

London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2013

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>3 month Sterling LIBOR + 2% p.a.</i>
Legal & General	<i>Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)</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.

Performance Overview

Breakdown of Fund Performance by Manager as at 30th June 2013

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.)	5 year return (% p.a.)
Total Fund		715,212	100.0	100.0	(1.5)	16.3	9.6	11.8	10.0
	<i>New Liability Benchmark + 2.2% p.a.</i>				<i>(5.2)</i>	<i>4.8</i>	<i>10.7</i>	<i>11.1</i>	<i>6.8</i>
	<i>Difference</i>				<i>3.7</i>	<i>11.5</i>	<i>(1.1)</i>	<i>0.7</i>	<i>3.2</i>
UK Equity Mandate		178,517	25.0	22.5					
	Majedie				3.0	29.6	13.7	17.1	12.1
	<i>FTSE All Share + 2% p.a.</i>				<i>(1.2)</i>	<i>20.3</i>	<i>9.0</i>	<i>15.0</i>	<i>8.8</i>
	<i>Difference</i>				<i>4.2</i>	<i>9.3</i>	<i>4.7</i>	<i>2.1</i>	<i>3.3</i>
Overseas Equity Mandate		170,689	23.9	22.5					
	MFS				(0.6)	21.9	9.9	14.1	12.0
	<i>MFS Custom Benchmark</i>				<i>(0.6)</i>	<i>20.2</i>	<i>8.4</i>	<i>12.6</i>	<i>9.8</i>
	<i>Difference</i>				<i>0.0</i>	<i>1.7</i>	<i>1.5</i>	<i>1.5</i>	<i>2.2</i>
Dynamic Asset Allocation Mandates		202,068	28.3	30.0	(0.5)	10.4	6.1	7.7	-
	Barings	121,661	17.0	18.8	(1.2)	7.6	5.1	7.1	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				<i>1.1</i>	<i>4.6</i>	<i>4.8</i>	<i>4.8</i>	<i>-</i>
	<i>Difference</i>				<i>(2.3)</i>	<i>3.0</i>	<i>0.3</i>	<i>2.3</i>	<i>-</i>
	Ruffer	80,407	11.2	11.2	0.5	14.8	7.7	8.1	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				<i>1.1</i>	<i>4.6</i>	<i>4.8</i>	<i>4.8</i>	<i>-</i>
	<i>Difference</i>				<i>(0.6)</i>	<i>10.2</i>	<i>2.9</i>	<i>3.3</i>	<i>-</i>
Matching Fund		150,167	21.0	25.0	(8.6)	5.1	9.1	8.2	-
	<i>Liability Benchmark + 1% p.a.</i>				<i>(5.5)</i>	<i>3.6</i>	<i>9.4</i>	<i>9.9</i>	<i>-</i>
	<i>Difference</i>				<i>(3.1)</i>	<i>1.5</i>	<i>(0.3)</i>	<i>(1.7)</i>	<i>-</i>
	Goldman Sachs	63,202	8.8	12.5	0.5	6.0	3.4	2.9	2.4
	<i>3 month Sterling LIBOR + 2% p.a.</i>				<i>0.6</i>	<i>2.6</i>	<i>2.8</i>	<i>2.8</i>	<i>1.1</i>
	<i>Difference</i>				<i>(0.1)</i>	<i>3.4</i>	<i>0.6</i>	<i>0.1</i>	<i>1.3</i>
	Legal & General	86,966	12.2	12.5	(14.2)	4.5	13.8	12.8	9.0
	<i>Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)</i>				<i>(11.4)</i>	<i>3.8</i>	<i>22.0</i>	<i>21.1</i>	<i>10.9</i>
	<i>Difference</i>				<i>(2.8)</i>	<i>0.7</i>	<i>(8.2)</i>	<i>(8.3)</i>	<i>(1.9)</i>
Private Equity		13,770	1.9	0.0	3.3	16.7	13.4	16.5	-
	Invesco	7,656	1.1	0.0	5.4	16.6	19.1	17.6	-
	Unicapital	6,114	0.9	0.0	0.7	17.1	6.8	14.8	-

Notes:

- 1) Over the 3 months to 30 June 2013, 3 month LIBOR returned 0.1%, over a 12 month period the return was 0.6%.
- 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.

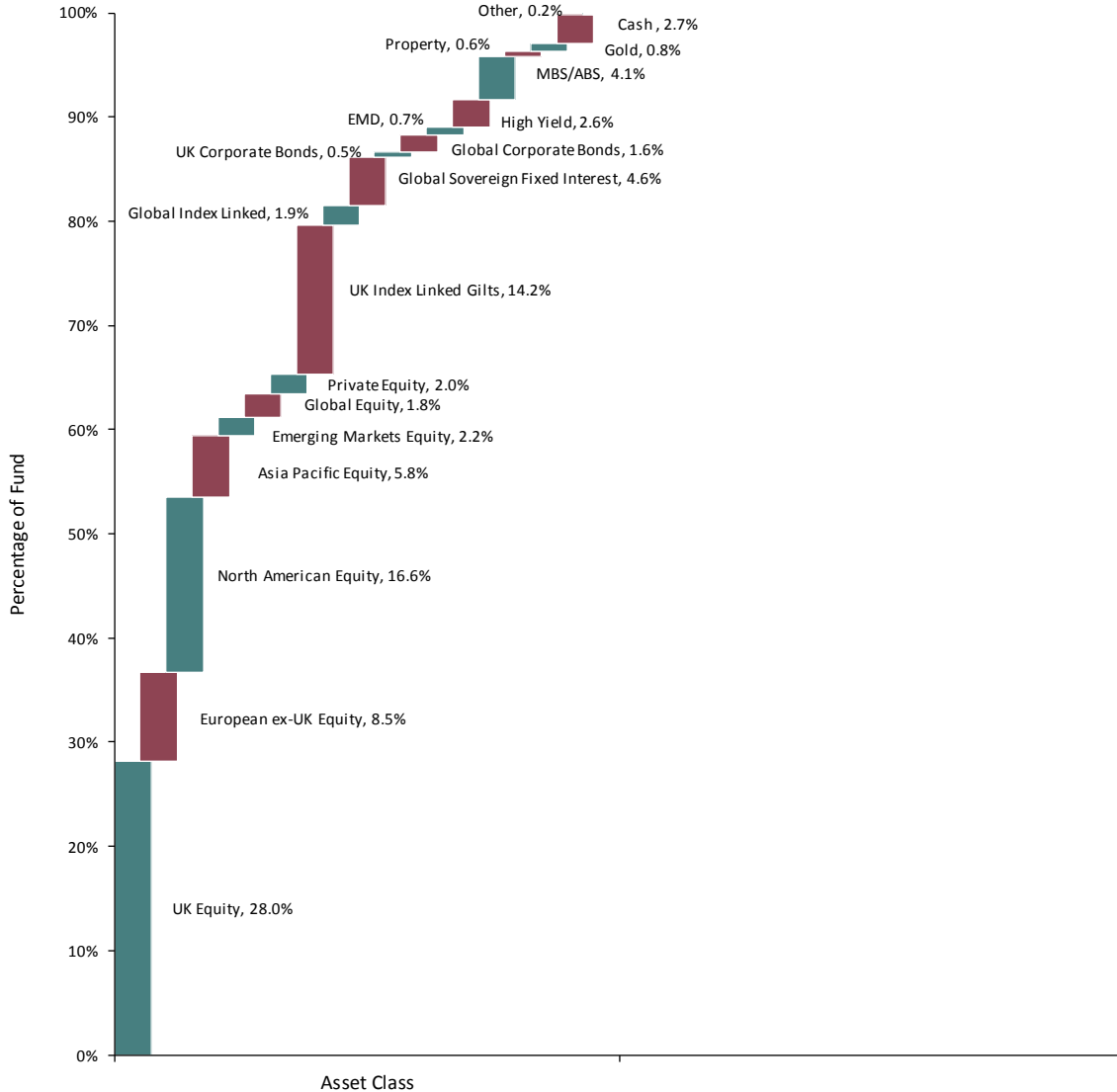
Asset Reconciliation and Valuation

4

Asset Reconciliation and Valuation										
Fund	Manager	Closing Market Value as at 31st March 2013 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2013 £000	% of Total Fund	Target % of Total Fund
Total Fund		725,890	100.0	(0)	(10,678)	3,189	0	715,212	100.0	100.0
UK Equity Mandate	Majedie	173,369	23.9	-	5,148	1,498	-	178,517	25.0	22.5
Overseas Equity Mandate	MFS	171,759	23.7	(0)	(1,070)	1,242	0	170,689	23.9	22.5
Dynamic Asset Allocation Mandates		203,110	28.0	-	(1,042)	449	-	202,068	28.3	30.0
	Barings	123,116	17.0	-	(1,455)	30	-	121,661	17.0	18.8
	Ruffer	79,994	11.0	-	413	419	-	80,407	11.2	11.2
Matching Fund		164,316	22.6	-	(14,149)	-	-	150,167	21.0	25.0
	Goldman Sachs	62,919	8.7	-	283	-	-	63,202	8.8	12.5
	Legal & General	101,397	14.0	-	(14,431)	-	-	86,966	12.2	12.5
Private Equity		13,336	1.8	-	434	0	-	13,770	1.9	0.0
	Invesco	7,265	1.0	-	391	0	-	7,656	1.1	0.0
	Unicapital	6,071	0.8	-	43	-	-	6,114	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 2013

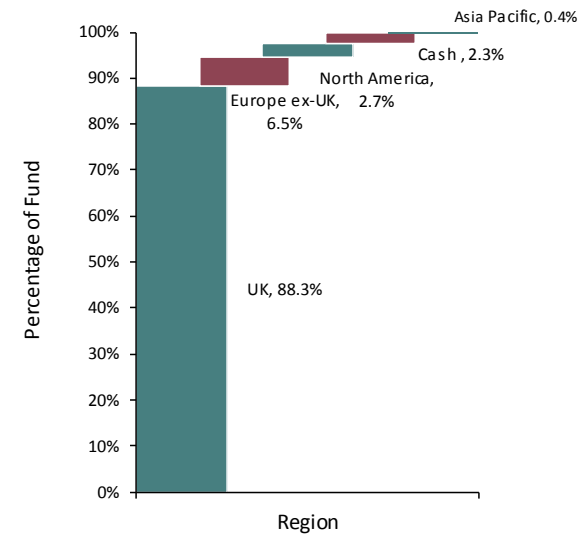


Notes: Breakdown has been estimated by P-Solve based on the available manager data.

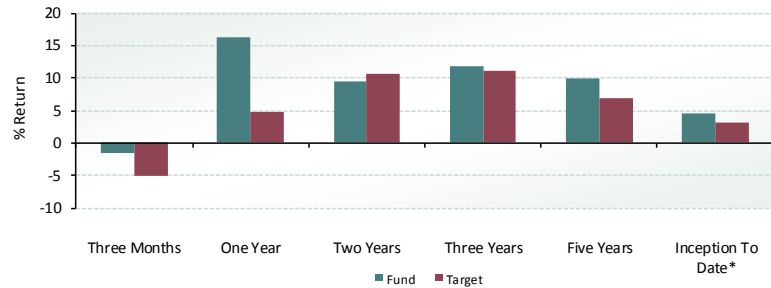
Breakdown of the MFS mandate



Breakdown of the Majedie mandate



Historical Fund Performance

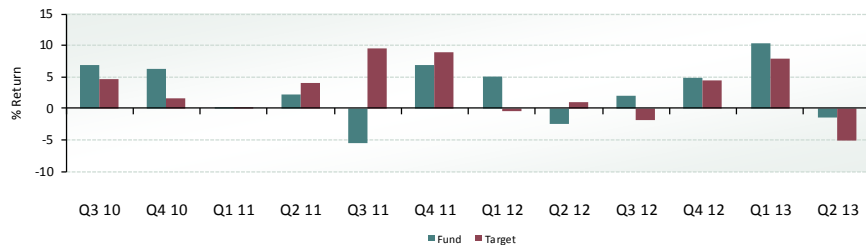


	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	-1.47	16.26	9.57	11.79	9.96	4.62
Target	-5.18	4.83	10.70	11.11	6.80	3.16

The Fund outperformed its liability benchmark by 3.71% over the quarter, returning -1.47% compared to the target of -5.18%. The Fund's performance of 16.26% over the year was ahead of its target by 11.43%. The Fund has kept pace over the last 3 years and has outperformed over 5 years and since inception by 3.16% and 1.46% per annum respectively.

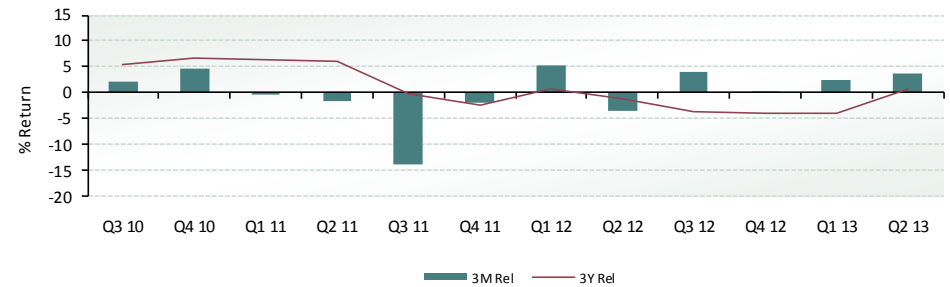
*Incepted 31 December 1999

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96	4.85	10.37	-1.47
Target	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96	4.46	7.96	-5.18

Three Years Rolling Relative Returns



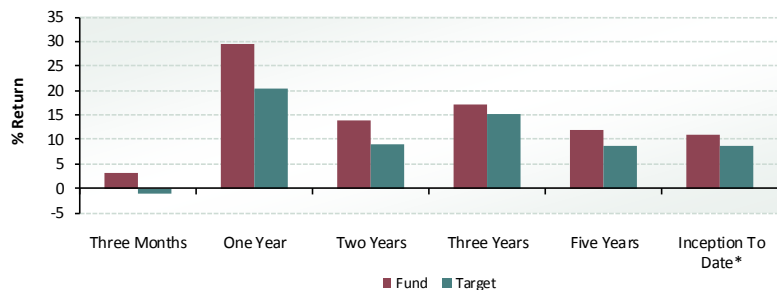
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00	0.39	2.41	3.71
3Y Rel	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46	-4.07	-3.90	0.68

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	Five Years	Inception To Date*
Fund	2.97	29.63	13.73	17.11	12.07	10.99
Target	-1.17	20.26	9.01	15.03	8.81	8.54

*Incepted 31 August 2005

Quarterly Manager update

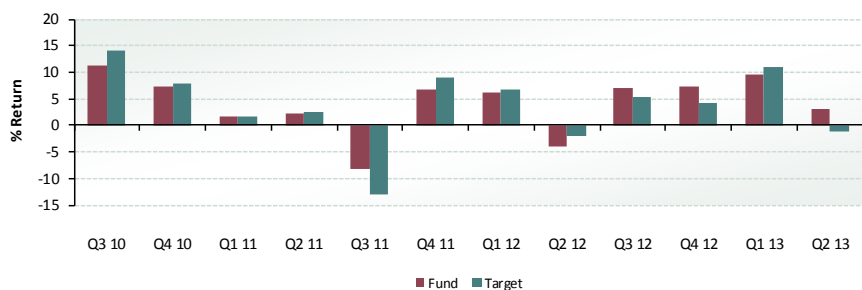
Organisation A new portfolio manager will join the team in November to focus on small-cap companies alongside Adam Parker. Richard Staveley joins from River & Mercentile, where he ran UK equity smaller companies and UK equity income funds.

Product No significant changes over the quarter.

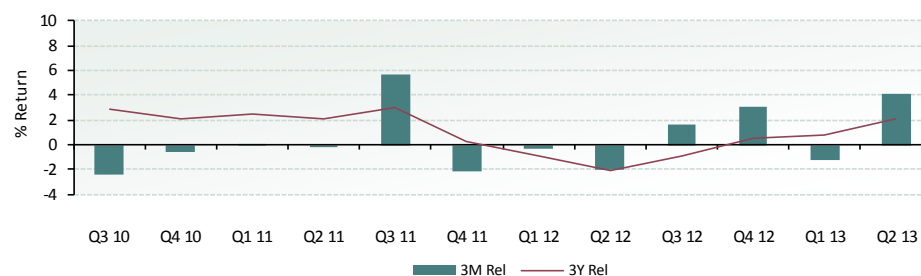
Performance The fund performance was 2.97% over the quarter, 4.14% ahead of its target. Over 12 months, the portfolio was 9.37% ahead of its target. Performance drivers were holdings in Nokia, Mediaset (Italian TV) and Post NL (Dutch postal), with other positive contributions from MyCelx Technologies, Lonrho, Blur Group, Polar Capital and Anglo Asian Mining. The main negative contribution was from FirstGroup whose share price fell due to a deeply discounted rights issue during the quarter.

Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96	7.42	9.57	2.97
Target	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21	4.33	10.85	-1.17

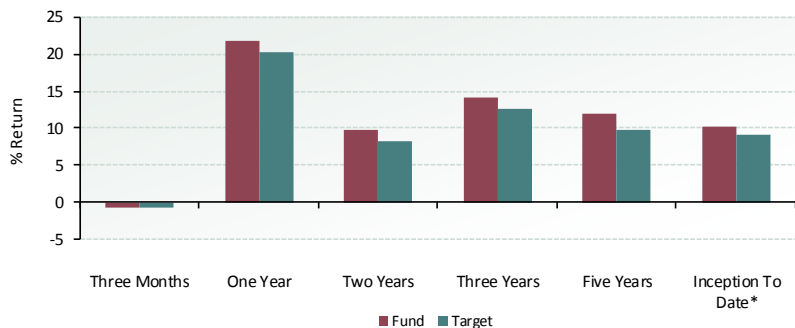
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66	3.09	-1.28	4.14
3Y Rel	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90	0.48	0.84	2.08

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.

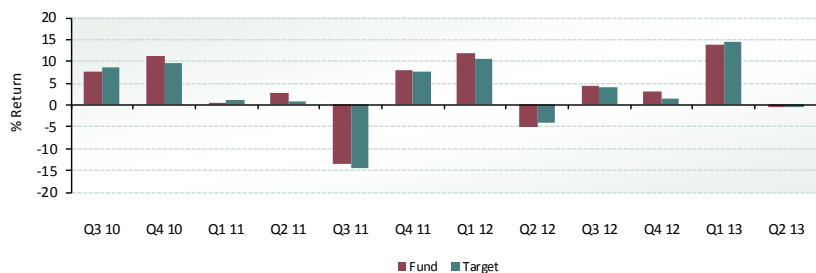
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	-0.62	21.87	9.88	14.05	11.97	10.32
Target	-0.63	20.22	8.35	12.60	9.79	9.02

*Incepted 31 August 2005

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31	3.23	13.88	-0.62
Target	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20	1.53	14.35	-0.63

Quarterly Manager update

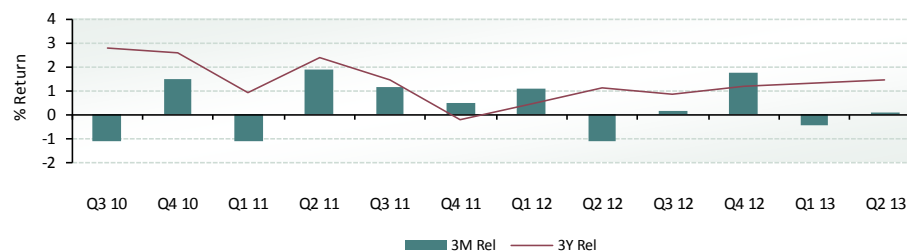
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The performance over the quarter was -0.62%, 0.01% ahead of its target. Over 12 months, the fund was 1.65% ahead of its target. An overweight position in the Industrial Goods & Services sector and stock selection in Danone, Walt Disney Co. and Occidental Petroleum Corp. has aided performance. However, holdings in the Financial Services sector as well as Toyota Motor Corp., Rio Tinto (mining company) and Saipem (oil services company) all detracted from performance over the quarter.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11	1.70	-0.47	0.01
3Y Rel	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83	1.14	1.33	1.45

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 Fund Performance

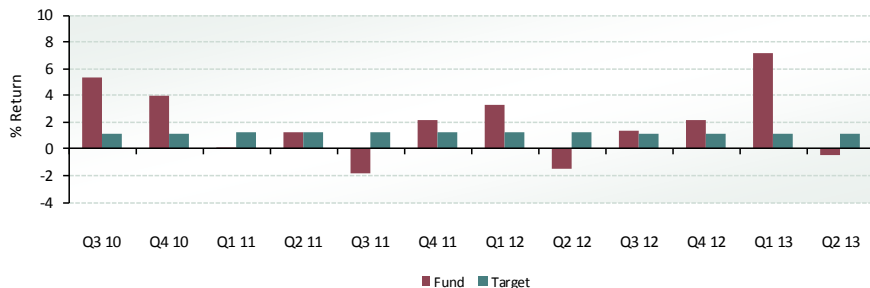


	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-0.51	10.37	6.13	7.65	9.56
Target	1.11	4.59	4.81	4.81	4.89

* Grouped performance inception 31 December 2008

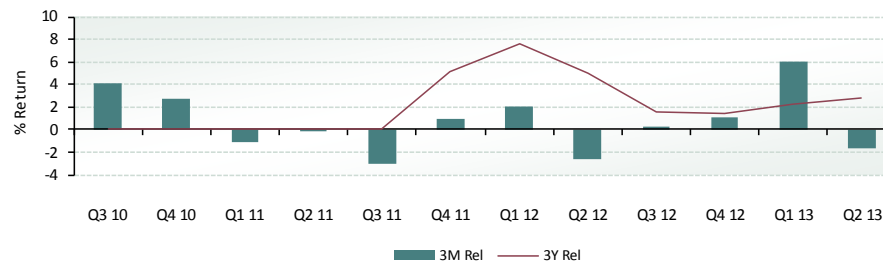
Both Dynamic Asset Allocation managers underperformed their LIBOR based targets over the quarter. Although Ruffer generated a positive absolute return of 0.5%, Barings returned -1.2% so overall the group returned -0.5% over the quarter, against the LIBOR based target of 1.1%. Both managers were negatively affected by the general pull back in all asset classes over late May and throughout June.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37	2.15	7.13	-0.51
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

Three Years Rolling Relative Returns



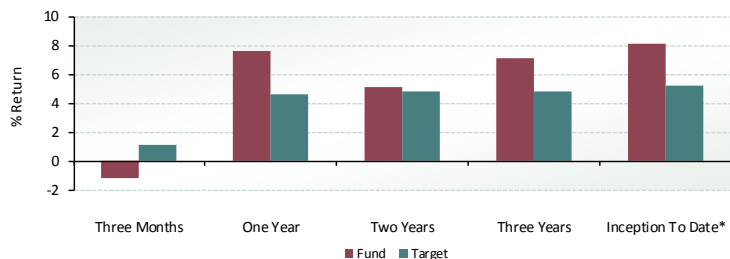
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20	1.03	6.02	-1.62
3Y Rel	-	-	-	-	-	5.10	7.54	4.97	1.59	1.39	2.21	2.84

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.

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.

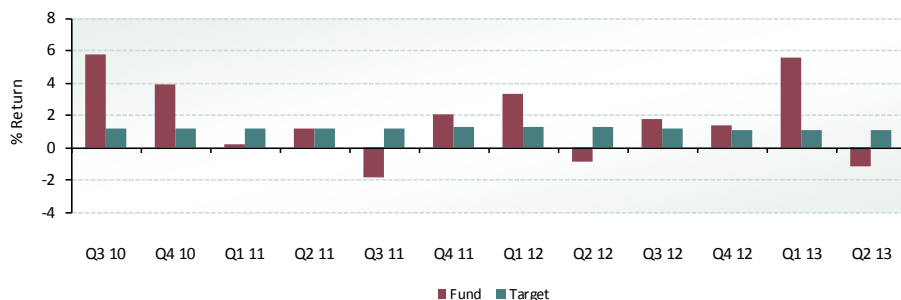
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-1.18	7.64	5.07	7.14	8.12
Target	1.11	4.59	4.81	4.81	5.23

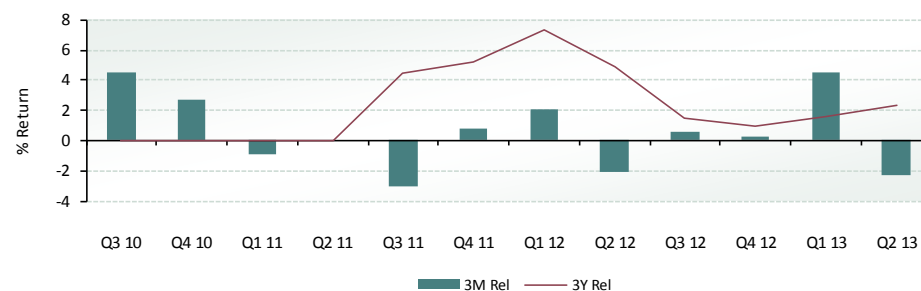
*Incepted 31 July 2008

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78	1.34	5.60	-1.18
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	0.60	0.22	4.49	-2.29
3Y Rel	-	-	-	-	4.51	5.26	7.38	4.90	1.46	0.98	1.61	2.33

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.

Quarterly Manager update

Organisation No significant changes over the quarter.

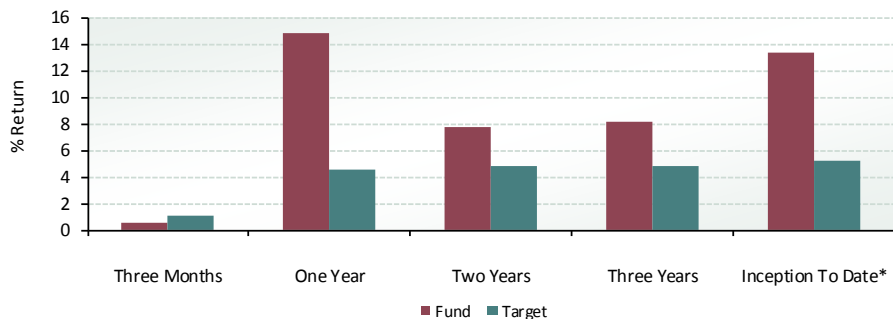
Product No significant changes over the quarter.

Performance The fund performance was -1.18% over the quarter, 2.29% below its target. Over 12 months, the fund is 3.05% ahead of target. Over the quarter, the largest detractor from returns came from the fund's relatively small exposure to Australian and US Treasuries, as the price of these assets fell following the Fed's announcement that they might slow their asset purchase programme earlier than anticipated. The fund's holding in gold and the general fall in equity markets over late May and June further detracted from performance.

Process No significant changes over the quarter.

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.

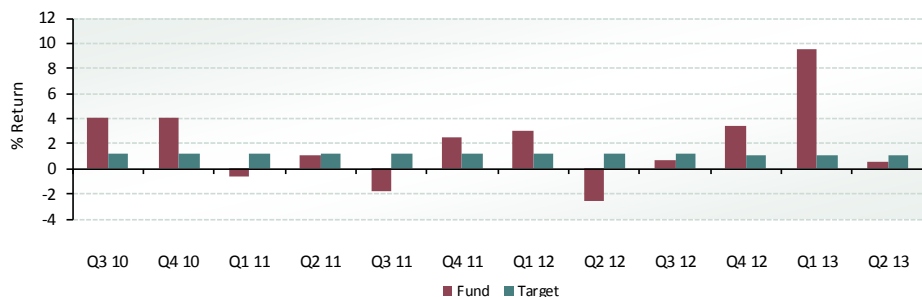
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	0.52	14.77	7.67	8.10	13.30
Target	1.11	4.59	4.81	4.81	5.23

*Incepted 31 July 2008

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71	3.47	9.57	0.52
Target	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11	1.11

Quarterly Manager update

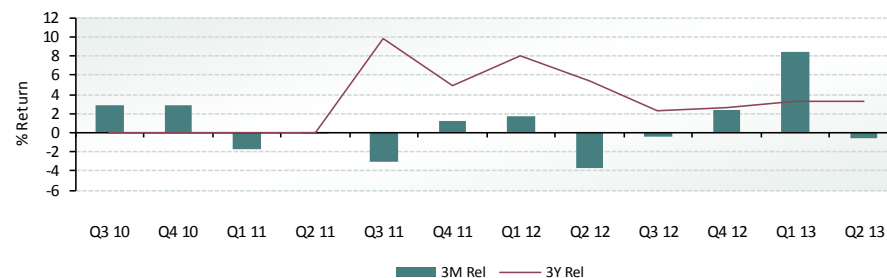
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 0.52% over the quarter, 0.59% below of its target. Over 12 months, the fund was 10.18% above the target. The returns for the portfolio were driven by continued positive contributions from Japanese equity exposure, specifically within bank and property stocks. Positions in US interest rate derivatives appreciated sharply as US bond yields rose following the Fed's implications of reduced asset purchases going forward. The main detractors from performance were the decline in value of inflation-linked bonds and a fall in the price of Gold that worsened with a strengthening of the US dollar over the quarter.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns

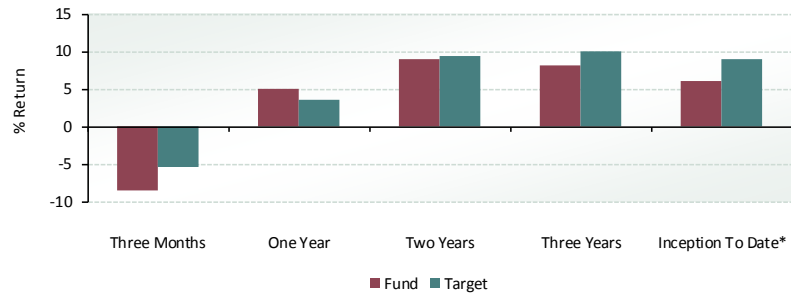


	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45	2.35	8.46	-0.59
3Y Rel	-	-	-	-	9.79	4.86	8.01	5.34	2.35	2.60	3.24	3.29

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 Fund Performance

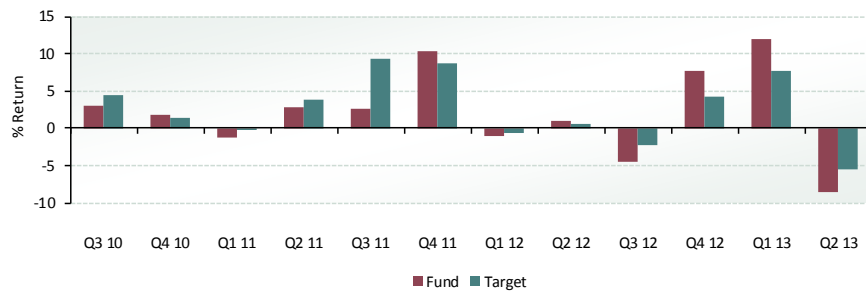


	Three Months	One Year	Two Years	Three Years	Inception To Date*
Fund	-8.61	5.09	9.05	8.15	6.09
Target	-5.47	3.59	9.40	9.93	9.01

* Grouped performance incepted 31 December 2008

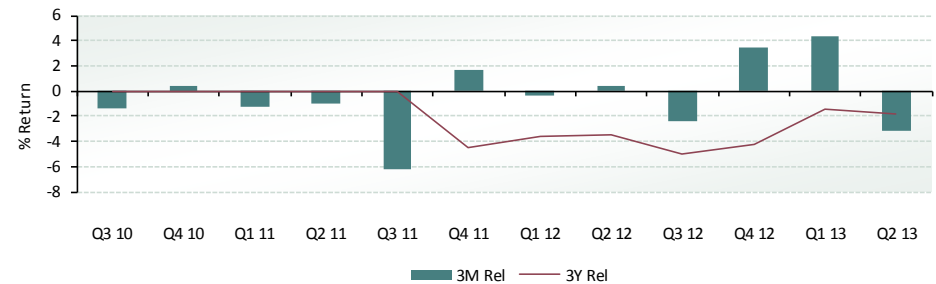
The performance of the Matching Fund over the quarter was -8.61%, 3.14% below its gilts-based liability benchmark. The Matching Fund return of 5.09% over the year and was 1.50% above its target.

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60	7.59	12.03	-8.61
Target	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25	4.15	7.64	-5.47

Three Years Rolling Relative Returns



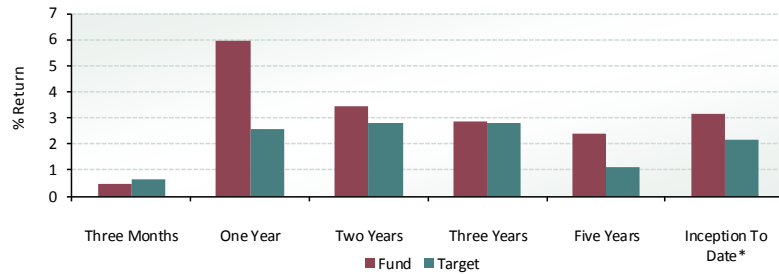
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40	3.44	4.39	-3.14
3Y Rel	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07	-4.23	-1.42	-1.78

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.

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.

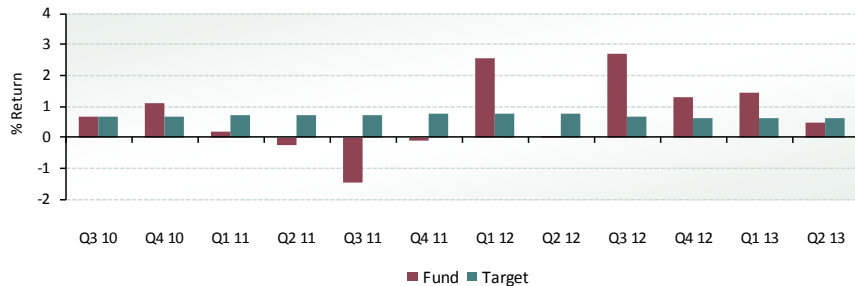
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date*
Fund	0.45	5.95	3.43	2.85	2.40	3.14
Target	0.62	2.58	2.79	2.79	1.13	2.14

*Incepted 31 March 2003

Three Years Rolling Quarterly Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67	1.27	1.44	0.45
Target	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68	0.63	0.62	0.62

Quarterly Manager update

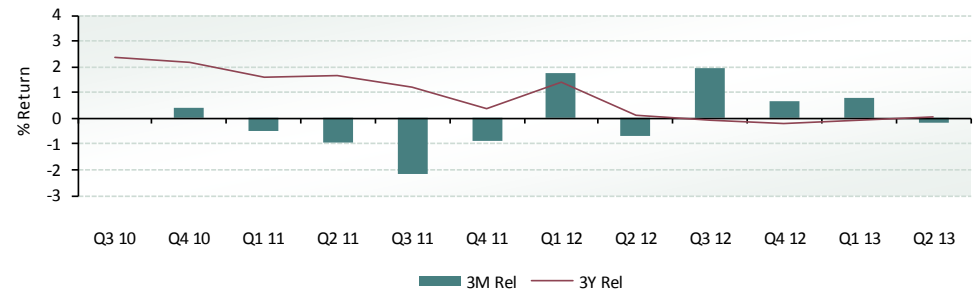
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 0.45% over the quarter, 0.17% below its target. Over 12 months, performance was 3.37% ahead of the target. Positive contributions over the quarter came from the portfolio's country and sector selection, for example the portfolio's bias to corporate risk. However, the portfolio's duration exposure, notably being long German bonds, detracted from performance as there was a general sell off in global fixed-income securities after the Fed's announcement that it might slow its asset purchases this year.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



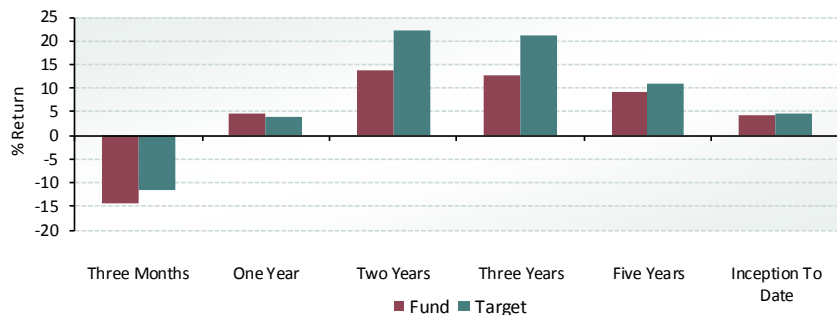
	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98	0.64	0.82	-0.17
3Y Rel	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10	-0.23	-0.10	0.06

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.

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.

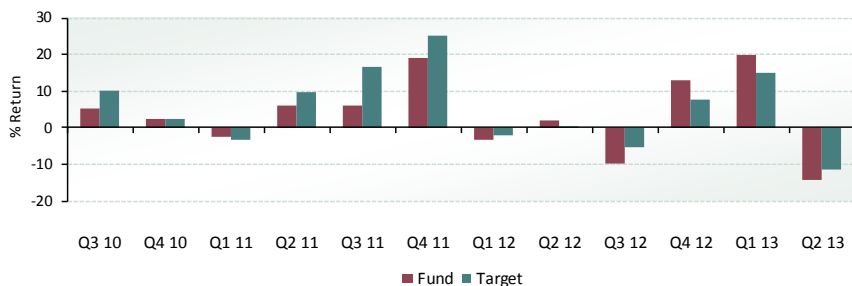
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	-14.23	4.47	13.76	12.79	9.02	4.34
Target	-11.42	3.82	22.02	21.08	10.86	4.75

*Incepted 30 June 1999

Three Years Rolling Quarterly Returns

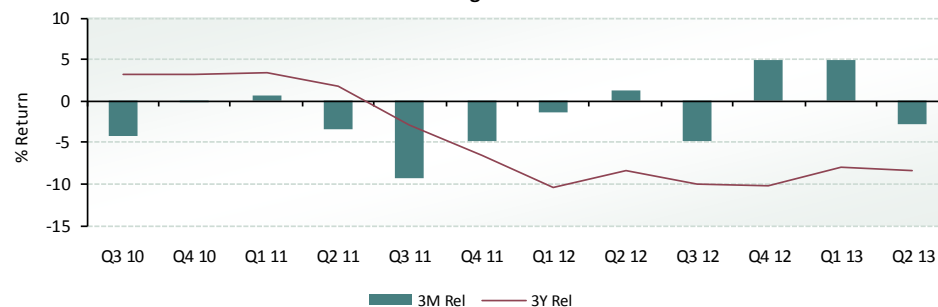


	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Fund	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81	12.75	19.79	-14.23
Target	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27	7.69	14.89	-11.42

Quarterly Manager update

- Organisation** No significant changes over the quarter.
- Product** No significant changes over the quarter.
- Performance** The fund performance was -14.23% over the quarter, 2.81% behind its bespoke target. Over 12 months, performance was 0.65% ahead of the target.
- Process** No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
3M Rel	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79	5.06	4.90	-2.81
3Y Rel	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01	-10.26	-7.91	-8.29

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.

A sell-off in June erased most of the gains made in risky assets since the start of the quarter. This was triggered when Ben Bernanke, the Chairman of the Federal Reserve (“Fed”), failed to deny the possibility of slowing the Fed’s asset purchases at some point this year. Markets were shaken by the mere discussion of “tapering”, highlighting the scale of investors’ apparent addiction to quantitative easing.

Whilst April and May were generally positive months for on-risk assets, volatility increased in June as a result of the mounting tapering speculation, with emerging market equities and riskier credit in particular suffering. Other developed equity market returns were mixed, with gains coming from Japan and the US, and small losses in the UK and Europe.

In contrast to previous sell-offs, June’s correction was not characterised by the usual flight to safety. The possibility that the US Fed may look to slow its asset purchases and possibly raise interest rates in time pushed yields up in most global economies, triggering negative returns from many conventionally “safe” assets.

Fixed interest and index-linked gilt yields rose significantly across the curve over the quarter, with the 10 year fixed UK gilt experiencing its sharpest quarterly yield rise since before the crisis began. The resulting fall in liabilities will provide a cushion to second quarter performance, offsetting some of the falls in asset values.

The euro zone was relatively uneventful over the quarter with the exception of the decision by the European Central Bank to cut interest rates by 0.25% in May. This was widely anticipated by investors however and with economic data continuing to disappoint, further cuts are still a possibility.

Japanese equities were the strongest performers over the second quarter despite suffering negative returns in May and June, their first monthly losses in 10 months. The announcement of a planned doubling of Japan’s monetary base in April was much more aggressive than markets had been expecting and marked a substantial change of policy. It is likely that further upside will require visible progress in ending deflation and reviving growth. Investors now require evidence of success rather than the mere hope of it.

Elsewhere, the eagerly awaited first quarter GDP figure for China disappointed many observers at only 7.7%. Also, the first signs of Chinese policy makers’ efforts to reign in their country’s private sector credit growth were witnessed in June when the overnight SHIBOR rate (the rate at which Chinese banks lend to each other) shot up past 13% p.a. The Chinese central bank was forced to intervene the following day, acting as the lender of last resort to prevent this short-term squeeze developing into a full blown credit crunch. These tensions are likely to re-emerge in the future as Chinese policymakers continue to attempt to curb the amount of capital funnelled into the shadow banking system at the expense of more productive parts of the economy.

Emerging markets fell further behind their developed counterparts during the second quarter partly due to lower than expected growth projections and an increase in developed sovereign debt yields. This, together with political unrest in some major emerging economies, slowing Chinese growth and a continued slump in demand for commodities have compounded what has already been a difficult year for emerging markets, a theme likely to continue for the rest of 2013.

Commodity markets also fell significantly over the quarter. Most notable were the falls experienced by precious metals, gold and silver.

P-Solve Contact

John Conroy

John.Conroy@psolve.com

020 3327 5048

11 Strand, London WC2N 5HR

Client Contact

Jonathan Hunt

jonathanhunt@westminster.gov.uk

020 7641 1804

Fund Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION

This Investment Governance Report has been prepared for the Audit & Pensions Committee of the London Borough of Hammersmith and Fulham Pension Fund (the “Fund”) only. It is not for onward distribution. The purpose of this report is to provide factual information relating to the current portfolios, valuation, components and a factual description of the performance in the period covered by the report. The subject matter of this report has been agreed with you and is provided by us in order to meet our reporting obligations to you under the FCA Rules. As such, it has not been prepared for distribution to individual scheme members or retail investors.

P-Solve is authorised and regulated by the Financial Conduct Authority and which is part of the Punter Southall Group of Companies.

This document is intended for the recipient only. The information expressed is provided in good faith and has been prepared using sources considered to be reasonable and appropriate. Past performance is not necessarily a guide to future returns.

Registered Office: 11 Strand, London WC2N 5HR. Registered in England & Wales: No. 3359127. FCA Registration No. 195028

**THIS REPORT IS ADDRESSED TO THE AUDIT & PENSIONS COMMITTEE OF THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND ONLY
– NOT FOR ONWARD DISTRIBUTION**