,558	11.1	-	2,247	193	-	73,008	11.1	11.2
Matching Fund		136,325	21.4	(1)	10,327	1	0	146,673	22.3	25.0
	Goldman Sachs	61,248	9.6	(0)	767	-	0	62,025	9.4	12.5
	Legal & General	75,077	11.8	(1)	9,559	1	0	84,648	12.9	12.5
Private Equity		11,992	1.9	(44)	441	2	-	12,393	1.9	0.0
	Invesco	6,813	1.1	(220)	192	0	-	6,787	1.0	0.0
	Unicapital	5,179	0.8	176	249	2	-	5,607	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.

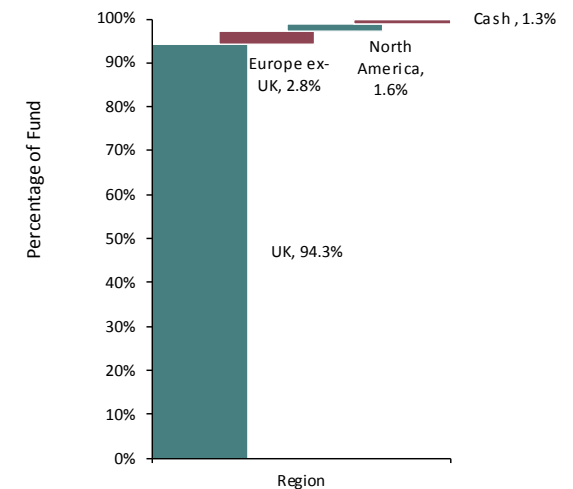
Asset Class Breakdown as at 31 December 2012



Breakdown of the MFS mandate

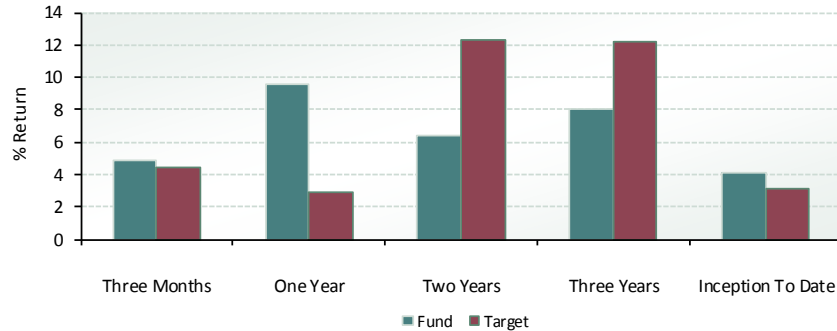


Breakdown of the Majedie mandate



Notes: Breakdown has been estimated by P-Solve based on the available manager data.

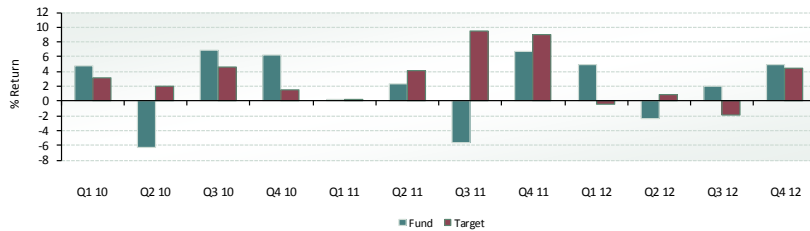
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	4.85	9.53	6.43	8.08	4.13
Target	4.46	2.94	12.26	12.15	3.10

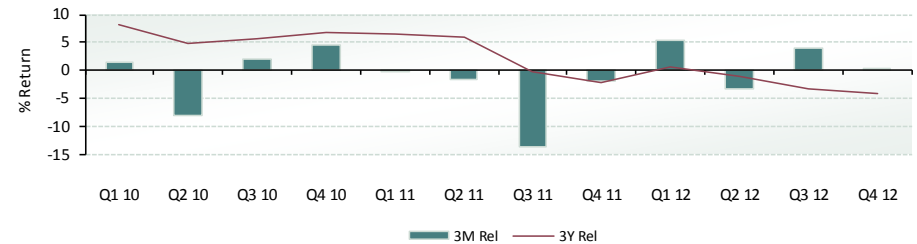
The Fund outperformed its liability benchmark by 0.39% over the quarter, returning 4.85% compared to the target of 4.46%. The Fund's performance of 9.53% over the year was ahead of its target by 6.59%. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96	4.85
Target	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96	4.46

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00	0.39
3Y Rel	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46	-4.07

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. Three Year Rolling Relative Returns have been calculated arithmetically from Q4 2012 onwards.

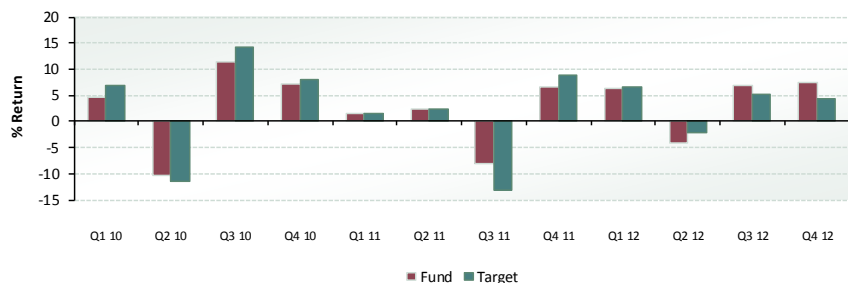
Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	7.42	17.06	9.16	10.10	9.96
Target	4.33	14.53	6.20	9.62	7.80

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	4.73	-10.47	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96	7.42
Target	6.93	-11.35	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21	4.33

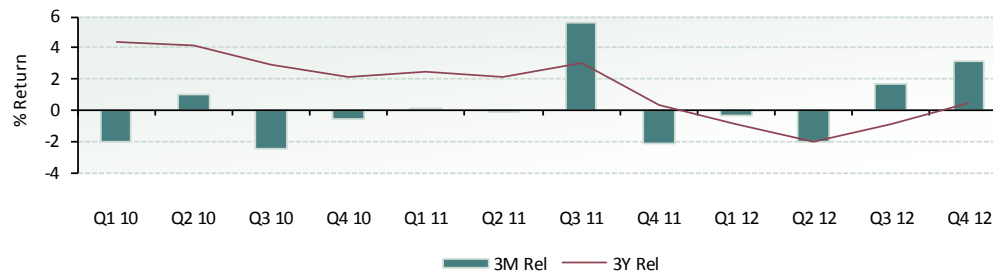
Quarterly Manager update

Organisation Adam Parker will no longer be one of the four managers of the UK Focus Fund, in order to allow him to dedicate his time to the small-cap equity sub-portfolio he manages within the UK Equity Fund. He will, however, remain one of the four UK Equity Fund managers. He will be replaced by Chris Reid, who is one of the co-managers for the Tortoise Funds and also runs Majedie's UK Income Fund. P-Solve will continue to monitor the situation.

Performance The fund performance was 7.42% over the quarter, 3.09% ahead of its target. Over 12 months, the portfolio was 2.53% ahead of its target. Performance drivers were again holdings in Barclays and RBS, with other positive contributions from Nokia, Lufthansa and ITV. The main negative contribution was from Nintendo whose share fell due to market concerns for its new console and the currency translation effect of the weakening Yen.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



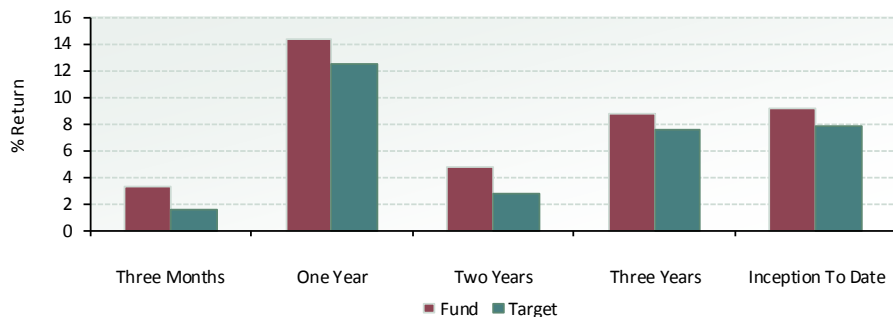
	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	-2.06	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66	3.09
3Y Rel	4.35	4.11	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90	0.48

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.

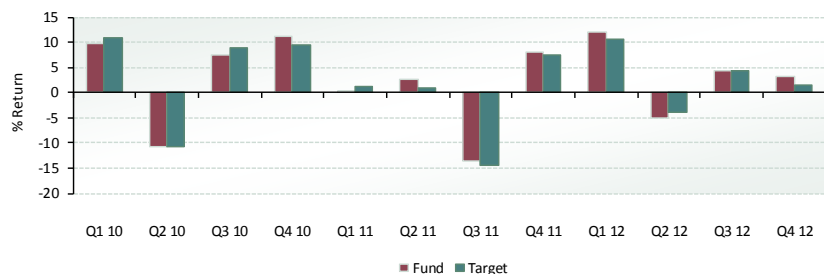
MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	3.23	14.38	4.71	8.68	9.20
Target	1.53	12.48	2.67	7.54	7.77

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	9.83	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31	3.23
Target	10.80	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20	1.53

Notes:

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Quarterly Manager update

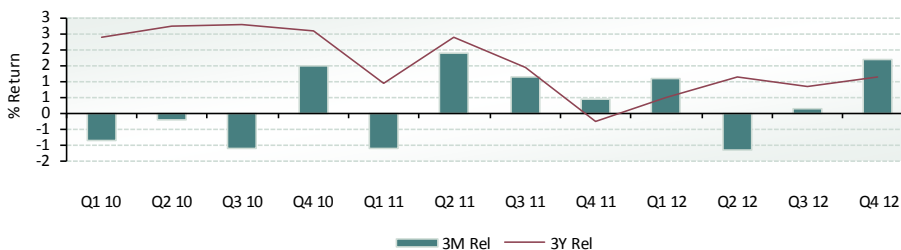
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The performance over the quarter was 3.23%, 1.7% ahead of the target. Over 12 months, the fund was 1.9% ahead of its target. An underweight position in technology, overweight position in industrial goods and services and stock selection in retailing and basic materials has aided performance. However, stock selection in energy and special products & services: St Jude Medical, Yahoo Japan and Toyota Motor detracted from performance over the quarter.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	-0.87	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11	1.70
3Y Rel	2.39	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83	1.14

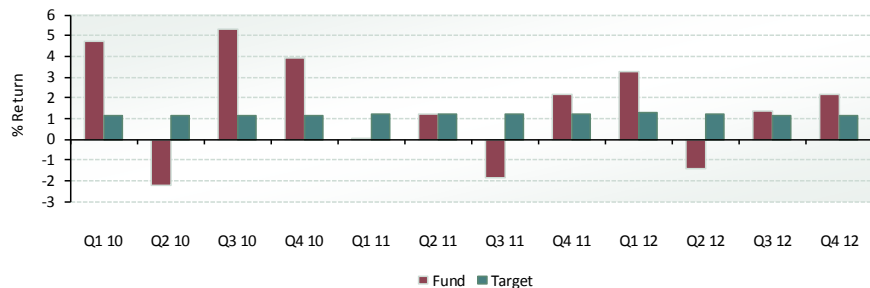
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.15	5.40	3.40	6.22	9.06
Target	1.12	4.86	4.89	4.83	4.94

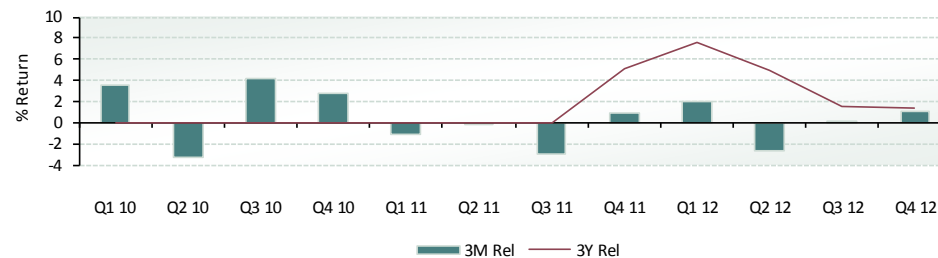
The performance of the group over the quarter was 2.15%, the LIBOR-based target returned 1.12%. Outperformance was driven by a continued rally in equity markets over the quarter led by Europe after the ECB gave reassurance that it would do everything in its power to protect the Euro. Over the past 12 months, performance has been 0.54% ahead of the target.

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37	2.15
Target	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20	1.03
3Y Rel	-	-	-	-	-	-	-	5.10	7.54	4.97	1.59	1.39

Notes:

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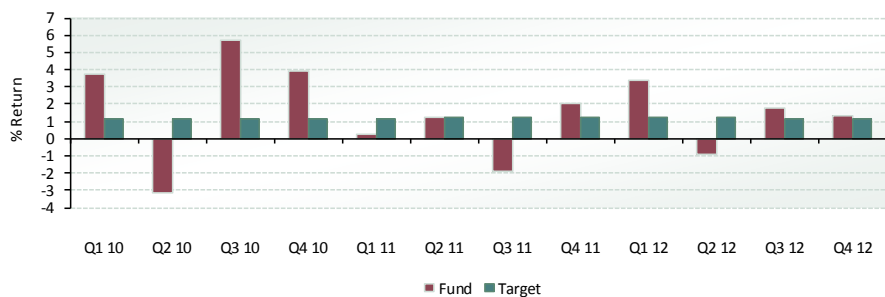
Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.34	5.64	3.58	5.81	8.03
Target	1.12	4.86	4.89	4.83	5.31

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78	1.34
Target	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12

Quarterly Manager update

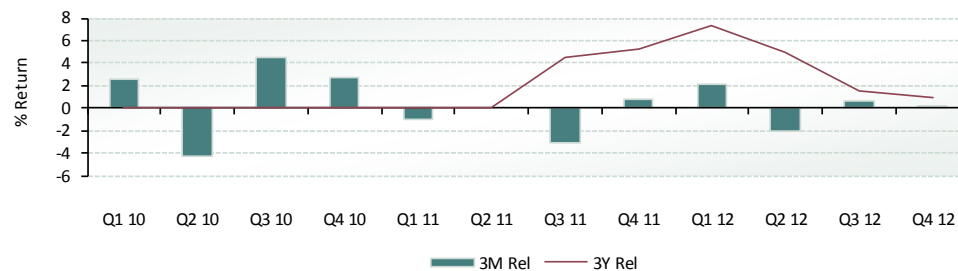
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 1.34% over the quarter, 0.22% ahead of its target. Over 12 months, the fund is 0.78% ahead of target. The strongest returns in the quarter came from European equities. Japanese equities also rallied due to the election of the Liberal Democratic Party who promise a more interventionist approach to monetary policy. However, "safe haven" government bonds were generally weak performers over the quarter and Gold Bullion saw a sharp sell off as investors began to fear it may have reached its peak.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	0.60	0.22
3Y Rel	-	-	-	-	-	-	4.51	5.26	7.38	4.90	1.46	0.98

Notes:

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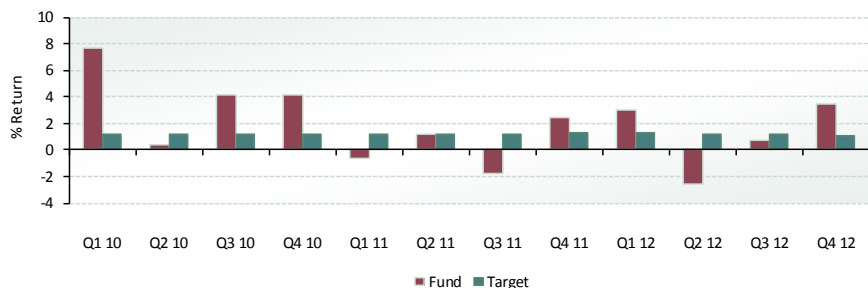
Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	3.47	4.64	2.86	7.43	12.43
Target	1.12	4.86	4.89	4.83	5.31

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	7.64	0.41	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71	3.47
Target	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12

Notes:

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Quarterly Manager update

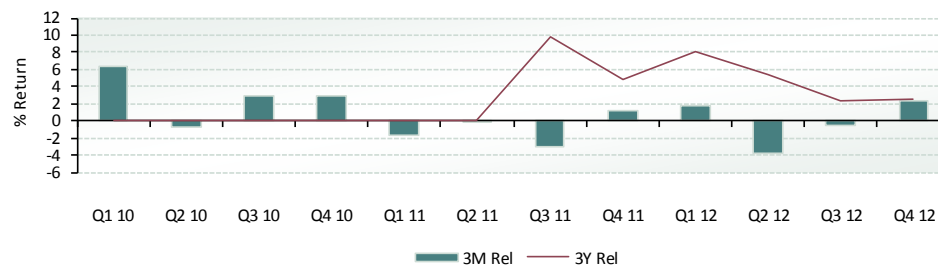
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 3.47% over the quarter, 2.35% ahead of its target. Over 12 months, the fund was 0.22% below the target. The portfolio made losses from the poor performance of Gold Bullion, Gold equities and Defensive sectors such as Telecoms and Pharmaceuticals. However, positive contributions came from Japanese equities, UK Index Linked Gilts and strong stock selection in the likes of Barratt Developments and Invensys.

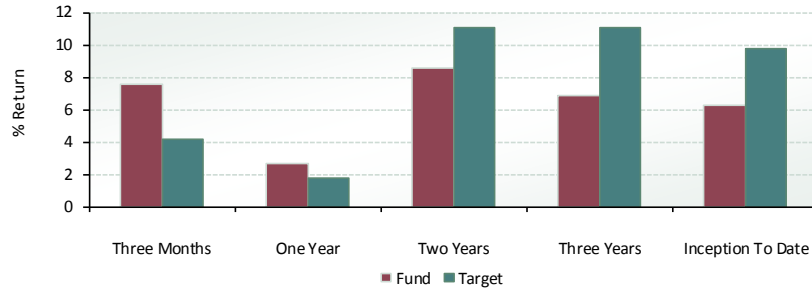
Process No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45	2.35
3Y Rel	-	-	-	-	-	-	9.79	4.86	8.01	5.34	2.35	2.60

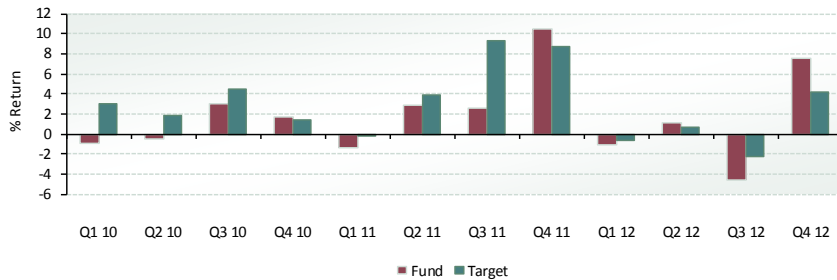
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	7.59	2.62	8.59	6.82	6.25
Target	4.15	1.73	11.02	11.05	9.72

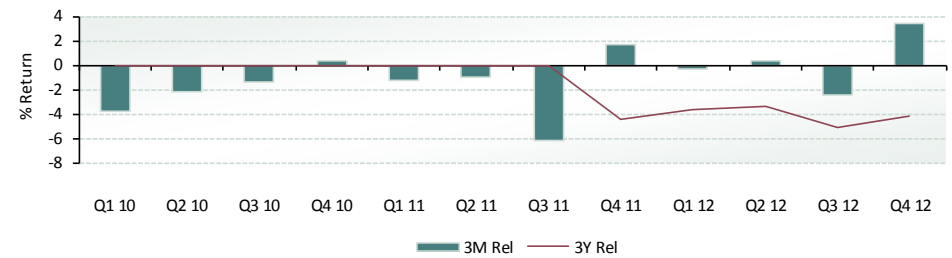
The performance of the Matching Fund over the quarter was 7.59%, 3.44% ahead of its gilts-based liability benchmark. The Matching Fund return of 2.62% over the year was 0.89% above target.

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60	7.59
Target	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25	4.15

Three Years Rolling Relative Returns



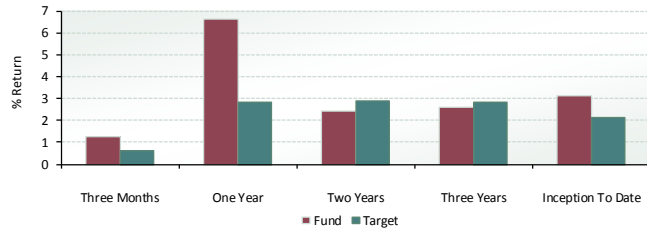
	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40	3.44
3Y Rel	-	-	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07	-4.23

Notes:

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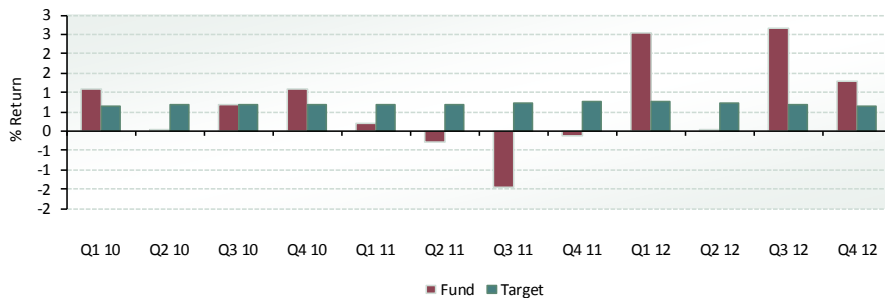
Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 managed an active bond fund.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	1.27	6.65	2.42	2.59	3.11
Target	0.63	2.85	2.87	2.82	2.12

Three Years Rolling Quarterly Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67	1.27
Target	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68	0.63

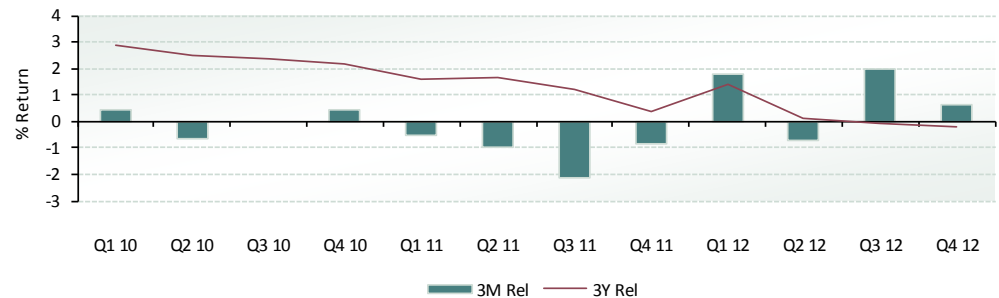
Notes:

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Quarterly Manager update

- Organisation** No significant changes over the quarter.
- Product** No significant changes over the quarter.
- Performance** The fund performance was 1.27% over the quarter, 0.64% ahead of its target. Over 12 months, performance was 3.8% ahead of the target. The portfolio's outperformance was led predominantly by the fund's cross-sector and currency strategies, whilst the EMD selection strategy performance was the only negative contributor.
- Process** No significant changes over the quarter.

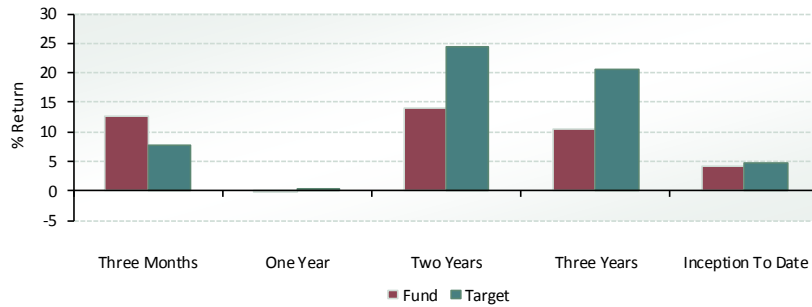
Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98	0.64
3Y Rel	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10	-0.23

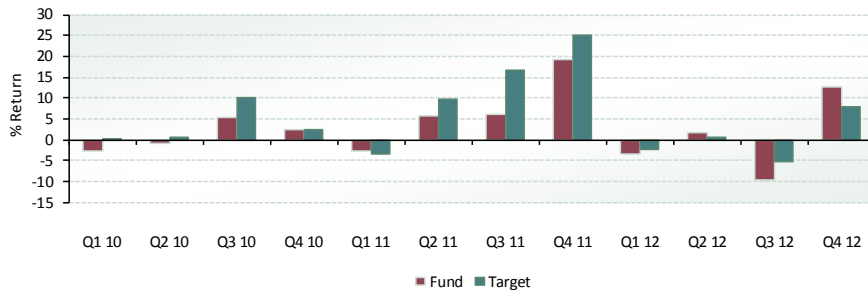
Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in the first quarter of 2012, although performance has been blended 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
Fund	12.75	-0.14	13.90	10.41	4.29
Target	7.69	0.14	24.52	20.67	4.79

Three Years Rolling Quarterly Returns

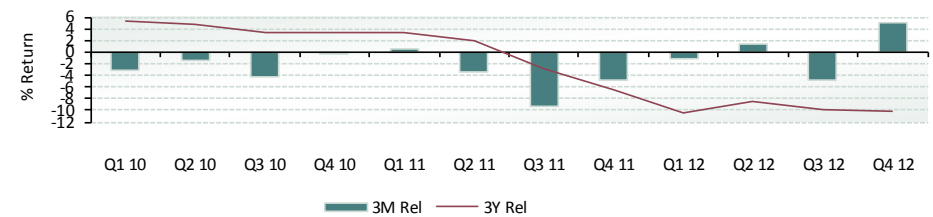


	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Fund	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81	12.75
Target	0.36	0.39	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27	7.69

Quarterly Manager update

- Organisation** No significant changes over the quarter.
- Product** No significant changes over the quarter.
- Performance** The fund performance was 12.75% over the quarter, 5.06% ahead of its bespoke target. Over 12 months, performance was 0.28% behind the target.
- Process** No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
3M Rel	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79	5.06
3Y Rel	5.20	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01	-10.26

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. Returns are gross of fees.

Risky assets had a strong fourth quarter following further confidence-inducing policy announcements in developed countries and an improved growth outlook for many emerging market economies. US politicians managed to temporarily avert the fiscal cliff, Greece and the IMF agreed a deal designed to reduce Greece's debt to GDP ratio and European leaders agreed upon a set of measures to create a widely called upon banking union. Elsewhere, in emerging markets, Chinese economic data continued to improve indicating the possibility of a return to 8% growth next year.

Most equity markets continued to gain on the positive momentum built up over the autumn; European equities were the strongest performers over the quarter, returning 6.3%, while emerging market and UK equities returned 5.3% and 3.8% respectively. US equities fell slightly, driven largely by uncertainty surrounding the fiscal cliff negotiations, but overall it was a good year for the US and global equity markets in general with most delivering double digit returns. The on-risk attitude was also reflected in credit markets with global high yield credit and emerging market debt delivering strong returns of 4.6% and 3.3% for the quarter respectively and outperforming most of the major equity markets over the year.

In the UK, the Bank of England (BoE) and Office for National Statistics indicated that it was quite likely the economy contracted in the fourth quarter as the temporary factors that spurred growth in the previous quarter dissipated. Furthermore, it was announced that growth in quarter 3 2012 would be revised downwards, increasing the possibility that the economy contracted or finished flat in 2012, as suggested by the figures released by the British Chambers of Commerce in December. The UK service sector which counts for almost three quarters of the UK economy displayed unusual signs of vulnerability in December as growth slowed and activity in the sector fell for the first time in two years. In contrast to other economic indicators, however, the labour market has shown considerable resilience as jobs continued to grow, with unemployment falling to 7.8% in the three months to October, the largest quarterly fall since 2001. Inflation, however, crept up from 2.2% to 2.7% in December, decreasing the likelihood of further stimulus in the near term and allowing less flexibility for the soon to be Governor of the BoE, Mark Carney.

In Europe, politicians agreed a set of measures intended to create a banking union that would allow the European Central Bank to act as a single banking supervisor and directly recapitalise struggling banks. This will be funded by the €500bn European Stability Mechanism (ESM), designed to ensure a backstop to alleviate fears of

contagion in the banking system. This agreement provided welcome relief from the political indecision that has been the story for most of 2012 and served to increase the credibility of the euro zone's commitment to keep itself intact. Greece also agreed a deal with the IMF which will see an extension of its debt maturities, a reduction in interest paid and a buyback of debt held by private investors over the quarter. The deal is optimistically forecast to see the Greek debt to GDP ratio decrease from current levels of around 190% to 124% by 2020. However, as ever, there are a number of reasons to be sceptical of whether these measures will be enough to solve the country's long-term issues, chief among which is the fact that the success of the deal relies heavily on the performance of the Greek economy over the coming years.

The US economy continued on its path to recovery as growth in the previous quarter was revised up from 2% to 2.7%, indicating modest growth over 2012 as a whole. This growth has been supported by an improving housing market as sales of used homes and construction spending hit a three-year high whilst consumer confidence also hit a four-year high. Unemployment, however, remains around 7.9%, prompting the Federal Reserve to announce measures to maintain low interest rates and purchase \$45m in long-term treasuries at least until unemployment falls to 6.5%. The improved economic situation, however, was overshadowed by politics over the quarter as re-elected President Barack Obama engaged in long drawn-out discussions with opposition leaders in an effort to avert the fiscal cliff, a series of spending cuts and expiring bush-era tax cuts that would have led to severe economic contraction. Talks went to the wire and leaders eventually agreed on a deal early in the New Year to increase taxes for those earning above \$400,000 as well as make permanent most of the original Bush tax cuts.

Elsewhere, Japan unveiled another \$11bn round of stimulus, aimed at reviving the stagnating economy with markets reacting positively to the newly appointed Prime Minister, Shinzo Abe. In emerging markets, reports indicate that Chinese economic growth may have accelerated to 7.8% over the quarter, welcome news given the last two years of slowing growth. The economy has been boosted by increasing infrastructure spending, an improving manufacturing sector and a proactive government approach to fiscal stimulus and monetary policy. Whilst it is hard to envisage a return to double-digit growth, investors are cautiously optimistic that the Chinese economy will continue to deliver sustainable growth in 2013 and beyond.

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

IMPORTANT INFORMATION

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