London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 1 2010

June 2010

CAMRADATA
Pension Reporting

Summary

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

The UK Equities are managed by Majedie and the Overseas Equities by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer, managing three quarters and one quarter of this section respectively. The Matching Fund is split equally between a global bond mandate managed by Goldman Sachs and a Liability Driven Investment (LDI) fund managed by Legal & General. With the exception of the LDI fund, all others are actively managed by fund managers who aim to meet or exceed their stated benchmark.

Liability Benchmark (LB)

To match the predicted growth in the liabilities, the Total Fund return needs to meet a return equivalent to the Liability Benchmark plus 1.75% 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 moves 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:

27% Index-linked Treasury Stock 2½% 2024, 63% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2055

This Liability Benchmark was last reviewed in September 2008.

Manager Benchmarks

Each Investment Manager has a benchmark which they are monitored against on an ongoing basis. These are:

Majedie	*FTSE All Share + 2% p.a. over three year rolling periods*
MFS	*FTSE World ex UK + 2% p.a. over three year rolling periods*
Barings	*3 month Sterling LIBOR + 4% p.a.*
Ruffer	*3 month Sterling LIBOR + 4% p.a.*
Goldman Sachs	*3 month Sterling LIBOR + 2% p.a.*
Legal & General	*2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.*

Private Equity

Additionally, the Panel has agreed to invest up to £15 million in four private equity fund of funds. Two managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two by Unigestion which is invested almost entirely in Europe.

Breakdown of Scheme Peformance by Manager as at 31st March 2010							
Fund	**Manager**	**Market Value (£000)**	**% of Total Fund**	**Target % of Total Fund**	**3 month return (%)**	**1 year return (%)**	**3 year return (%)**
Total Fund		**548,224**	**100.0**	**100.0**	**4.8**	**33.1**	**6.5**
Liability Benchmark + 1.75% p.a.					*3.2*	*14.0*	*(1.5)*
Difference					*1.5*	*19.1*	*8.0*
UK Equities		**143,998**	**26.3**	**25.0**			
	Majedie				4.7	49.7	6.2
FTSE All Share + 2% p.a.					*6.9*	*55.3*	*1.7*
Difference					*(2.2)*	*(5.6)*	*4.4*
Overseas Equities		**147,894**	**27.0**	**25.0**			
	MFS				9.8	46.6	9.9
FTSE World ex UK + 2% p.a.					*10.8*	*49.6*	*7.3*
Difference					*(1.0)*	*(3.0)*	*2.6*
Dynamic Asset Allocation Mandates		**137,032**	**25.0**	**25.0**	**4.7**	**28.0**	**-**
	Barings (note 2)	102,112	18.6	18.8	3.8	*27.9*	-
3 month Sterling LIBOR + 4% p.a.					*1.1*	*4.9*	
Difference					*2.6*	*23.0*	-
	Ruffer (note 2)	34,920	6.4	6.2	7.6	*28.2*	-
3 month Sterling LIBOR + 4% p.a.					*1.1*	*4.9*	
Difference					*6.5*	*23.3*	-
Matching Fund		**119,300**	**21.8**	**25.0**	**(0.9)**	**10.8**	
Liability Benchmark + 1% p.a.					*3.0*	*13.2*	
Difference					*(3.9)*	*(2.4)*	
	Goldman Sachs	58,098	10.6	12.5	1.1	10.3	0.2
3 month Sterling LIBOR + 2% p.a.					*0.7*	*2.6*	*(2.6)*
Difference					*0.5*	*7.7*	*2.8*
	Legal & General (note 3)	61,201	11.2	12.5	*(2.7)*	11.3	2.5
2 x FTSE + 15yr IL Gilts - LIBOR p.a.					*0.4*	*20.6*	*(2.6)*
Difference					*(3.1)*	*(9.3)*	*5.1*

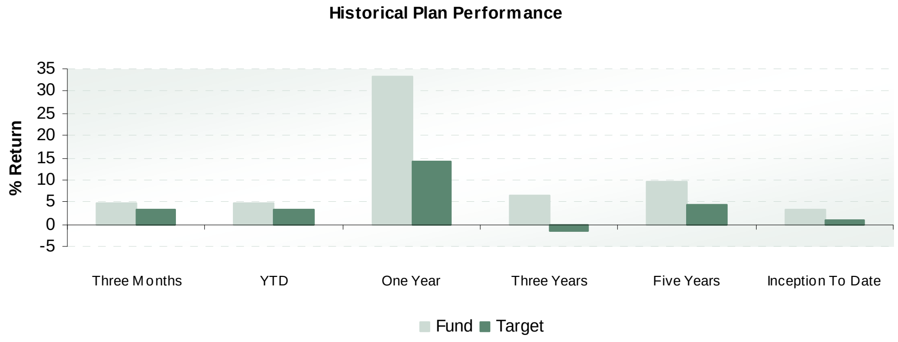
Notes:

1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.
3) At the time of reporting, the Legal & General mandate consisted of index linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.

Asset Reconciliation and Valuation										
Fund	**Manager**	**Opening Market Value as at 31st December 2009 £000**	**% of Total Fund**	**Net Investment £000**	**Appreciation £000**	**Income Received £000**	**Closing Market Value as at 31st March 2010 £000**	**% of Total Fund**	**Target % of Total Fund**
Total Fund		**523,353**	**100.0**	**-**	**22,666**	**2,205**	**548,224**	**100.0**	**100.0**
UK Equities	**Majedie**	**137,494**	**26.3**	**-**	**5,139**	**1,364**	**143,998**	**26.3**	**25.0**
Overseas Equities	**MFS**	**134,653**	**25.7**	**-**	**12,658**	**584**	**147,894**	**27.0**	**25.0**
Dynamic Asset Allocation Mandates		**130,848**	**25.0**	**-**	**5,929**	**255**	**137,032**	**25.0**	**25.0**
	Barings	98,406	18.8	-	3,667	39	102,112	18.6	18.8
	Ruffer	32,442	6.2	-	2,262	216	34,920	6.4	6.2
Matching Fund		**120,359**	**23.0**	**-**	**(1,060)**	**1**	**119,300**	**21.8**	**25.0**
	Goldman Sachs	57,468	11.0	-	630	1	58,098	10.6	12.5
	Legal & General	62,891	12.0	-	(1,690)	0	61,201	11.2	12.5

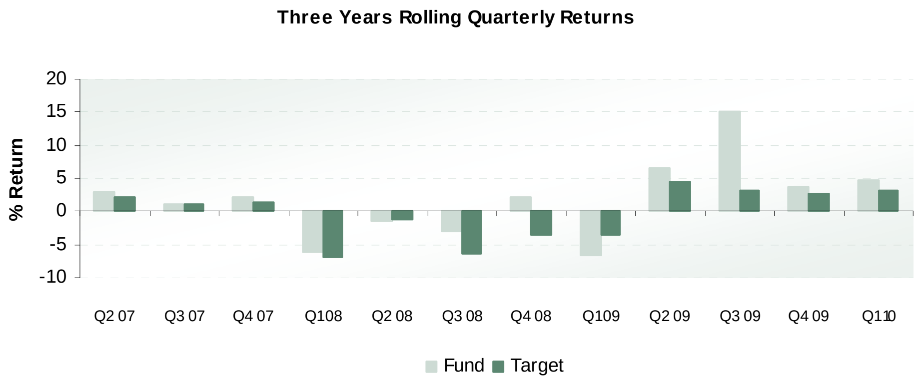
Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified. Figures may be affected by rounding.

Overall Performance

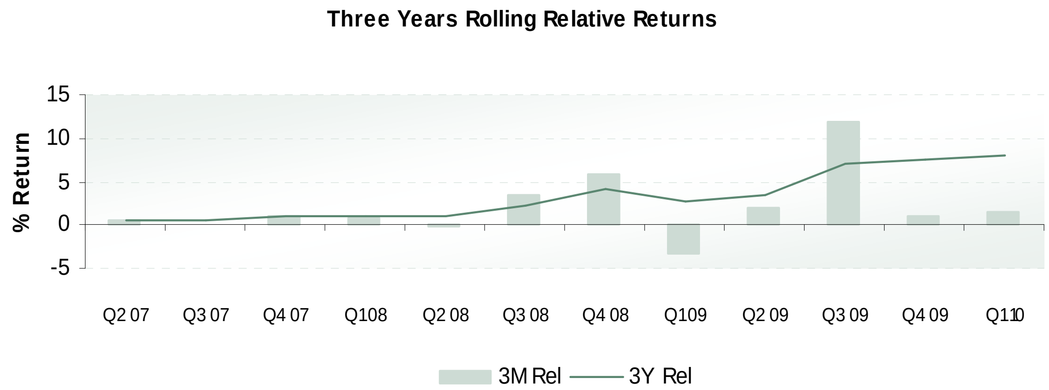


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.75	4.75	33.10	6.53	9.56	3.37
Target	3.21	3.21	14.01	-145	4.37	0.82

The Scheme outperformed its liability benchmark over the quarter, returning +4.8% compared to the target of +3.2%. The outperformance can be attributed to all areas of the strategy, particularly the DAA funds, with the exception of the Legal & General Gilt fund, although this fund did track the 2055 Single Stock Index-Linked index over the quarter. There was again significant outperformance over the last 12 months, of 19.1%, the outperformance can primarily be attributed to the rebound in equity markets, which particularly aided the performance of the DAA funds. Overall the Scheme has outperformed well on a 3 and 5 year basis.



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	2.87	109	2.28	-6.13	-139	-3.11	2.03	-6.68	6.46	15.21	3.59	4.75
Target	2.28	105	136	-6.85	-123	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21



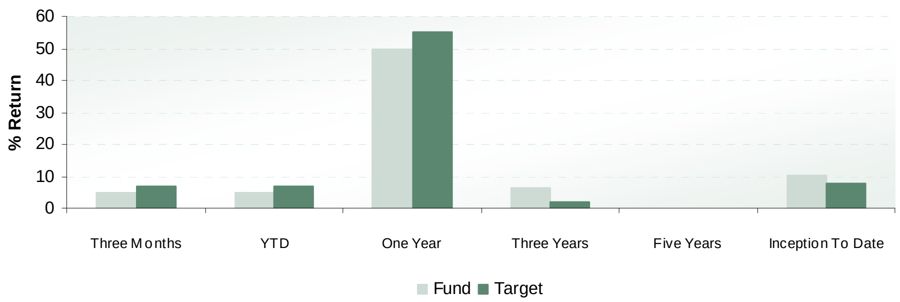
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	0.58	0.04	0.91	0.78	-0.16	3.45	5.85	-3.29	190	11.76	100	149
3Y Rel	0.47	0.58	0.95	108	103	2.21	4.13	2.79	3.37	7.14	7.52	8.10

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified. The historic figures for the three years rolling relative returns table differ from those shown in the Q3 report; Northern Trust have revised the historic figures since Q3.

Majedie

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

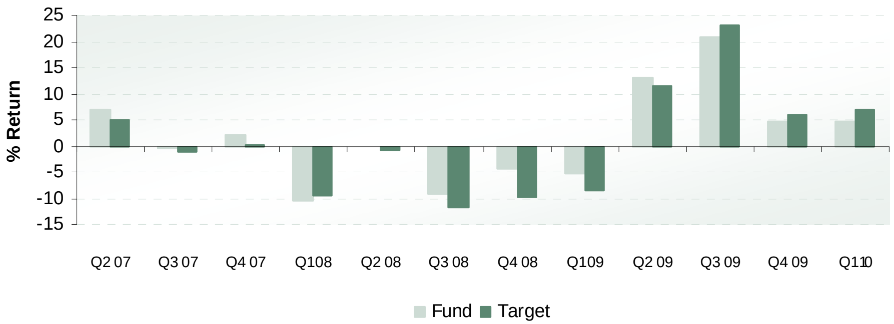
Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.73	4.73	49.68	6.17	-	10.40
Target	6.93	6.93	55.27	174	-	7.75

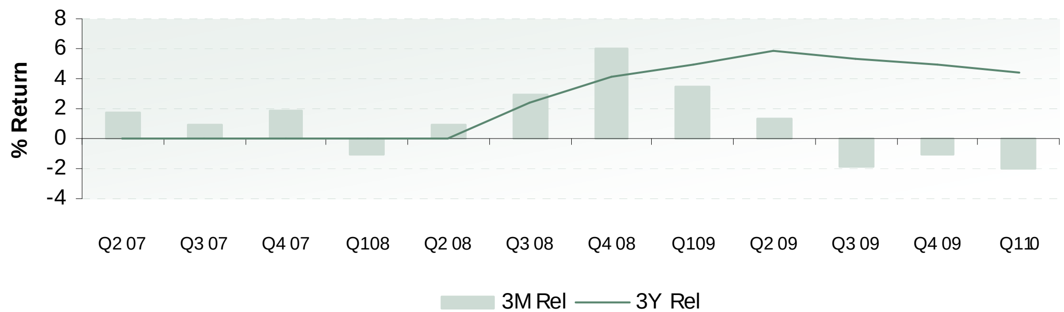
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 4.8% over the quarter, 2.2% behind its target. Over 12 months, they are 5.6% below their target. The portfolio has maintained a mildly cautious stance against a particularly robust market, costing the fund some relative performance. The fund's long position in Sportingbet stocks made a positive contribution to the fund's overall performance, while short positions in Carnival and Rio Tinto stocks were negative contributors to the fund's performance. Shares in many UK multinationals, such as GlaxoSmithKline, generally lagged the market over the quarter, despite being cheaply rated and seeing strong operating performance. Majedie believe that as risk appetite wanes, the defensive characteristics of the fund will shine through.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	6.84	-0.38	2.03	-10.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73
Target	5.06	-127	0.15	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93

Three Years Rolling Relative Returns

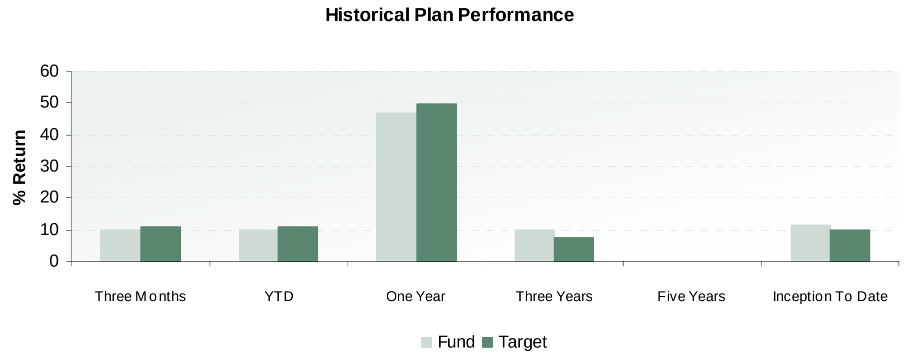


	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	170	0.91	188	-105	0.96	2.96	5.94	3.46	138	-181	-1.12	-2.06
3Y Rel	-	-	-	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified.

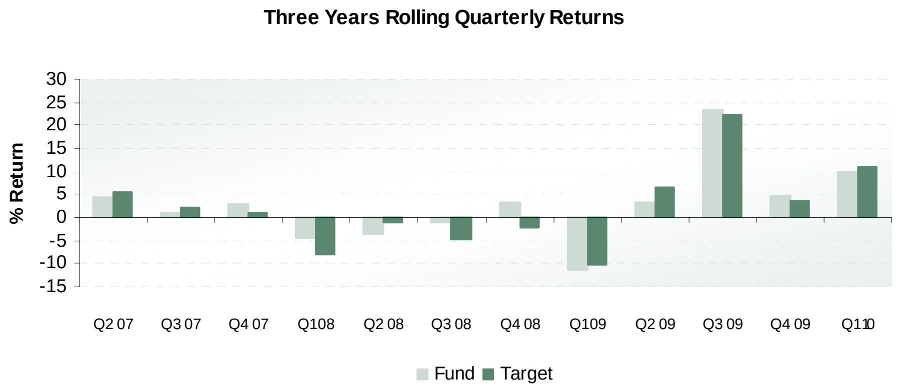
MFS

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

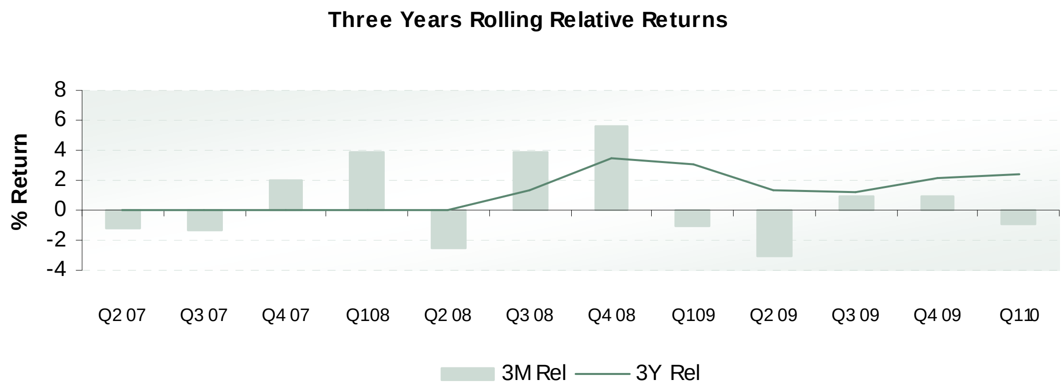


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	9.83	9.83	46.58	9.88	-	11.28
Target	10.80	10.80	49.61	7.31	-	9.92

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 9.8% over the quarter, 1.0% below its target. Over 12 months, they are 3.0% behind their target. Currency effects were adverse, due to the overweight to Euro and underweight to Japanese domiciled stocks, relative to the British Pound. Stock selection in health care, financial services and leisure also detracted from performance. However, the underweight positions in utilities & communications and autos & housing along with stock selection in technology, retailing and autos & housing added to the performance of the fund over the quarter.
Process	No significant changes over the quarter.



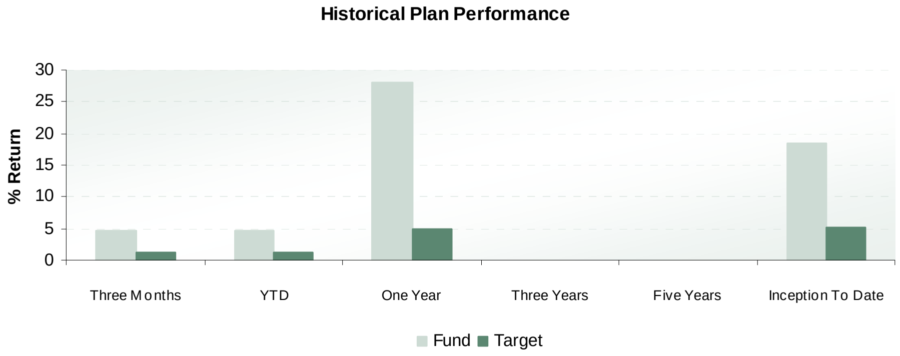
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	4.23	0.99	2.95	-4.44	-3.72	-1.02	3.29	-11.21	3.23	23.43	4.74	9.83
Target	5.43	2.28	0.94	-8.05	-1.27	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-1.15	-1.27	2.00	3.92	-2.48	3.93	5.64	-1.07	-3.02	0.92	0.98	-0.87
3Y Rel	-	-	-	-	-	1.32	3.50	3.02	1.32	1.21	2.11	2.39

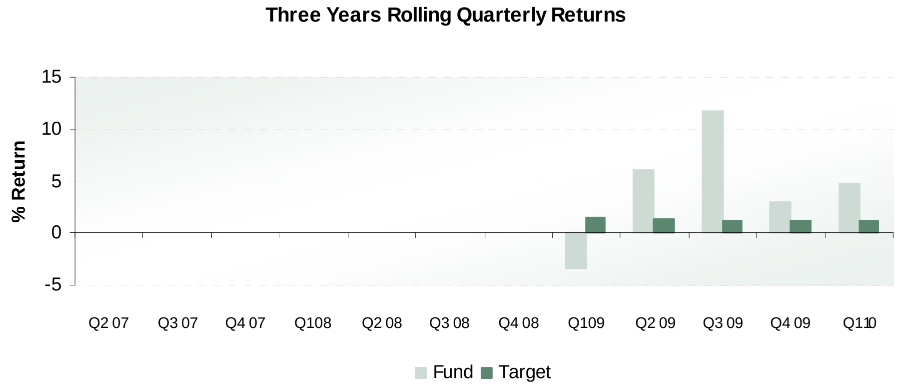
Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified.

Dynamic Asset Allocation Group

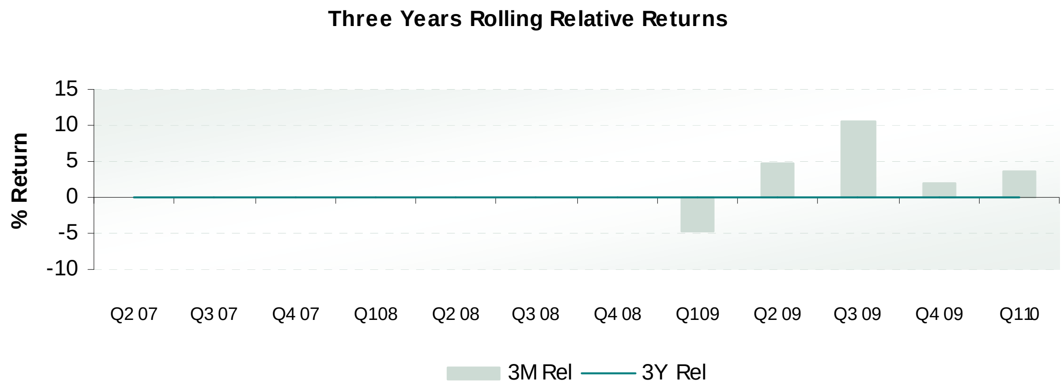


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.73	4.73	27.96	-	-	18.50
Target	1.14	1.14	4.88	-	-	5.14

The group has returned 4.7% over the quarter compared to its LIBOR-based target of 1.1%, due to strong performance from both Barings and Ruffer. Over the year to date, performance has been above target, as both Barings and Ruffer have outperformed. The Dynamic Asset Allocation group in general has benefited from the strong performance from the equity components of their portfolios.



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	-	-3.38	6.10	11.82	2.99	4.73
Target	-	-	-	-	-	-	-	1.50	1.33	1.19	1.14	1.14



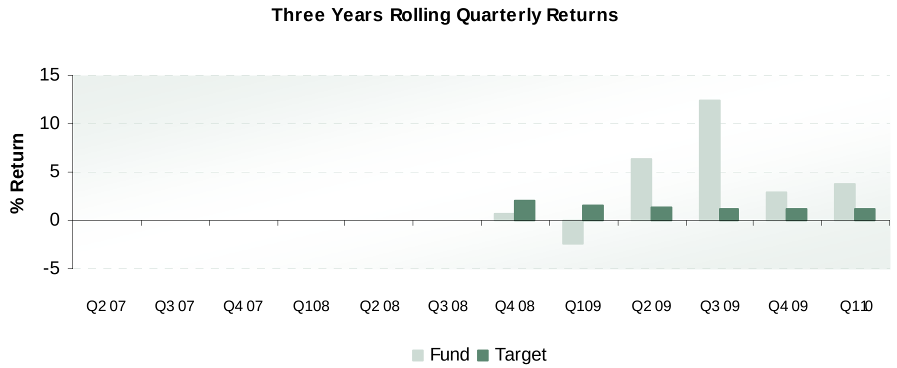
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-	-4.81	4.71	10.51	1.83	3.54
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified

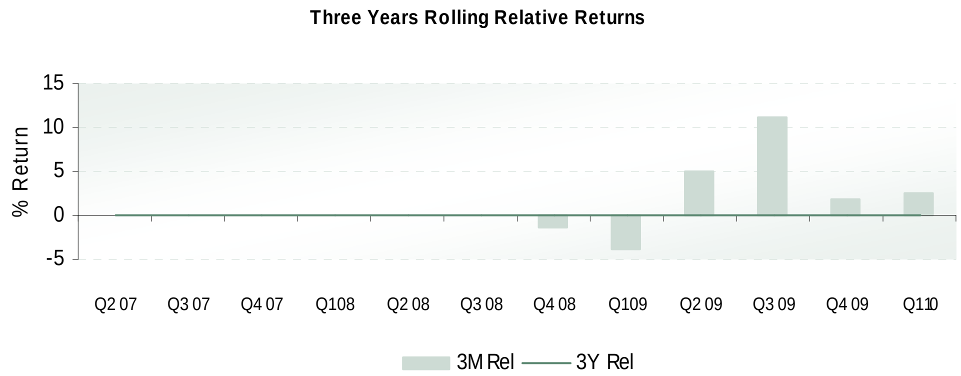
Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in July 2008.

	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	3.77	3.77	27.89	-	-	13.33
Target	1.14	1.14	4.88	-	-	6.08

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 3.8% over the quarter, 2.6% ahead of its target. Over 12 months, they are 23.0% ahead of their target. The UK equity holdings again provided the largest contribution over the quarter at 150 basis points. The next largest contributor to performance was Global ex UK bonds with a contribution of 110 basis points.
Process	No significant changes over the quarter.



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	0.67	-2.42	6.42	12.50	2.94	3.77
Target	-	-	-	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14



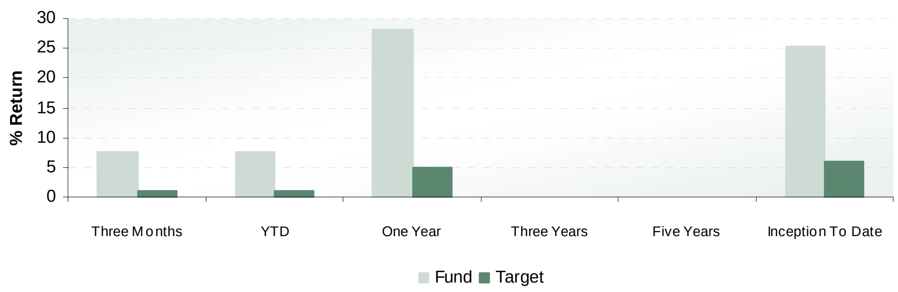
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-1.32	-3.86	5.02	11.18	1.78	2.59
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified

Ruffer

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

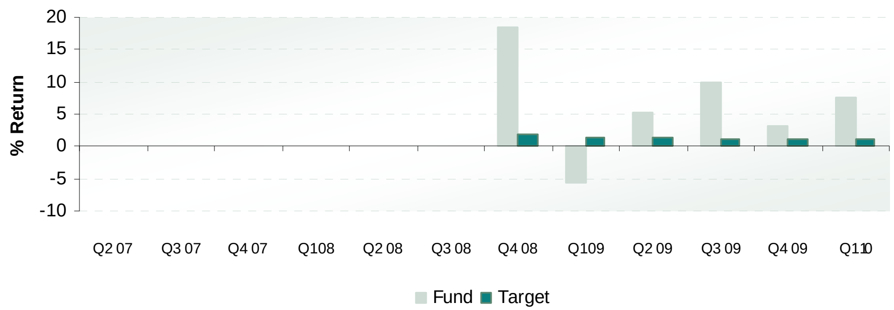
Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	7.64	7.64	28.19	-	-	25.32
Target	1.14	1.14	4.88	-	-	6.08

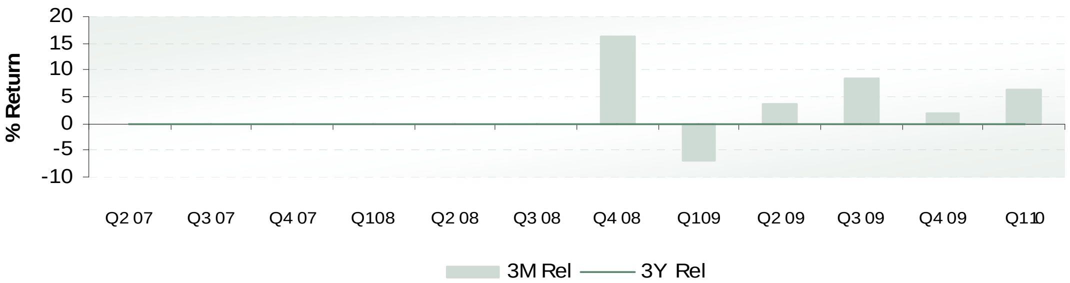
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 7.6% over the quarter, 6.5% ahead of its target. Over 12 months, they are 23.3% ahead of their target. Strong equity performance particularly in Japan and the funds increased dollar exposure led to a strong return over the quarter. Shares in BT group fell as the company was unable to confirm an agreement on the level of future pension contributions, however the attractions that Ruffer see in holding BT shares remain.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	18.47	-5.49	5.17	9.81	3.12	7.64
Target	-	-	-	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14

Three Years Rolling Relative Returns



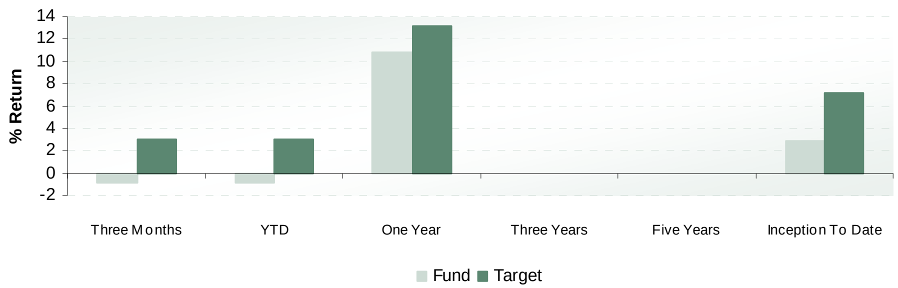
	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	16.14	-6.90	3.79	8.52	1.96	6.42
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified.

Matching Fund

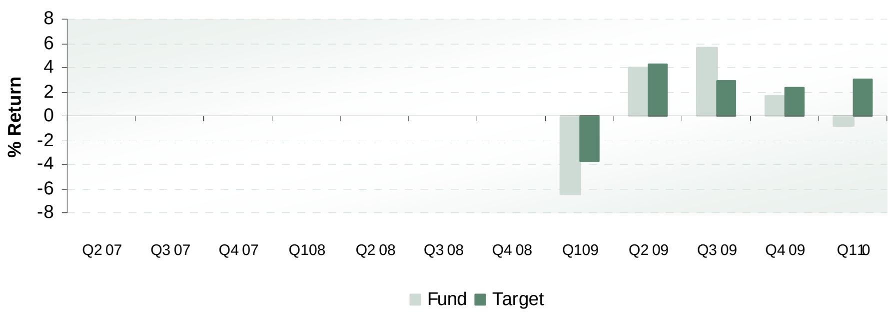
The performance of the Matching Fund over the quarter of -0.9% is below its gilts-based liability benchmark. This can be attributed to relative underperformance of the Legal & General Gilt fund. In contrast the Goldman Sachs fund performed well over the quarter.

Historical Plan Performance



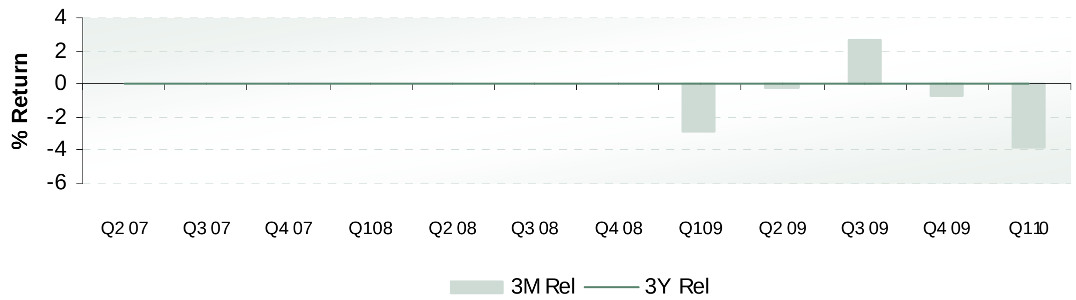
	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-0.88	-0.88	10.78	-	-	2.90
Target	3.02	3.02	13.18	-	-	7.15

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	-	-	-	-	-	-	-	-6.45	4.04	5.66	167	-0.88
Target	-	-	-	-	-	-	-	-3.68	4.28	2.90	2.38	3.02

Three Years Rolling Relative Returns



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	-	-	-	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified.

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 Feb 09 manage an active bond fund.

Goldman Sachs

Quarterly Manager update

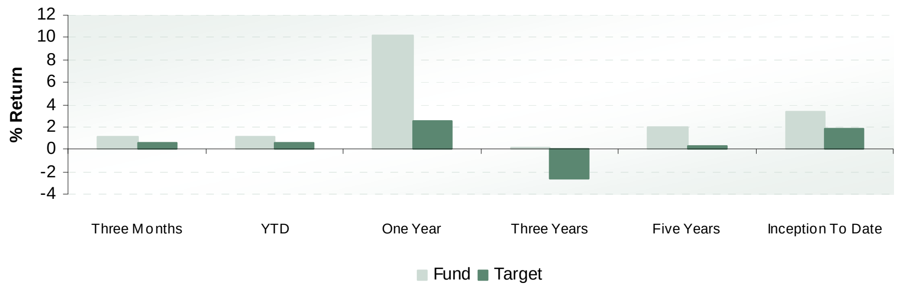
Organisation
After the end of the quarter the US Securities and Exchange Commission ('SEC') announced that Goldman Sachs is to face a fraud charge. Goldman Sachs is accused of committing civil fraud by selling Abacus (a mortgage-backed security) to investors without telling them hedge fund Paulson & Co was shorting the instrument. It is also accused of failing to reveal it allowed Paulson to select many of the securities held in Abacus.

Product
No significant changes over the quarter.

Performance
The fund performance was 1.1% over the quarter, 0.5% ahead of its target. Over 12 months, they are 7.7% ahead of their target. The strong fund performance can mainly be attributed to the fund's overweight holdings to corporate and MBS credit, the long positions in 5yr and 10yr nodes of the European yield curve and the fund's long Europe / short US and long Europe / short UK positions.

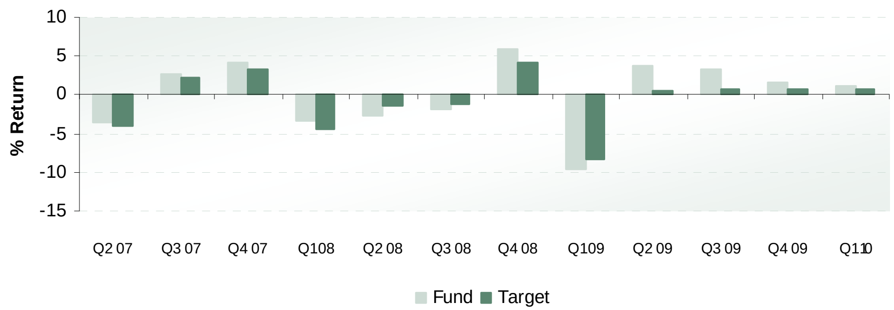
Process
No significant changes over the quarter.

Historical Plan Performance



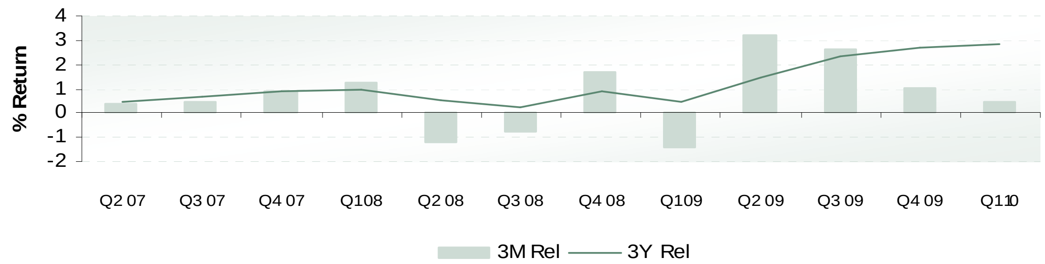
	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	1.10	1.10	10.25	0.15	197	3.38
Target	0.65	0.65	2.59	-2.64	0.26	184

Three Years Rolling Quarterly Returns



	Q2 07	Q3 07	Q4 07	Q108	Q2 08	Q3 08	Q4 08	Q109	Q2 09	Q3 09	Q4 09	Q110
Fund	-3.55	2.60	4.24	-3.27	-2.67	-186	5.86	-9.70	3.78	3.36	166	1.10
Target	-3.93	2.15	3.29	-4.46	-148	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65

Three Years Rolling Relative Returns

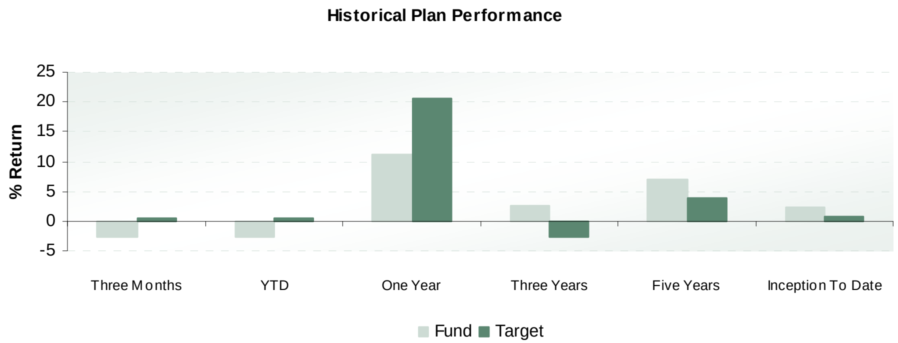


	Q2 07	Q3 07	Q4 07	Q108	Q2 08	Q3 08	Q4 08	Q109	Q2 09	Q3 09	Q4 09	Q110
3M Rel	0.39	0.44	0.91	124	-121	-0.74	170	-143	3.20	2.64	101	0.44
3Y Rel	0.49	0.67	0.89	100	0.54	0.27	0.90	0.47	148	2.37	2.68	2.86

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified.

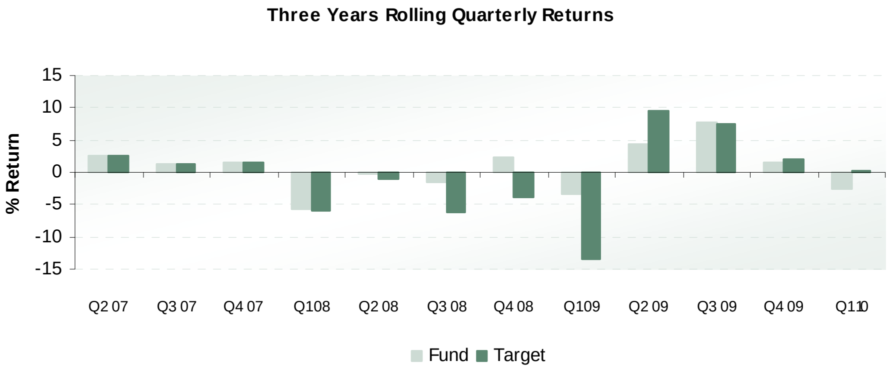
Legal & General

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

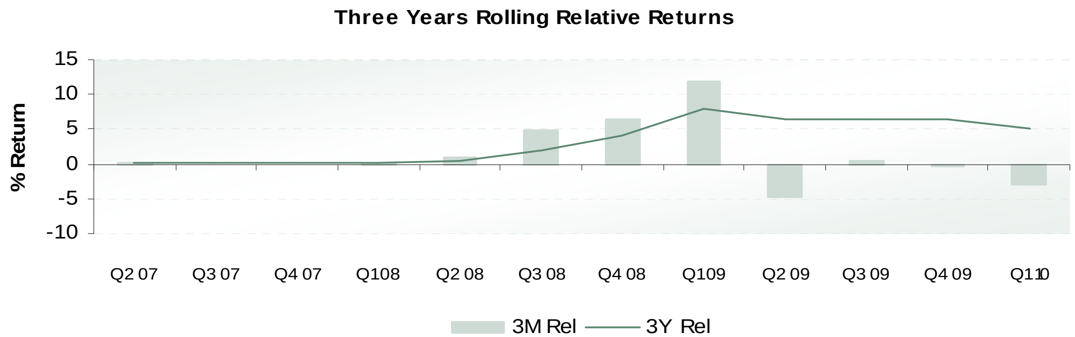


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	-2.69	-2.69	1129	2.47	7.05	2.29
Target	0.36	0.36	20.59	-2.59	3.80	0.67

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -2.7% over the quarter, 3.0% below its target. Over 12 months, they are 9.3% behind their target. The fund, which is invested in the 2055 Index-Linked Gilt, has again tracked its benchmark over the quarter. Although the return this quarter has been negative, the fund as a whole has continued to achieve its target of tracking its benchmark since inception.
Process	No significant changes over the quarter.



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
Fund	2.51	134	166	-5.79	-0.17	-160	2.34	-3.32	4.29	7.85	168	-2.69
Target	2.46	142	167	-5.98	-0.99	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36



	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10
3M Rel	0.05	-0.08	-0.01	0.19	0.83	4.97	6.49	1178	-4.77	0.34	-0.40	-3.03
3Y Rel	0.18	0.12	0.12	0.12	0.42	2.03	4.16	8.07	6.34	6.46	6.29	5.20

Notes: All numbers are sourced from the Custodian, Northern Trust and have not been independently verified. Northern Trust have revised some of the rolling three year fund and target performance numbers from their Q4 2009 report.

Market Commentary – 22nd April 2010

This is a general market commentary for CAMRADATA Pension Fund clients covering the events of Q1 2010.

Equity markets, though advancing for the fourth consecutive quarter on the back of continued global recovery, experienced a volatile start to the year with global markets losing ground during the latter part of January, before rallying again in February and March.

The Budget revealed few major changes to fiscal projections but given the proximity to a General Election, lacked detail as to how the government's deficit was to be addressed. The consensus view is that the "real" budget will take place post election.

With the exception of the Euro, Sterling weakness against most other major currencies, notably the Yen and $US, enhanced local returns. This weakness was attributable to a combination of poor economic data, implying a continued hold in interest rates and signs of a rise in inflation.

Data included a surprisingly poor trade balance for the UK in January with exports and imports falling by 1.6% and 6.9% respectively. This fuelled speculation over why the UK's net trade position has not recovered given the depreciation of Sterling. However, in February the trade deficit fell from £3.9 Billion to £2.1 Billion as a consequence of export growth and a reduction in imports.

The manufacturing PMI index fell from 58.4 to 56.5 in March but remains indicative of growth while the service sector figure reached a three-year high. Annual CPI inflation rose to 3.4% some 1.4% above the Bank of England's target.

In the UK, the FTSE All-Share Index rose 6.4% over the quarter whilst overseas equity markets were led by Japan and the US which returned 15.4% and 12.4% over the quarter in sterling terms respectively. Emerging market equities continued to deliver strong returns to sterling based investors providing 10.3% over the quarter. European Equities (excluding the UK) meanwhile proved more disappointing with a return of 4.0% over the quarter in sterling terms.

Investors' continuing concerns over a soaring budget deficit combined with worries over the implications of a "hung parliament" post General Election, adversely impacted the Gilt market over the quarter.

These concerns against a backdrop of relatively slow economic recovery also affected other government bond markets on worries over the sustainability of some countries' medium-term fiscal positions. As a result, investors demanded higher yields to absorb the sizeable prospective bond issuance with notable increases in yields on some euro-zone economies relative to German Government Bonds.

Larger public sector deficits might in theory be expected to push up on real interest rates or future expected inflation. Over recent months, medium (5-year) forward rates rose internationally, particularly for sterling. In contrast UK and US future inflation rates (implied from the swap markets) were little changed.

Fixed interest investors saw a rise in premiums for protection against default for some sovereign debt by the use of sovereign credit default swaps. This was particularly true in Greece, where a substantial budget deficit and the lack of a substantive plan to address it caused a crisis of confidence leading to other Euro-Zone governments having to offer support. Greece continued to maintain that it would be able to finance its debt through market issuance though nervous investors have unloaded Greek Bonds in recent weeks pushing interest rates

Note: To put past performance into context, the market commentary is not updated to take into account any events after the date of production.

on 10 year debt to 8%. This has led Greece to renew talks with fellow European Union members and the IMF on a financial rescue deal. Although the Greek problem is perhaps the most serious, the general situation is exacerbated by similar challenges facing Portugal, Ireland, Italy and Spain (the so called PIIGS economies) which also unsettled markets. Even Bundesbank bond auctions have been affected with the most recent auction of 30 year Bunds only partially sold.

Despite rising yields notably at the long end of the market, UK Fixed Interest Gilts overall produced a positive return of 1.1% for the quarter due to the effect of interest earned. That said, longer dated Fixed Interest Gilts only just managed to stay in positive territory with a return of 0.2% over the period. Meanwhile the UK Corporate Bond sector was the best performing area within UK fixed interest with a return of 4.0% with UK Index-Linked Gilts delivering a more modest 2.2%.

Investors in fixed interest focussed on more riskier sectors of the market as lower rated bonds continued their rehabilitation and benefited from Sterling weakness. Global High Yield Bonds and Emerging Market Debt producing equity like returns of 11.3% and 10.3% in sterling terms respectively.

Commercial property values continued to advance albeit at a far less hectic pace than was seen in the final months of 2009. The best sector was retail warehousing and the best area was central London where there was evidence of rental increases, the first for 3 years following downward pressure as the result of difficult economic conditions. Improved valuations have helped release liquidity but transactional volumes remain low. Overall property provided a return of 5.1% over the quarter.

Outlook

An election in the UK is imminent and is largely overshadowing the domestic market. Sentiment is more likely to be influenced by the outcome than any policy announcements in the interim. Expectations are that there will be “pain” ahead but it is by no means clear in which areas or to what extent.

From an investment perspective and despite improving sentiment, equity markets remain vulnerable to any economic setbacks and concerns still remain globally over levels of sovereign debt.

Over the past 12 months, Governments have focussed on addressing the credit crunch crisis however the debt crisis still remains and the issue of excess fiscal debt will continue to present difficult challenges for the foreseeable future.

Sources: Bloomberg, Reuters, Datastream, Bank of England, Office for National Statistics

Note: To put past performance into context, the market commentary is not updated to take into account any events after the date of production.

Chris Windeatt, Senior Associate at CAMRADATA Analytical Services, discusses analytics.

Market events over the last two years have highlighted the increasing need to regularly assess your Pension Scheme's investment managers. It is important to understand how your existing managers add value, and whether this is by luck or judgement.

When thinking about your existing investment managers, you may ask yourself "Is this the right time to sell my incumbent fund manager?" Poor performance may not give you sufficient comfort to make a sell decision. To supplement the information from performance reporting, it is useful to have additional insight from quantitative analysis. You want to make an informed decision, and balance the costs involved in switching managers against potential lost returns. For example, if a manager has underperformed recently what has caused this; and if a manager has outperformed recently, wouldn't you like to know more about how they have achieved this?

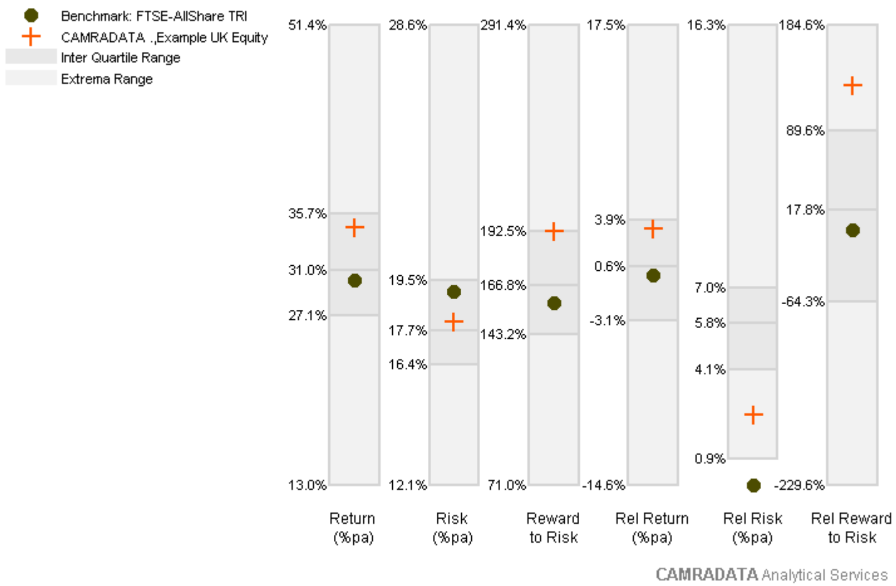
If you decide to sell a fund manager the next stage is to identify new managers with skill; and get to the bottom of the key issues that affect each one. To do this you may want to organise a beauty parade and interview each manager in turn. To support you, new analytical techniques can cut through the wall of data to provide you with a summary of how skilled an investment manager is, and tell you more about their true philosophy. More importantly, it allows you to quickly get to the searching questions that test a manager's thinking on their approach and style.

Returns data can provide an insight into an investment manager's story, and applying returns analysis across a universe can offer a valuable insight into the industry. Analytics are key to framing historic returns and can affect the buying and selling decisions. Quantitative analysis of universe returns is important in making a well informed decision regarding new and existing investment managers.

Another form of analysis is to assess an investment manager against a selected peer group. Peers need to be a representative comparison so it is necessary to ensure that the peer group is as fair as possible. Graphical representation can be used such as summary risk-return charts and calendar year peer group dispersion charts in order to assess performance.

Let us now look at some case studies which explore the measurement of an investment manager:

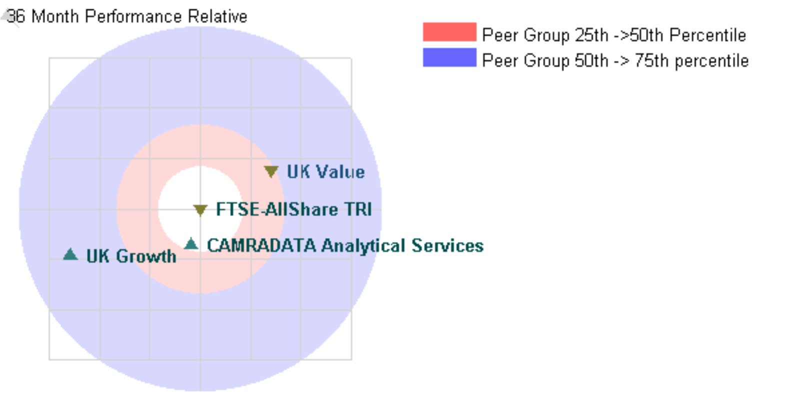
Case Study 1: Summary Statistics



In this chart the bars relate to return, risk and reward to risk in absolute terms, and relative to the FTSE All Share Index. A natural question that a trustee may ask is 'where is my fund manager in the peer group'? In this example the red cross is well within the upper quartile for relative reward to risk. This indicates a fund which historically has been very effective at transforming risk from the benchmark into positive relative returns. Conversely, if the red cross was within the lower quartile for relative reward to risk, then this would indicate a fund which had not been effective at transforming risk from the benchmark into positive relative returns.

Case Study 2: Mapping

In another case study, we examine the distances between styles to tell us about the sort of stocks that a fund invests in. It is important to understand a manager's style basis, as this leaves trustees with an understanding of the environments in which the manager is likely to outperform. A manager investing in distinctly growth stocks would be expected to lie closer to an index made of these growth companies, than to an index made of value companies.



The points broadly map the products variance relative to each other, arrows represent three year relative performance.

CAMRADATA Analytical Services

For illustration purposes, we have shown a hypothetical CAMRADATA Analytical Services fund.

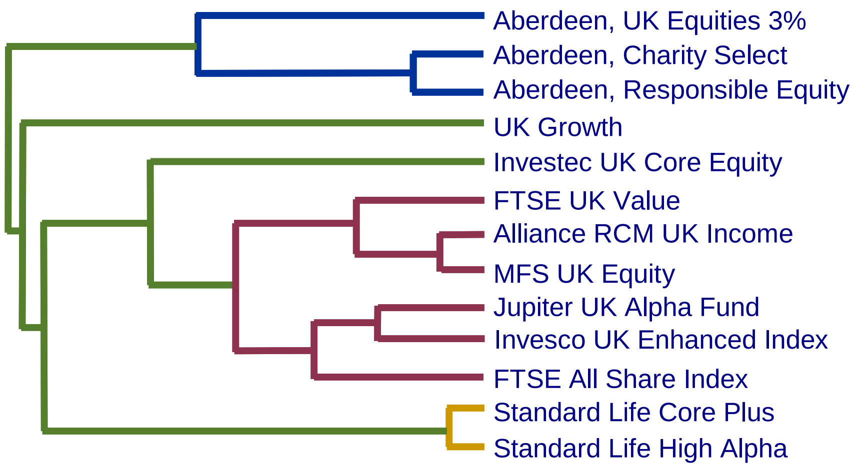
The map in this chart places the benchmark in the middle. As we move away from the benchmark we are taking increasing risk relative to it.

The colours in the target areas tell us about the level of risks taken relative to the benchmark by the wider peer group. Seventy five percent of the peer group lie at a risk level from the index within the blue area, fifty percent within the red area and twenty five percent within the white area.

Case Study 3: Dendrogram

In our final case study we will be extracting 'returns DNA' and map it as a family tree from a manager peer group. Typically 90% of the variance in a peer group can be compressed to a smaller set of bellwether products that represent specific types of 'returns DNA'. The realism from this analysis is very interesting, as you can identify investment managers who sit opposite each other but don't necessarily share ideas, and other products that you thought were complimentary to be as closely related as a brother and sister.

These analytics can be used to identify complementary managers, and ways to improve the diversification properties of a portfolio. It is also possible to apply these mapping techniques to spot the product that really is away from the herd.



In this example, several houses can demonstrate that they operate a house process because their products have been linked together, like Aberdeen and Standard Life. In this particular case, Alliance RCM UK Income and MFS UK Equity have been identified as having demonstrated certain similarities in style because they are also closely linked together.

What does this mean for my Scheme?

Assessing your Scheme's investment managers is an important part of your role as a Trustee. Understanding why an investment manager has performed well or poorly can assist in the decision making process for retaining or adding new investment managers. Using this type of analysis gives Trustees more information to assess and question their investment managers.

If you would like further information about how we can help you, please contact your usual CAMRADATA governance adviser. We will also be happy to discuss the various other tools that can assist you with your understanding.

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

IMPORTANT INFORMATION

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