London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 3 2010

November 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 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:

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 30th September 2010							
Fund	**Manager**	**Market Value (£000)**	**% of Total Fund**	**Target % of Total Fund**	**3 month return (%)**	**1 year return (%)**	**3 year return (%)**
Total Fund		**547,987**	**100.0**	**100.0**	**6.9**	**8.6**	**5.2**
Liability Benchmark + 1.75% p.a.					*4.7*	*13.0*	*(0.4)*
Difference					*2.2*	*(4.4)*	*5.6*
UK Equities		**143,560**	**26.2**	**25.0**			
	Majedie				11.4	9.4	3.9
FTSE All Share + 2% p.a.					*14.2*	*14.7*	*0.9*
Difference					*(2.8)*	*(5.3)*	*3.0*
Overseas Equities		**141,783**	**25.9**	**25.0**			
	MFS				7.5	10.3	6.5
FTSE World ex UK + 2% p.a.					*8.8*	*11.7*	*3.7*
Difference					*(1.3)*	*(1.4)*	*2.8*
Dynamic Asset Allocation Mandates		**140,380**	**25.6**	**25.0**	**5.3**	**11.1**	-
	Barings (note 2)	104,629	19.1	18.8	5.7	9.4	-
3 month Sterling LIBOR + 4% p.a.					*1.2*	*4.7*	-
Difference					*4.5*	*4.7*	-
	Ruffer (note 2)	35,751	6.5	6.2	*4.1*	*16.1*	-
3 month Sterling LIBOR + 4% p.a.					*1.2*	*4.7*	-
Difference					*2.9*	*11.4*	-
Matching Fund		**122,265**	**22.3**	**25.0**	**3.0**	**3.3**	-
Liability Benchmark + 1% p.a.					*4.5*	*12.2*	-
Difference					*(1.5)*	*(8.9)*	-
	Goldman Sachs	58,512	10.7	12.5	0.7	3.5	0.7
3 month Sterling LIBOR + 2% p.a.					*0.7*	*2.7*	*(1.6)*
Difference					*0.0*	*0.8*	*2.3*
	Legal & General (note 3)	63,753	11.6	12.5	5.2	3.1	2.6
2 x FTSE + 15yr IL Gilts - LIBOR p.a.					*9.9*	*13.0*	*(0.6)*
Difference					*(4.7)*	*(9.9)*	*3.2*

Notes:

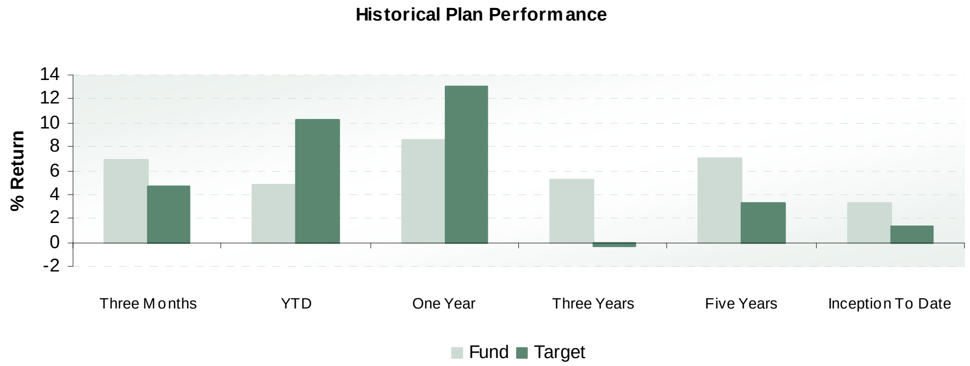
1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.
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

Asset Reconciliation and Valuation									
Fund	Manager	Closing Market Value as at 30th June 2010 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Closing Market Value as at 30th September 2010 £000	% of Total Fund	Target % of Total Fund
Total Fund		**512,753**	**100.0**	**25**	**33,087**	**2,122**	**547,987**	**100.0**	**100.0**
UK Equities	**Majedie**	**128,914**	**25.1**	**-**	**13,186**	**1,459**	**143,560**	**26.2**	**25.0**
Overseas Equities	**MFS**	**131,846**	**25.7**	**(0)**	**9,440**	**496**	**141,783**	**25.9**	**25.0**
Dynamic Asset Allocation Mandates		**133,264**	**26.0**	**25**	**6,924**	**166**	**140,380**	**25.6**	**25.0**
	Barings	98,930	19.3	25	5,674	-	104,629	19.1	18.75
	Ruffer	34,334	6.7	-	1,250	166	35,751	6.5	6.25
Matching Fund		**118,728**	**23.2**	**-**	**3,537**	**-**	**122,265**	**22.3**	**25.0**
	Goldman Sachs	58,116	11.3	-	396	-	58,512	10.7	12.5
	Legal & General	60,612	11.8	-	3,141	-	63,753	11.6	12.5

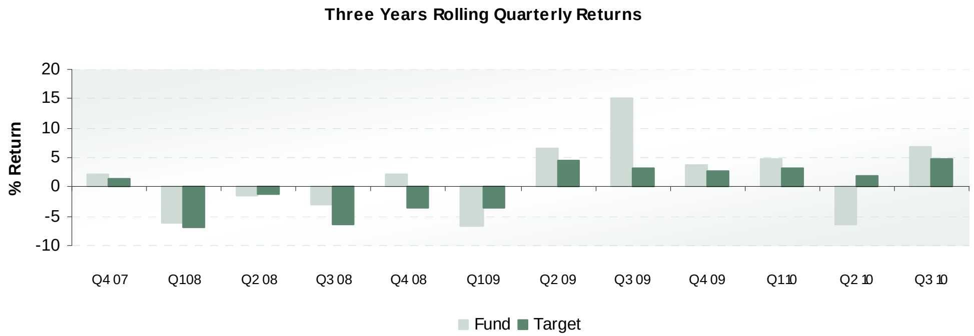
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

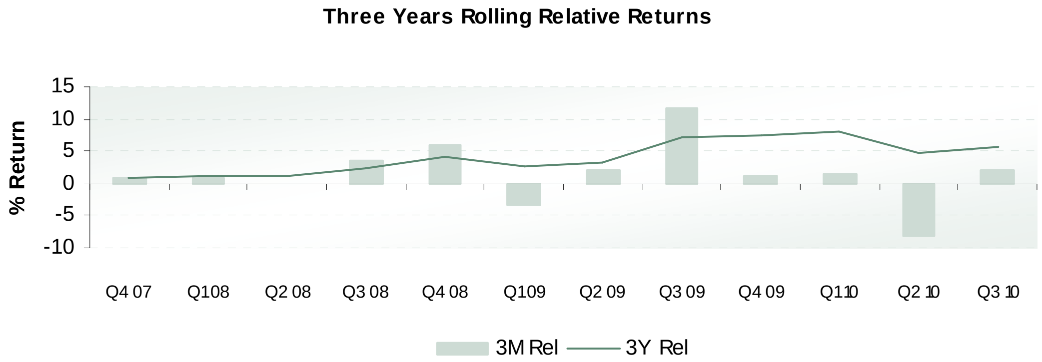
Overall Performance



The Scheme outperformed its liability benchmark over the quarter, returning 6.9% compared to the target of 4.7%. The outperformance was driven, in the main, by strong equity returns and the performance of the DAA group which outperformed it's cash based target. Despite MFS, Majedie and L&G funds posting strong positive returns over the quarter they did underperform their targets. The Fund underperformed it's target over the year by 4.4%, although the return of 8.6% over the period was encouraging given the poor equity markets in the second quarter of 2010. The main reason for the underperformance was the inability of the current L&G mandate to match its target. P-Solve are working with L&G to improve this. Overall the Scheme has performed well on a 3 and 5 year basis.

	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	6.87	4.85	8.61	5.18	7.10	3.22
Target	4.68	10.20	13.03	-0.37	3.33	140





	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	2.28	-6.13	-139	-3.11	2.03	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87
Target	136	-6.85	-123	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00	4.68

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	0.91	0.78	-0.16	3.45	5.85	-3.29	190	11.76	100	149	-8.18	2.09
3Y Rel	0.95	108	103	2.21	4.13	2.79	3.37	7.14	7.52	8.10	4.86	5.56

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

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.

Quarterly Manager update

Organisation

Subsequent to the quarter end, Majedie have announced that Rob Harris is to move from day to day fund management to a reporting fund management role. Matthew Smith (Manager of Majedie's Tortoise Fund) will take responsibility for Harris' part of the UK Equity Service and UK Focus Portfolio sub-portfolios, with the remainder of the portfolios continuing to be managed by James de Uphaugh, Chris Field and Adam Parker. P-Solve are investigating the potential significance of this change.

Product

No significant changes over the quarter.

Performance

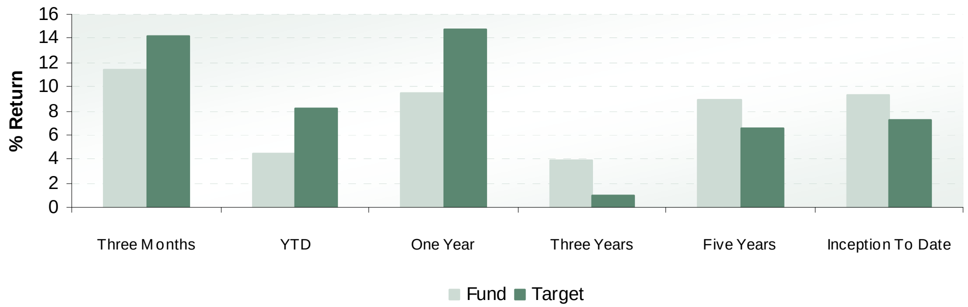
The fund performance was 11.4% over the quarter, 2.8% behind its target. Over 12 months, the portfolio was 5.3% below its target. The relative underperformance over the quarter can mainly be attributed to the portfolio's under-representation in the Mining sector. Not holding major index constituents such as Rio Tinto and Xstrata contributed to the shortfall. Low exposure to Lloyds Banking Group which yielded strong returns over the quarter also harmed performance relative to the benchmark. Majedie believes the defensive stance on the banking sector is justified in the long term.

The portfolio's overweight holding in BP, which rebounded strongly, along with it's holdings in GKN, Spirax-Sarco and Tomkins contributed to the strong positive performance over the quarter.

Process

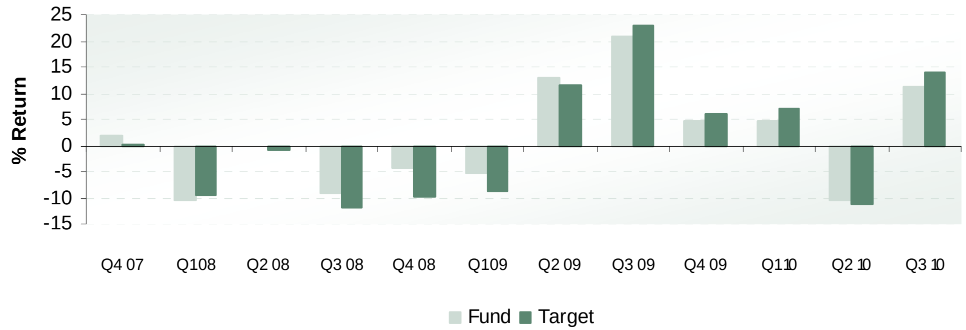
No significant changes over the quarter.

Historical Plan Performance



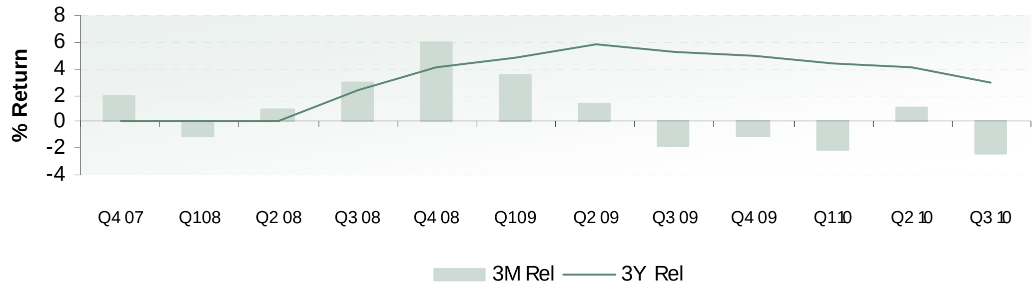
	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	11.36	4.41	9.42	3.88	8.97	9.27
Target	14.17	8.23	14.72	0.92	6.59	7.22

Three Years Rolling Quarterly Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	2.03	-10.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73	-10.47	11.36
Target	0.15	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35	14.11

Three Years Rolling Relative Returns

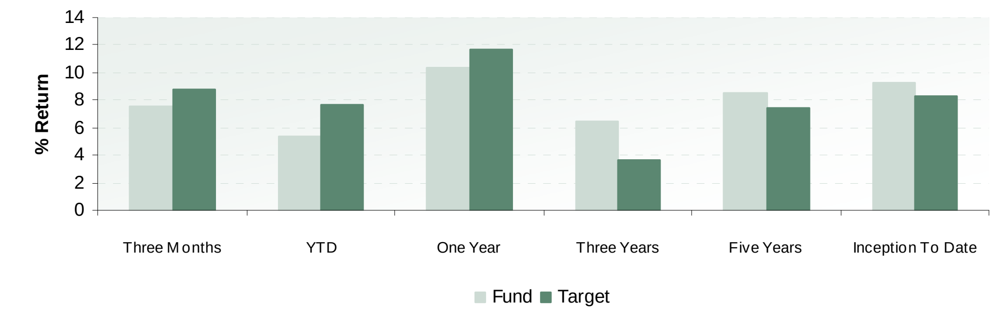


	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	1.88	-1.05	0.96	2.96	5.94	3.46	1.38	-1.81	-1.12	-2.06	0.99	-2.46
3Y Rel	-	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35	4.11	2.93

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

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

Historical Plan Performance

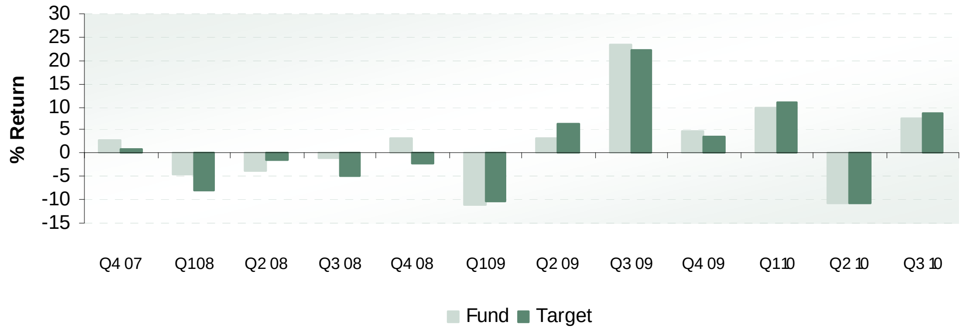


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	7.54	5.30	10.29	6.51	8.48	9.20
Target	8.77	7.68	1169	3.65	7.41	8.29

Quarterly Manager update

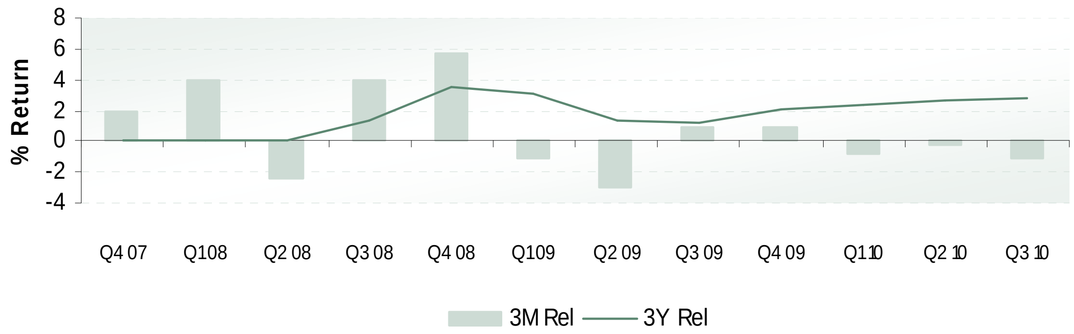
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 7.5% over the quarter, 1.2% below its target. Over 12 months, the fund was 1.4% behind its target. Stock selection and the overweight position in healthcare and consumer staples along with stock selection in leisure and the individual stocks Inpex and Cisco Systems all detracted from performance over the quarter. Despite the relative underperformance, the portfolio's strong positive return over the quarter can be attributed to stock selection in retailing, financial services and technology along with individual stocks Linde, Heineken, National Oilwell Varco and Svenska Cellulosa. The overweight position in retailing and underweight stance in financial services also aided performance as did positive currency effects.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	2.95	-4.44	-3.72	-102	3.29	-1121	3.23	23.43	4.74	9.83	-10.85	7.54
Target	0.94	-8.05	-127	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80	-10.65	8.77

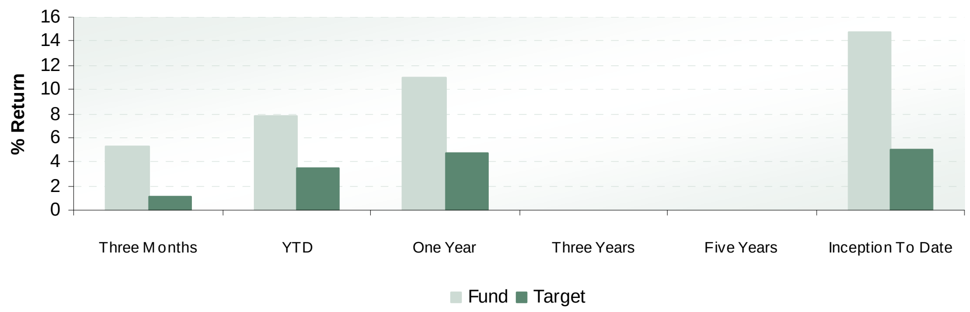
Three Years Rolling Relative Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	2.00	3.92	-2.48	3.93	5.64	-107	-3.02	0.92	0.98	-0.87	-0.22	-113
3Y Rel	-	-	-	132	3.50	3.02	132	121	2.11	2.39	2.71	2.76

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

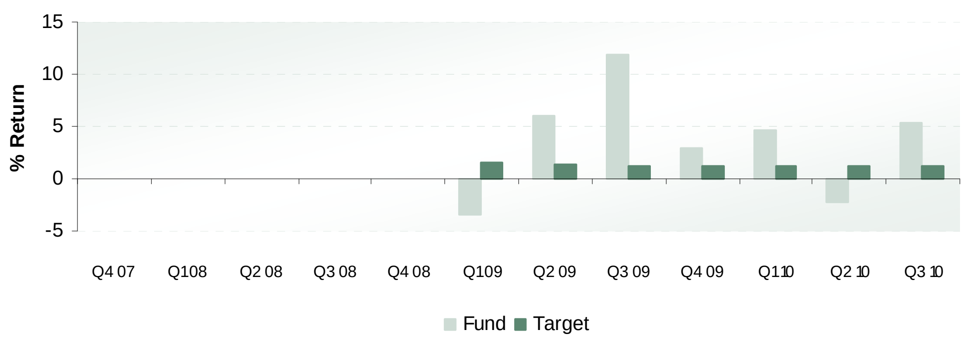
Historical Plan Performance



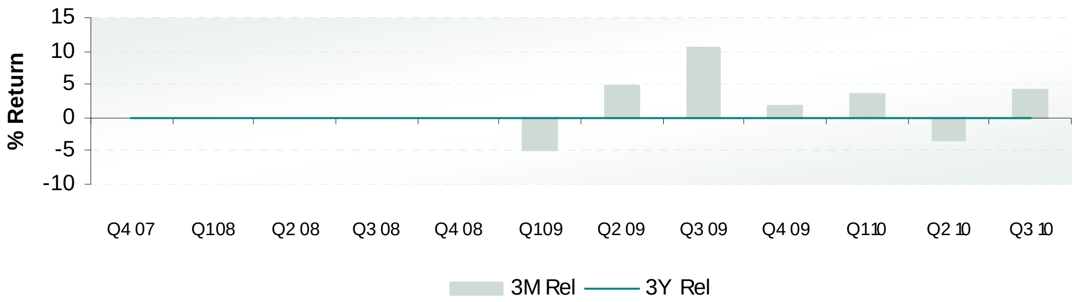
The group has returned 5.3% over the quarter compared to its LIBOR-based target of 1.2%, due to strong performances from both Ruffer and Barings. The performance was aided by strong equity returns over the quarter which rebounded well after posting negative returns in the previous quarter. Over the past 12 months, performance has been above target, as both Barings and Ruffer have significantly outperformed the target.

	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	5.32	7.84	11.06	-	-	14.80
Target	1.17	3.51	4.69	-	-	5.02

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	-	-	-	-	-	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32
Target	-	-	-	-	-	1.50	1.33	1.19	1.14	1.14	1.16	1.17

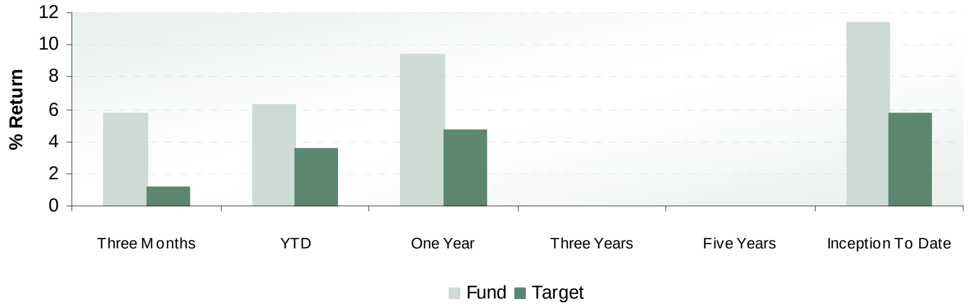
	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	-	-	-	-	-	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

Barings

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

Historical Plan Performance

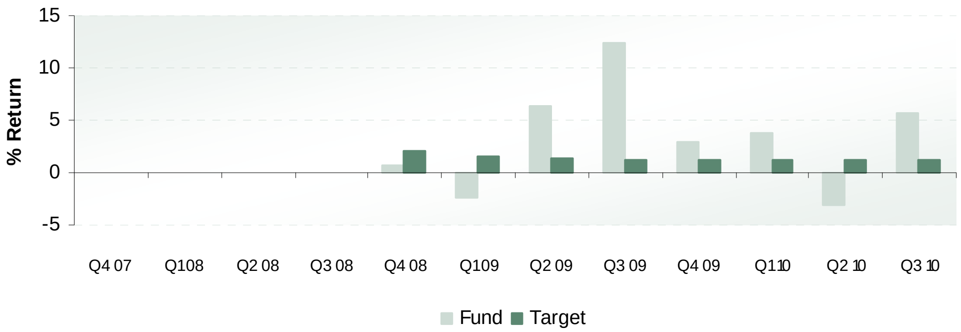


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	5.73	6.30	9.42	-	-	11.34
Target	1.17	3.51	4.69	-	-	5.77

Quarterly Manager update

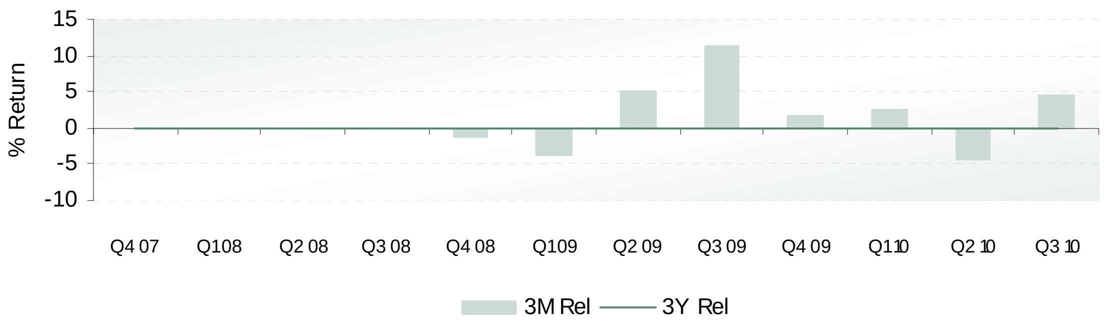
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 5.7% over the quarter, 4.6% ahead of its target. Over 12 months, the fund is 4.7% ahead of target. The largest positive contribution came from equities, with the portfolio benefitting from a skew towards large Multi National Companies and away from the Japanese market. The portfolio also experienced good returns in the bond markets with super long dated US bonds and Australian bonds producing particularly good returns. However, some of these positive returns were eroded by the portfolios currency hedging policy, costing 100 basis points over the quarter. Gold bullion in Sterling terms and other hedging instruments also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	-	-	-	-	0.67	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73
Target	-	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17

Three Years Rolling Relative Returns



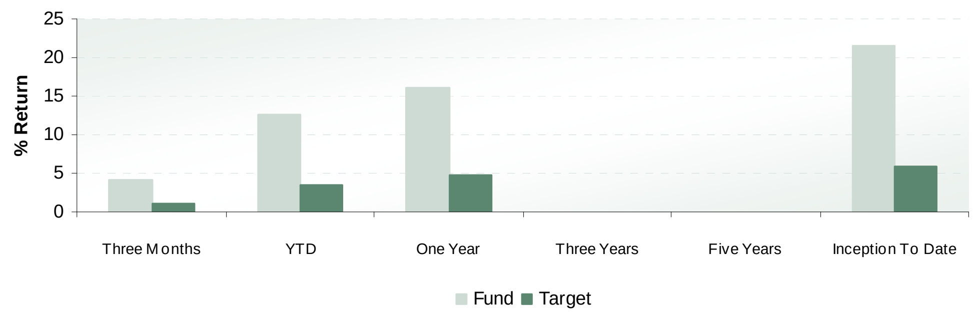
	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	-	-	-	-	-1.32	-3.86	5.02	11.18	1.78	2.59	-4.23	4.51
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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 August 2008.

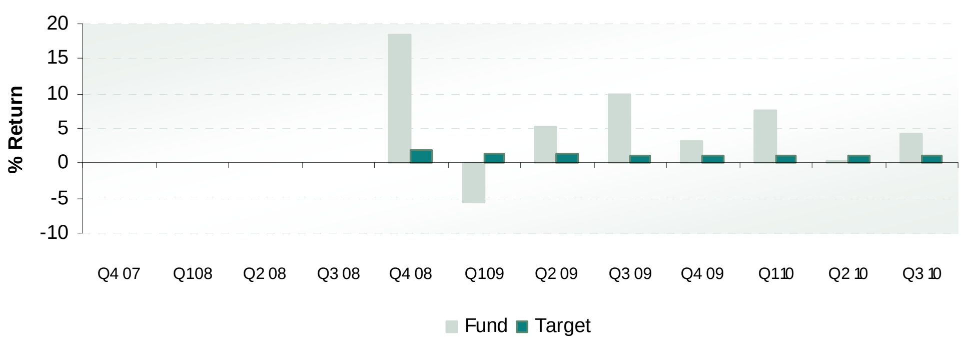
Historical Plan Performance



	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	4.13	12.55	16.06	-	-	2143
Target	1.17	3.51	4.69	-	-	5.77

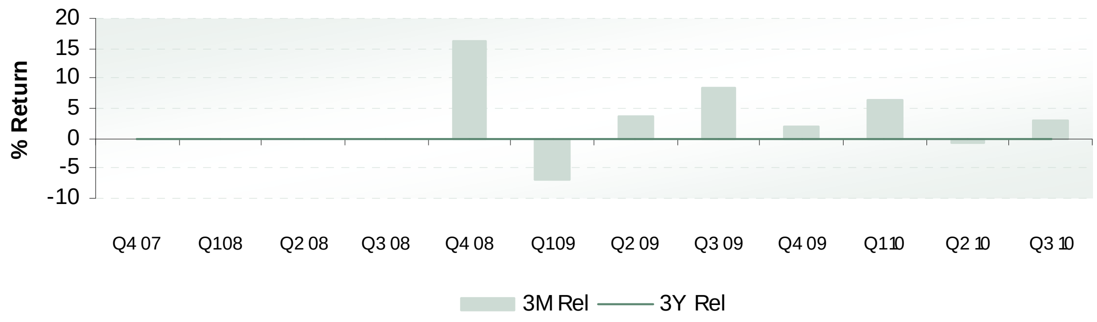
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 4.1% over the quarter, 3.0% ahead of its target. Over 12 months, the fund was 11.4% ahead of target. The portfolio's holding of global index-linked bonds and gold performed strongly over the quarter. Western equities also contributed to the strong returns driven by BP recovering some of its losses, while Vodafone, Texas Instruments and Tomkins aided performance. However, adverse currency experience as well as exposure to the Japanese equity market and telecoms company Ericsson detracted from the generally positive performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	-	-	-	-	18.47	-5.49	5.17	9.81	3.12	7.64	0.41	4.13
Target	-	-	-	-	2.01	150	133	1.19	1.14	1.14	1.16	1.17

Three Years Rolling Relative Returns

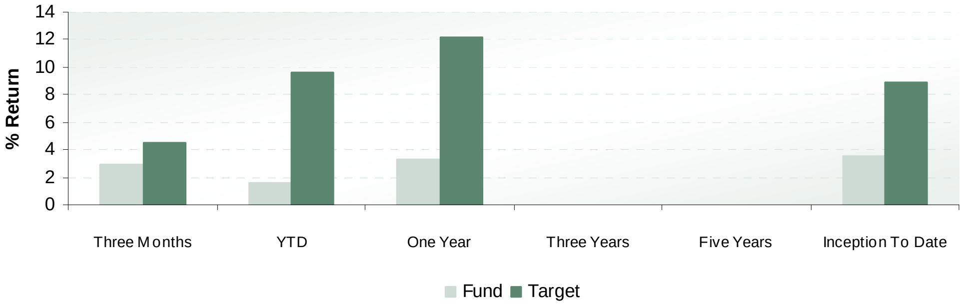


	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	-	-	-	-	16.14	-6.90	3.79	8.52	196	6.42	-0.74	2.93
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

Matching Fund

Historical Plan Performance

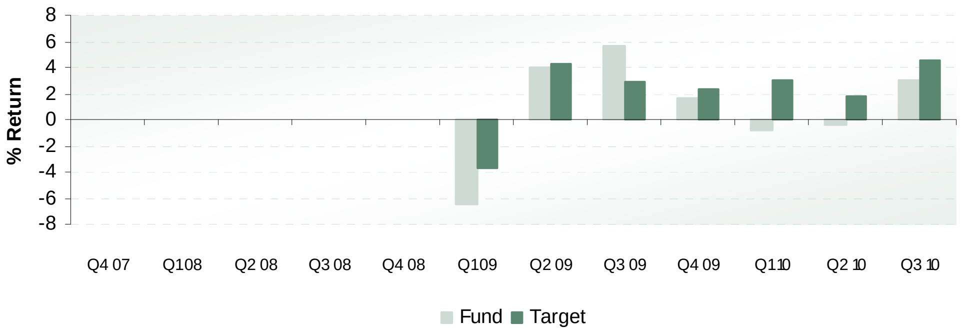


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	2.98	158	3.28	-	-	3.50
Target	4.49	9.60	12.21	-	-	8.83

The performance of the Matching Fund over the quarter of 3.0% is below its gilts-based liability benchmark. This can be attributed to relative underperformance of the Goldman Sachs bond portfolio against the Matching Fund target despite the portfolio performing in-line with its individual target over the quarter. The Legal & General gilt portfolio outperformed the Matching Fund target but failed to keep pace with the target performance.

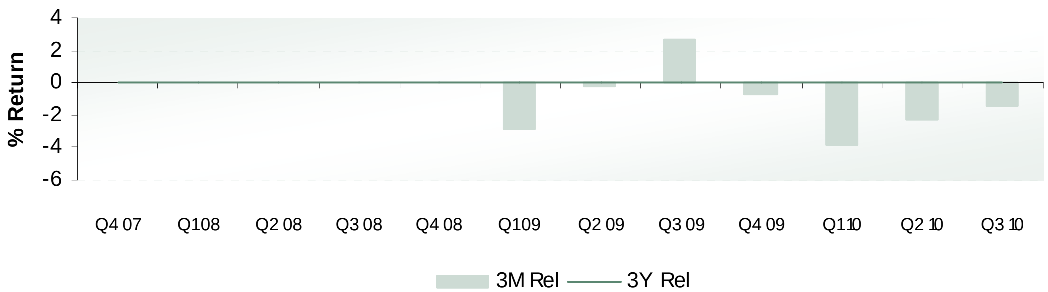
P-Solve are working with L&G to revise their mandate to improve its ability to meet the Fund's target going forward.

Three Years Rolling Quarterly Returns



	Q4 07	Q108	Q2 08	Q3 08	Q4 08	Q109	Q2 09	Q3 09	Q4 09	Q110	Q2 10	Q3 10
Fund	-	-	-	-	-	-6.45	4.04	5.66	167	-0.88	-0.48	2.98
Target	-	-	-	-	-	-3.68	4.28	2.90	2.38	3.02	181	4.49

Three Years Rolling Relative Returns



	Q4 07	Q108	Q2 08	Q3 08	Q4 08	Q109	Q2 09	Q3 09	Q4 09	Q110	Q2 10	Q3 10
3M Rel	-	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-145
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

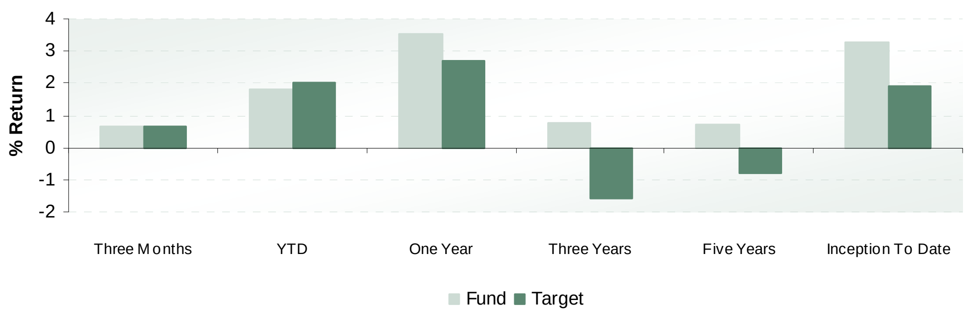
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.

Goldman Sachs

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 manage an active bond fund.

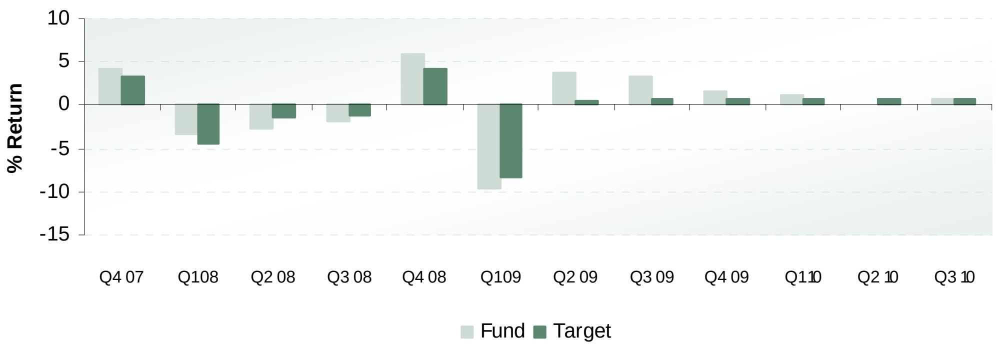
Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 0.7% over the quarter, in line with its target. Over 12 months, performance was 0.8% ahead of target. The fund's cross-sector and corporate selection strategies were the main sources of performance over the quarter.
Process	No significant changes over the quarter.

Historical Plan Performance



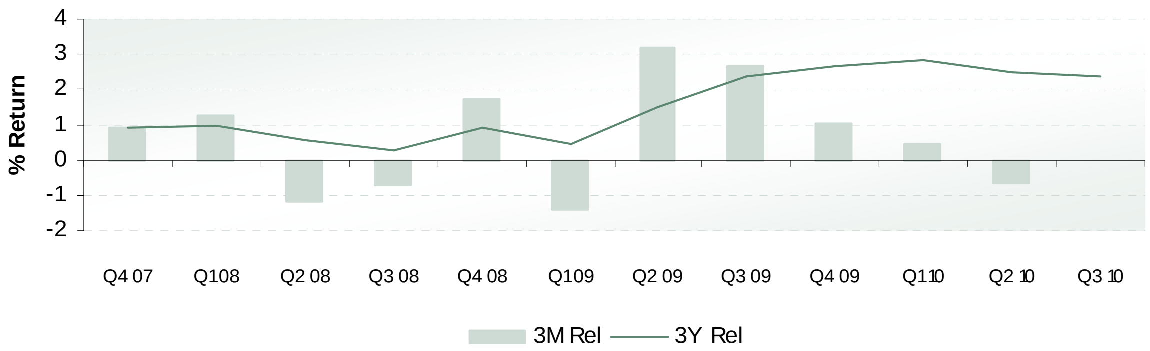
	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	0.68	182	3.51	0.74	0.73	3.25
Target	0.68	2.02	2.68	-159	-0.80	190

Three Years Rolling Quarterly Returns



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	4.24	-3.27	-2.67	-186	5.86	-9.70	3.78	3.36	166	110	0.03	0.68
Target	3.29	-4.46	-148	-112	4.09	-8.39	0.56	0.70	0.65	0.65	0.67	0.68

Three Years Rolling Relative Returns

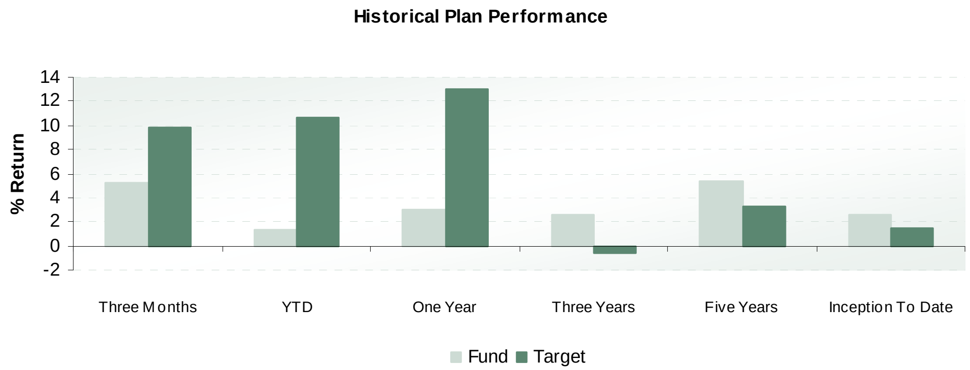


	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	0.91	124	-121	-0.74	170	-143	3.20	2.64	101	0.44	-0.64	0.00
3Y Rel	0.89	100	0.54	0.27	0.90	0.47	148	2.37	2.68	2.86	2.51	2.37

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

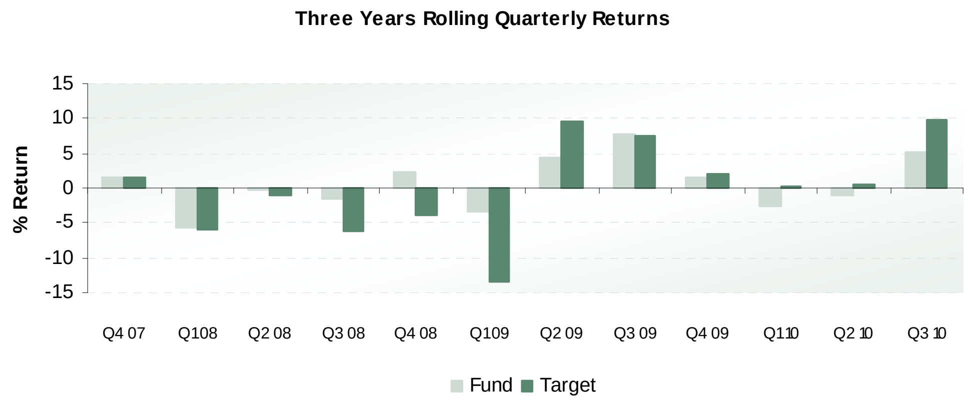
Legal & General

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.

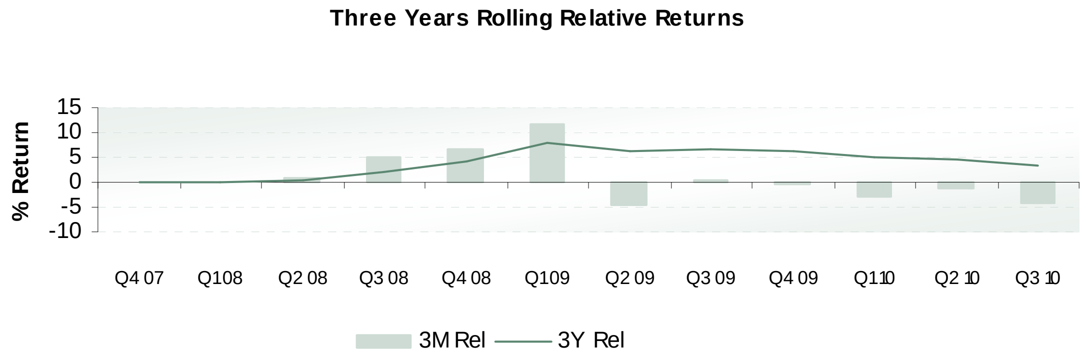


	Three Months	YTD	One Year	Three Years	Five Years	Inception To Date
Fund	5.18	137	3.07	2.57	5.36	2.55
Target	9.89	10.70	13.01	-0.64	3.34	152

Quarterly Manager update	
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 5.2% over the quarter, 4.7% below its target. Over 12 months, performance is 9.9% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again tracked its benchmark over the quarter. Despite being behind it's target over the quarter, the fund as a whole has continued to track its benchmark since inception.
Process	No significant changes over the quarter.



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Fund	166	-5.79	-0.17	-160	2.34	-3.32	4.29	7.85	168	-2.69	-0.96	5.18
Target	167	-5.98	-0.99	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89



	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
3M Rel	-0.01	0.19	0.83	4.97	6.49	11.78	-4.77	0.34	-0.40	-3.03	-134	-4.29
3Y Rel	0.12	0.12	0.42	2.03	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23

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.

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

After a difficult second quarter which saw negative equity returns across most regions, global equity markets rallied during the third quarter. However, positive returns masked volatile investor sentiment over the period.

In the UK, equities produced a return of 13.6% over the quarter. Overseas markets as a whole delivered 14.1% to local investors. However, this was in part eroded by continuing Sterling strength producing a return of 8.3% in Sterling terms.

These returns reflected strong performance in July and September either side of poor returns in August.

July saw positive returns in most territories as large marketable stocks which had suffered heavily last quarter bounced back promisingly. Japan was the exception falling due to currency factors as opposed to local stock performance.

European markets recovered strongly from their depressed levels in the aftermath of the Greek bail out and were buoyed by the positive results arising from the “stress testing” of EU banks, with Italy, Spain, Austria and Greece returning double digit positive returns over the month (albeit the Greek market was still down by 35.2% over the year to date).

The recovery of BP’s share price along with investor approval of the coalition governments budget combined with higher than expected economic growth led the UK to outperform its international peers.

This initial confidence supported by strong corporate results was however hit by a short term resumption of fears of economic decline; double–dip recession and continuing sovereign debt problems.

August saw international equity markets fall, with the exception of Asia (ex-Japan) which experienced marginal growth. Europe encountered the most difficult conditions following Ireland’s credit rating again being downgraded and news that it’s banking sector required a significant level of government support. The adverse impact on investor confidence spread once again to Greece as recurring fears about it’s fiscal debt crisis resulted in a large negative return for the month.

September however again saw a reversal in this negative sentiment with strong equity appreciation in most regions. The US had its best September performance since 1939 in contrast to the worst August for ten years.

Europe experienced a similar turn around with most countries again producing double digit returns.

Gilts saw net gains over the quarter, however as with other asset classes volatility was a key feature.

The increased buoyancy in July resulted in investors moving away from government bonds, which had until then been seen as a safe haven, causing a marginal decline in Gilts over the month.

In contrast the reduction in risk appetite in August which caused equities to fall, together with an increase in liquidity from governments efforts to stimulate economic activity, saw a flood of investors returning to the perceived safety of government bonds. Long dated Gilts were particularly in demand, resulting in the FTSE-A UK Gilts Over 15 Year Index returning 8.4% over the month.

September saw Gilt markets lose support amid concerns that above target inflation would persist well into 2011. However, investor confidence began to return towards the end of the month in the belief that a new round of quantitative easing would take place.

The net gain over the quarter drove yields down to levels last seen at the height of the credit crisis when there was huge demand for low risk Gilts.

Corporate bond markets saw strong returns during the earlier part of the quarter tailing off slightly towards the end. Global Fixed Interest delivered the highest return over the quarter with the Barclays Global Aggregate Index returning 9.7%. The volatility of the corporate bond markets was markedly lower when compared to equities over the period.

The confidence that rallied equity markets in July extended to bonds leading investors to more willingly accept increasing debt risk although returns were more subdued than those seen in global equity markets. Lower rated bonds were the biggest winners over the month.

In stark contrast to the downward trend in equities over August, corporates, backed by the ongoing decline in government bond yields, posted positive returns. This was highlighted by the Merrill Lynch Non-Gilt Sterling Index returning 4.2% over the month.

September saw corporate bond markets delivering only modest positive returns. The gain was however aided by the clarity given by the Basle Commitee in announcing its new bank capital requirements.

Currency markets proved volatile over the quarter with a recovering Euro gaining ground against Sterling, the US dollar and Yen. The Japanese government however intervened towards the end of the quarter to ease the upward pressure on the Yen.

Property proved lacklustre over the quarter. Returns over the period were positive, however this was almost exclusively driven by strong income flows, particularly in central London, as sellers held back in the hope of forthcoming price increases.

Outlook

Market volatility in both equity and bond markets proved a key feature of the third quarter. Despite encouraging returns in most sectors for the quarter as a whole, market volatility highlighted the fragility of investor confidence. This is likely to remain for the foreseeable future.

How governments continue to deal with their deficits and the impact of future spending cuts will continue to affect market sentiment and the risk appetite of investors. This will be reflected in the performance of the investment markets.

Whilst economic growth in the leading developed countries has continued, it has been relatively pedestrian with the exception of Germany which has seen strong export driven growth. This trend looks set to continue.

The emerging market outlook remains positive supported by a continuation of recent economic growth. However, these markets will not be immune to events in developed Europe and the US.

It is expected that interest rates will remain low to support economic growth despite above target inflation.

Sources: Reuters; Datastream; Bank of England; Office for National Statistics, Financial Times.

CAMRADATA Contact

Ian Bishop

Ian.Bishop@camradata.com

0131 624 8604

Charlotte House, 2 South Charlotte Street, Edinburgh EH2 4AW

Client Contact

Bob Pearce

Bob.Pearce@lbhf.gov.uk

020 8753 1808

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

P-Solve Contact

Helen Smith

Helen.Smith@psolve.com

020 7024 7480

126 Jermyn Street, London SW1Y 4UJ

Scheme Actuary

Graeme Muir, Barnett Waddingham

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

IMPORTANT INFORMATION