



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 4 2010

January 2011



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	<i>FTSE All Share + 2% p.a. over three year rolling periods</i>
MFS	<i>FTSE World ex UK + 2% p.a. over three year rolling periods</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>2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.</i>

Private Equity

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

Breakdown of Scheme Performance by Manager as at 31st December 2010

Fund	Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	3 year return (%)
Total Fund		582,668	100.0	100.0	6.2	11.4	6.5
	<i>Liability Benchmark + 1.75% p.a.</i>				1.6	11.9	(0.3)
	<i>Difference</i>				4.6	(0.5)	6.8
UK Equities		154,028	26.4	25.0			
	Majedie				7.3	12.0	5.6
	<i>FTSE All Share + 2% p.a.</i>				7.9	16.8	3.5
	<i>Difference</i>				(0.6)	(4.8)	2.1
Overseas Equities		157,600	27.0	25.0			
	MFS				11.2	17.1	9.3
	<i>FTSE World ex UK + 2% p.a.</i>				9.6	18.0	6.5
	<i>Difference</i>				1.6	(0.9)	2.8
Dynamic Asset Allocation Mandates		146,636	25.2	25.0	3.9	12.1	-
	Barings (note 2)	108,658	18.6	18.8	3.9	10.4	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.7	-
	<i>Difference</i>				2.7	5.7	-
	Ruffer (note 2)	37,978	6.5	6.2	4.1	17.2	-
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.7	-
	<i>Difference</i>				2.9	12.5	-
Matching Fund		124,404	21.4	25.0	1.8	3.4	-
	<i>Liability Benchmark + 1% p.a.</i>				1.4	11.1	-
	<i>Difference</i>				0.4	(7.7)	-
	Goldman Sachs	59,157	10.2	12.5	1.1	2.9	(0.3)
	<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	2.7	(2.4)
	<i>Difference</i>				0.4	0.2	2.1
	Legal & General (note 3)	65,247	11.2	12.5	2.3	3.8	2.8
	<i>2 x FTSE + 15yr IL Gilts - LIBOR p.a.</i>				2.4	13.3	(0.4)
	<i>Difference</i>				(0.1)	(9.5)	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.

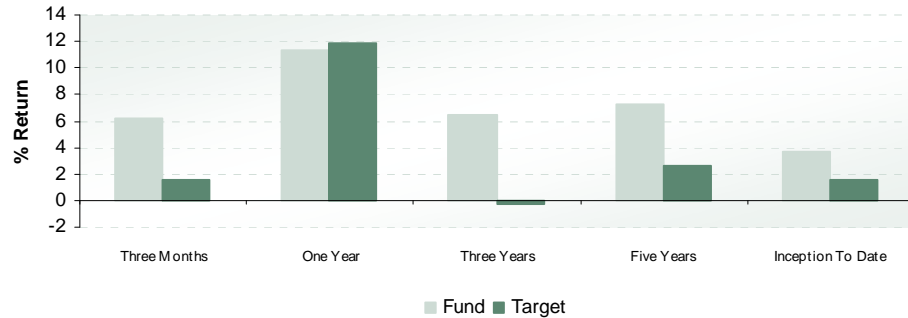
2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.

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									
Fund	Manager	Closing Market Value as at 30th September 2010 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Closing Market Value as at 31st December 2010 £000	% of Total Fund	Target % of Total Fund
Total Fund		547,987	100.0	657	33,388	636	582,668	100.0	100.0
UK Equities	Majedie	143,560	26.2	0	9,735	733	154,028	26.4	25.0
Overseas Equities	MFS	141,783	25.9	(49)	15,411	456	157,600	27.0	25.0
Dynamic Asset Allocation Mandates		140,380	25.6	707	6,104	(555)	146,636	25.2	25.0
	Barings	104,629	19.1	(25)	4,003	51	108,658	18.6	18.75
	Ruffer	35,751	6.5	732	2,101	(605)	37,978	6.5	6.25
Matching Fund		122,265	22.3	0	2,138	1	124,404	21.4	25.0
	Goldman Sachs	58,512	10.7	0	645	0	59,157	10.2	12.5
	Legal & General	63,753	11.6	0	1,493	1	65,247	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.

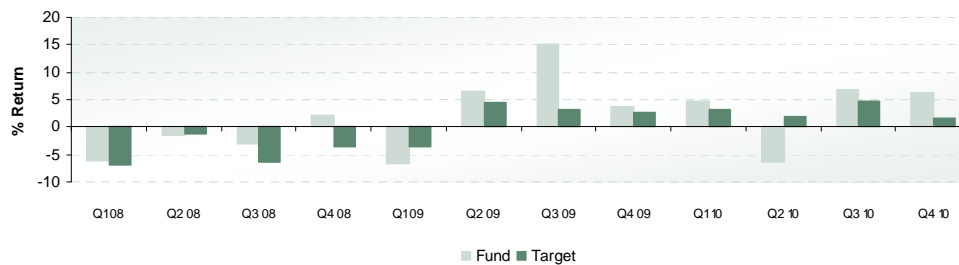
Historical Plan Performance



The Scheme outperformed its liability benchmark over the quarter, returning 6.2% compared to the target of 1.6%. The outperformance was driven, in the main, by strong equity returns and the performance of the DAA group which outperformed its cash based target. Majedie underperformed its target over the quarter and year, although they posted strong positive returns (in absolute terms) over the quarter. The Scheme's performance of 11.4% over the year was just below its target by 0.5%, as it was affected by the poor equity markets in the second quarter of 2010. Overall the Scheme has performed well on a 3 and 5 year basis.

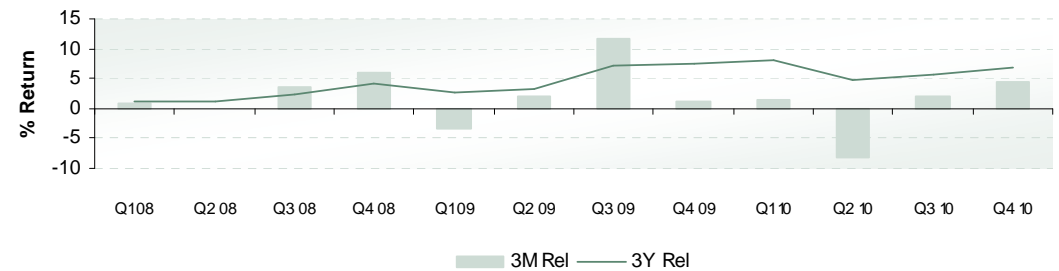
	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	6.20	11.35	6.51	7.30	3.71
Target	1.57	11.93	-0.30	2.63	1.51

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-6.13	-1.39	-3.11	2.03	-6.68	6.46	5.21	3.59	4.75	-6.34	6.87	6.20
Target	-6.85	-1.23	-6.35	-3.61	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57

Three Years Rolling Relative Returns

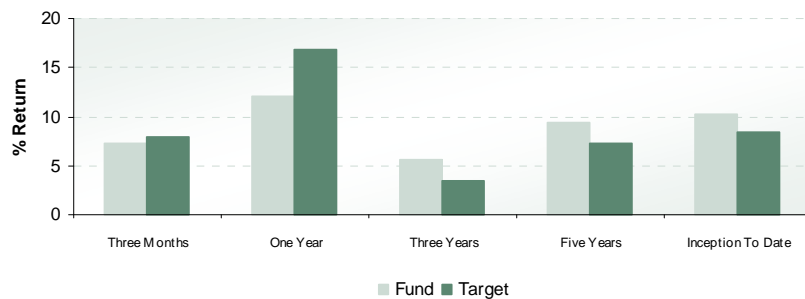


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	0.78	-0.16	3.45	5.85	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56
3Y Rel	1.08	1.03	2.21	4.13	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83

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

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	One Year	Three Years	Five Years	Inception To Date
Fund	7.29	12.03	5.64	9.34	10.26
Target	7.90	16.78	3.46	7.21	8.40

Quarterly Manager update

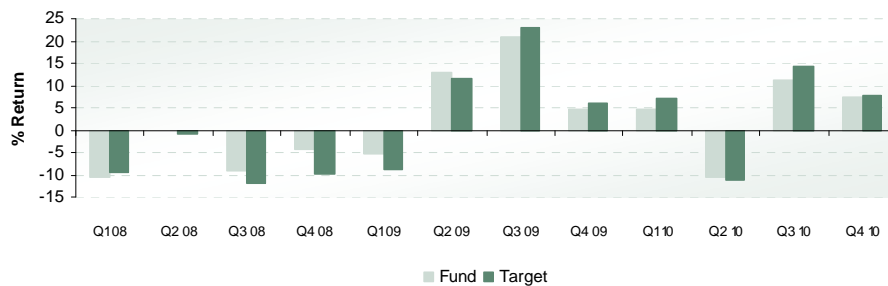
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 7.3% over the quarter, 0.6% behind its target. Over 12 months, the portfolio was 4.8% below its target. The relative underperformance over the quarter can mainly be attributed to the portfolio's under-representation in the Mining sector, including stocks such as Rio Tinto and BHP Billiton. However, Majedie's negative stance on the Banking sector was a positive contributor. Low exposure to Lloyds Banking Group and Barclays which yielded negative returns over the quarter boosted performance relative to the benchmark. Holdings in BP and a cautious approach towards the mining sector contributed to the 12 month underperformance.

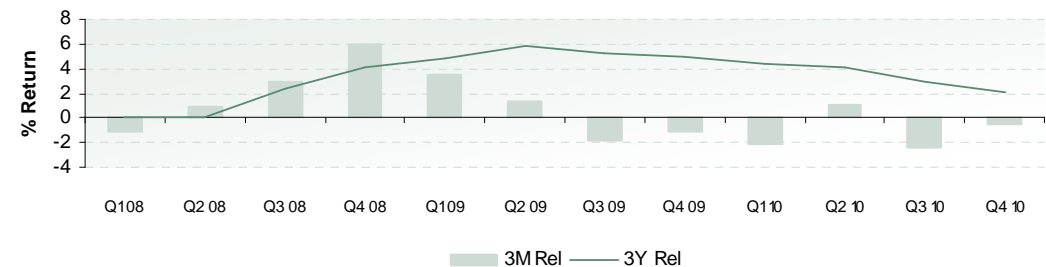
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-10.35	0.00	-9.13	-4.38	-5.47	12.97	20.72	4.80	4.73	-10.47	11.36	7.29
Target	-9.41	-0.96	-11.75	-9.74	-8.63	11.43	22.94	5.99	6.93	-11.35	14.17	7.90

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-1.05	0.96	2.96	5.94	3.46	1.38	-1.81	-1.12	-2.06	0.99	-2.46	-0.57
3Y Rel	-	-	2.38	4.13	4.88	5.82	5.27	4.96	4.35	4.11	2.93	2.11

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	One Year	Three Years	Five Years	Inception To Date
Fund	11.19	17.08	9.28	9.41	10.94
Target	9.57	17.98	6.52	7.83	9.75

Quarterly Manager update

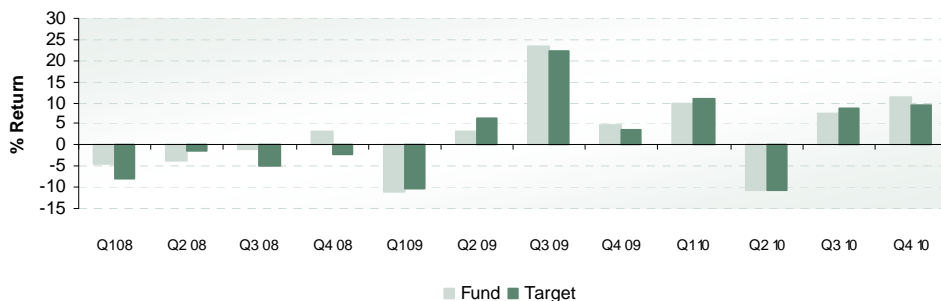
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 11.2% over the quarter, 1.6% above its target. Over 12 months, the fund was 0.9% behind its target. The portfolio's strong performance over the quarter can be attributed to stock selection in energy, special products and services, and the underweight position in utilities and communications. Holdings in Taiwan Semiconductor, Linde, Julius Baer, Monsanto, Acer, State Street, Danaher added to the strong performance. The portfolio's underweight position in autos and housing, overweight position in consumer staples and stock selection in basic materials, together with holdings in Cisco Systems, Credit Suisse and Banco Santander (Brasil) and Visa all detracted from performance over the quarter.

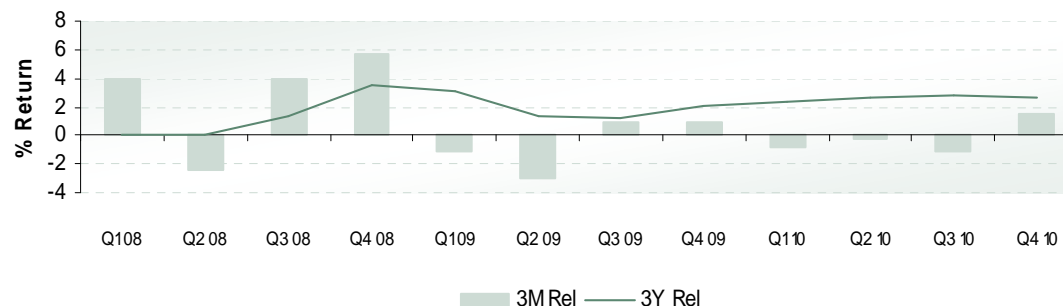
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-4.44	-3.72	-1.02	3.29	-11.21	3.23	23.43	4.74	9.83	-10.85	7.54	11.19
Target	-8.05	-1.27	-4.76	-2.22	-10.25	6.44	22.30	3.73	10.80	-10.65	8.77	9.57

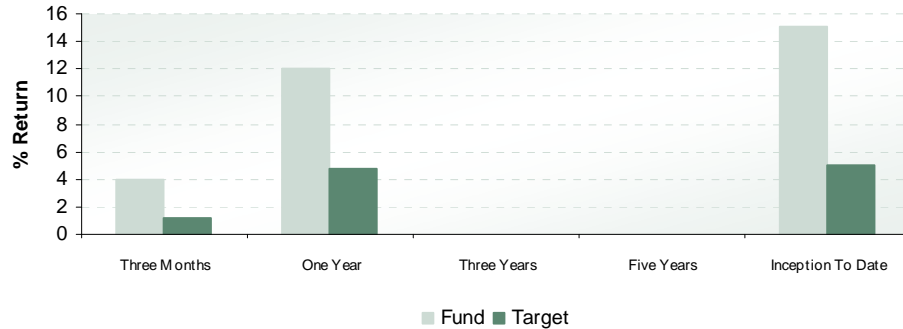
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	3.92	-2.48	3.93	5.64	-1.07	-3.02	0.92	0.98	-0.87	-0.22	-1.13	1.48
3Y Rel	-	-	1.32	3.50	3.02	1.32	1.21	2.11	2.39	2.71	2.76	2.59

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

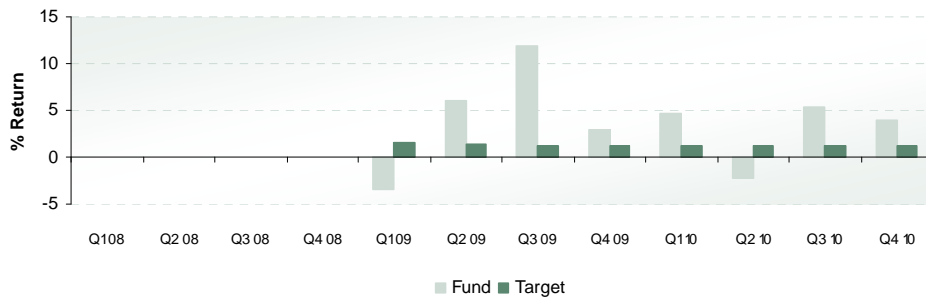
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	3.94	12.09	-	-	15.04
Target	1.17	4.73	-	-	4.99

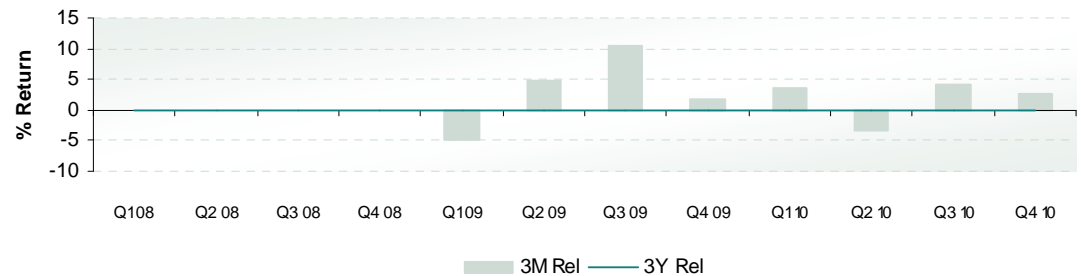
The group has returned 3.9% over the quarter compared to its LIBOR-based target of 1.2%, due to strong performances from both Ruffer and Barings. The performance was again aided by strong equity returns over the quarter. Over the past 12 months, performance has been 7.4% above target, as both managers (particularly Ruffer) have significantly outperformed the target.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	-	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32	3.94
Target	-	-	-	-	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

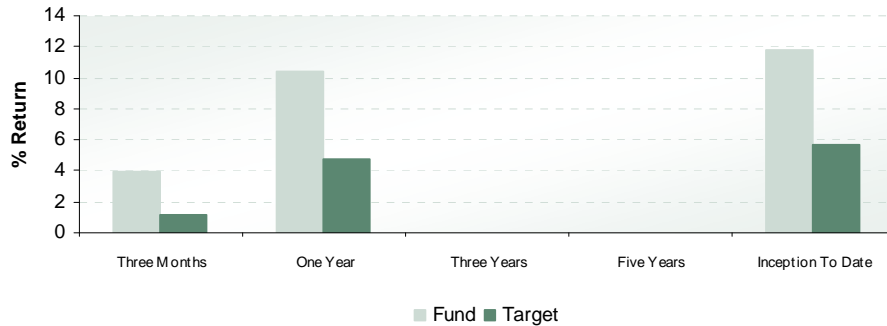
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10	2.74
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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	One Year	Three Years	Five Years	Inception To Date
Fund	3.88	10.42	-	-	11.85
Target	1.17	4.73	-	-	5.67

Quarterly Manager update

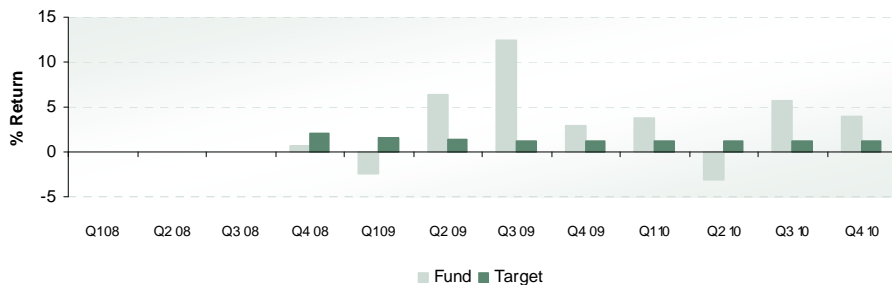
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 3.9% over the quarter, 2.7% ahead of its target. Over 12 months, the fund is 5.7% ahead of target. The largest positive contribution came from equities, with the portfolio benefitting from a skew towards large multinational companies and agriculture, and good stock selection among financials and in Europe. Positive contributions also came from the underweight holding in pharmaceuticals and the holding in specialist equities, which mainly represents gold bullion. However, some of these positive returns were eroded by the poor performance of corporate bonds over the quarter which cost 30 basis points, and the decision to hedge Australian bond holdings back to Sterling to control volatility cost the fund 60 basis points.

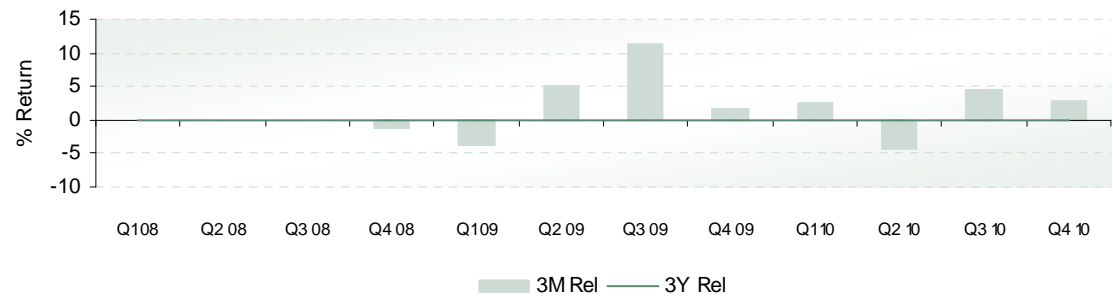
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	0.67	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73	3.88
Target	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

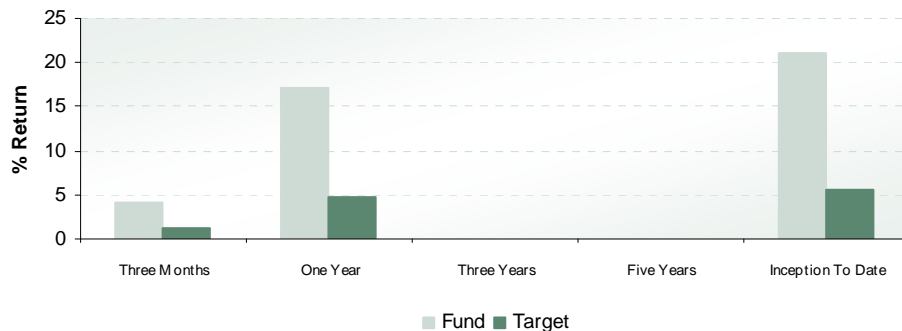
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-1.32	-3.86	5.02	11.18	1.78	2.59	-4.23	4.51	2.68
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

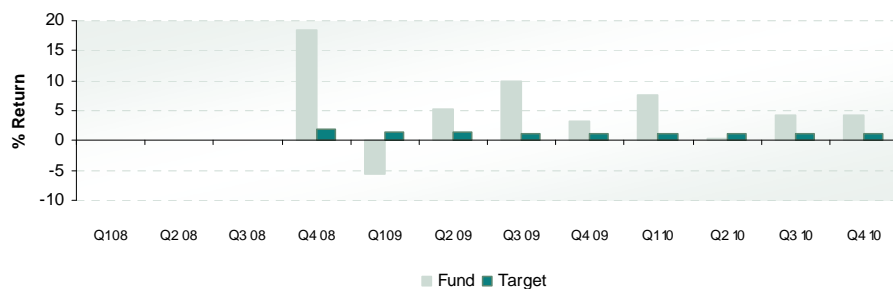
Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	4.11	17.17	-	-	21.02
Target	1.17	4.73	-	-	5.67

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	18.47	-5.49	5.17	9.81	3.12	7.64	0.41	4.13	4.11
Target	-	-	-	2.01	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17

Quarterly Manager update

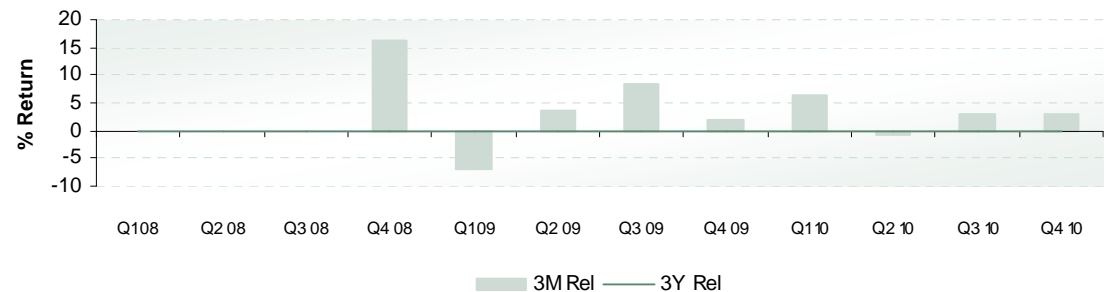
Organisation Sir David Clementi, formerly the Prudential chairman and deputy-governor of the Bank of England, joined Ruffer as its new deputy chairman. Robin Hindle Fisher, who was a partner at corporate-governance activist firm Governance for Owners, has also joined the company's management board. The appointments were made ahead of the retirement of Ruffer's chairman, Ian Hay Davison, who is stepping down in March. He will be succeeded by Jonathan Ruffer, the firm's founder and chief executive. The current chief investment officer, Henry Maxey, will step into Ruffer's shoes as chief executive.

Product No significant changes over the quarter.

Performance The fund performance was 4.1% over the quarter, 2.9% ahead of its target. Over 12 months, the fund was 12.5% ahead of target. The portfolio's holdings of gold, Japanese equities and German property stocks performed strongly over the quarter while BP and Texas Instruments stocks aided performance. However, the decision to hedge the Yen currency risk away from the portfolio, together with the portfolio's equity put protection and index linked bond holding detracted from the positive performance.

Process No significant changes over the quarter.

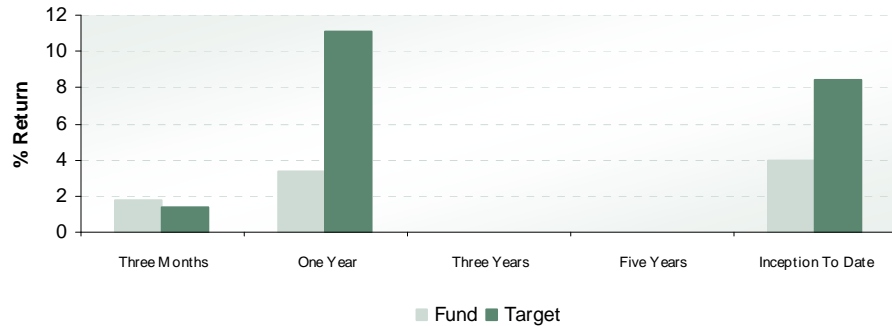
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	16.14	-6.90	3.79	8.52	1.96	6.42	-0.74	2.93	2.91
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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

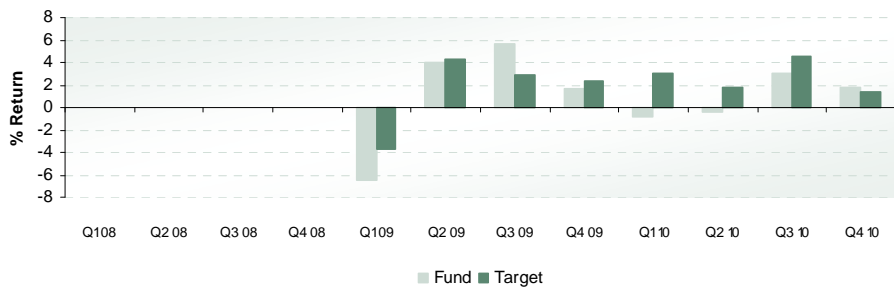
Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	1.75	3.36	-	-	3.96
Target	1.38	11.11	-	-	8.43

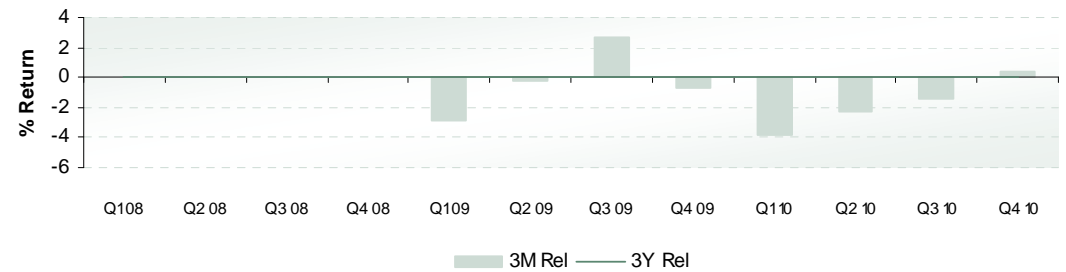
The performance of the Matching Fund over the quarter of 1.8% is 0.4% above its gilts-based liability benchmark. This can be attributed to positive performance from both managers in the Matching Fund, although the Legal & General gilt portfolio slightly underperformed its individual target by 0.1%. The Matching Fund return of 3.4% over the year was 7.7% below target due to the Legal & General fund failing to keep pace with its target earlier in the year.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-	-	-	-	-6.45	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75
Target	-	-	-	-	-3.68	4.28	2.90	2.38	3.02	1.81	4.49	1.38

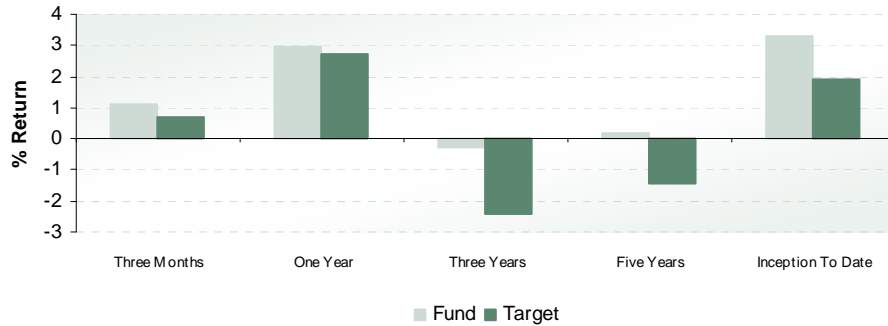
Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	-	-	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

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.

Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	1.10	2.94	-0.28	0.20	3.29
Target	0.68	2.72	-2.42	-1.44	1.93

Quarterly Manager update

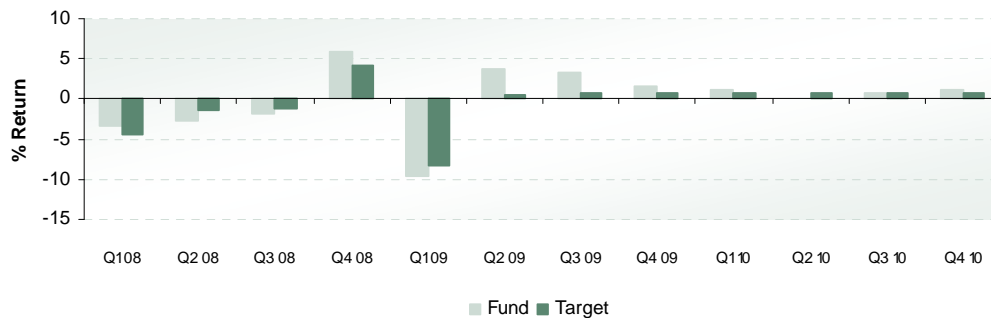
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 1.1% over the quarter, 0.4% above its target. Over 12 months, performance was 0.2% ahead of target. The fund's cross-sector strategy and government/agency selection strategy were the main sources of outperformance over the quarter, while the duration strategy detracted from performance.

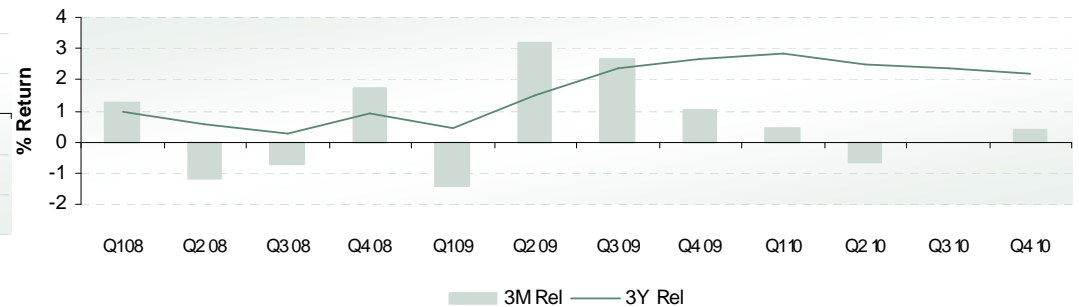
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-3.27	-2.67	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10	0.03	0.68	1.10
Target	-4.46	-1.48	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68

Three Years Rolling Relative Returns

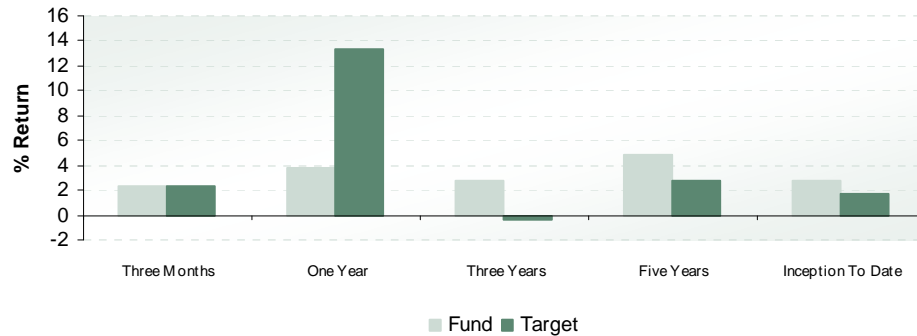


	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	1.24	-1.21	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42
3Y Rel	1.00	0.54	0.27	0.90	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19

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

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.

Historical Plan Performance



	Three Months	One Year	Three Years	Five Years	Inception To Date
Fund	2.34	3.75	2.80	4.78	2.71
Target	2.38	13.34	-0.41	2.80	1.69

Quarterly Manager update

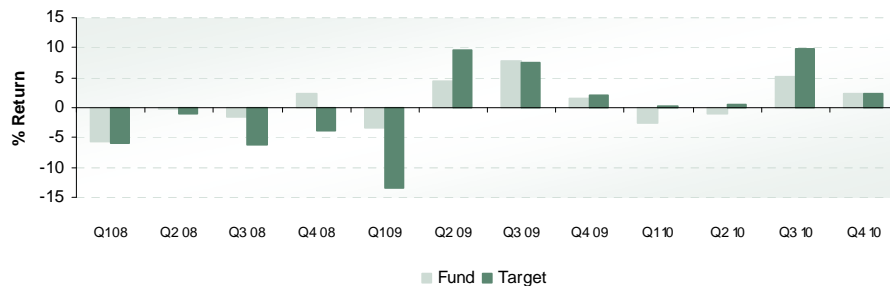
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 2.3% over the quarter, slightly below its target. Over 12 months, performance is 9.5% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again tracked its market benchmark over the quarter and has continued to track its market benchmark since inception.

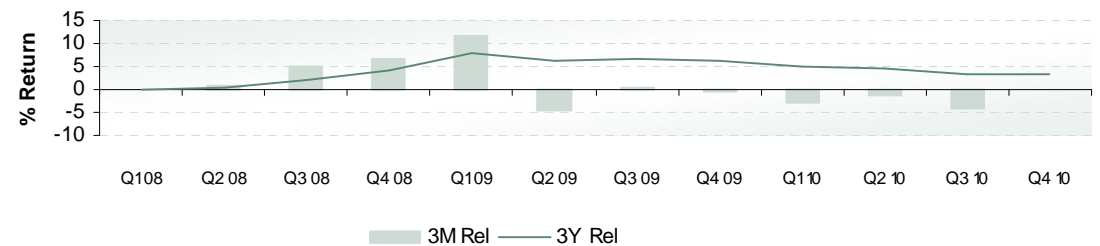
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
Fund	-5.79	-0.17	-1.60	2.34	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34
Target	-5.98	-0.99	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38

Three Years Rolling Relative Returns



	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10
3M Rel	0.19	0.83	4.97	6.49	11.78	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04
3Y Rel	0.12	0.42	2.03	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22

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 fourth quarter of 2010.

After strong returns over the third quarter, performance towards the end of the year was varied across the main asset classes. UK and global equities performed well over the quarter to end the year on a high. Bond markets, both corporate and government, weakened as investors grew more confident over economic recovery and started to move into higher return seeking asset classes.

Equities

In equity markets, the FTSE All-Share produced a return of 7.4% over the quarter. Overseas markets as a whole delivered 9.6% to Sterling investors. However, continued Sterling strength meant that those who chose to hedge their investment only received 8.9%.

Positive UK returns were driven by the strongest December performance of the FTSE All-Share since 1993, the last time the UK emerged from a recession. This was despite above target inflation and an uncertain economic outlook due to government spending cuts and higher taxes.

Smaller companies tended to outperform their mid and large cap counterparts. However, there were encouraging signs from a number of 'blue-chips' notably BT, following news that its pension scheme deficit had government support.

Overseas equities again performed well with news of a second round of quantitative easing by the US Federal Reserve Bank buoying markets in the US and Europe.

However, the improved sentiment in Europe remained volatile with Ireland requiring a EUR 85bn bailout in December. The exception to this was once again Germany, whose export led economy remained strong.

Quantitative easing did not receive universal backing though, with some countries expressing concern that this would lead to a devaluation of the US Dollar and would shift exports away from the Asia Pacific regions, particularly Japan. However, the continued growth of the new economic powerhouse, China, resulted in investors seeing strong returns from the region over the quarter.

In Emerging Markets, Sterling investors achieved a return of 4.9% over the quarter compared with 24.0% over the year. The main driver for this slow down was the spread of reduced investor confidence stemming from the problems in Europe.

Government Bonds

In contrast to the overall strength of the equity markets, sovereign bonds struggled. The FTSE UK Gilts All Stocks Index returned -2.1% over the quarter with longer term gilts producing even lower returns.

Early in the quarter the government bond market was affected by uncertainty surrounding further quantitative easing in the UK as well as the continued European sovereign debt problems. However, expectations of quantitative easing in the UK receded on the back of above expected estimated quarter 3 GDP growth.

As the year end approached, improved investor sentiment pushed bond yields higher with the yield on 15 year fixed interest gilts peaking in mid December at 4.2%, its highest yield since the start of the summer.

Corporate Bonds

Credit spreads remained fairly stable over the quarter with over 15 year AA spreads going out from 110bps as at 30 September 2010 to 125bps at the year end. In terms of return the Merrill Lynch Non-Gilt Sterling Index lost 2.5% over the quarter but delivered a positive 8.4% return over the year.

Property

Growth continued over the quarter, but only modestly with the IPD All Property Monthly Index returning 2.2% over the quarter. Strong income as opposed to capital appreciation was the main factor behind this improvement.

Outlook

The volatility of markets over 2010 has served to highlight the variability of confidence felt by investors.

The year was characterised by sovereign debt problems particularly in Europe with both Greece and Ireland needing significant support. This issue is likely to remain on investor radars with Portugal in particular viewed as vulnerable.

Closer to home, rising Consumer Price Inflation is challenging the Bank of England's inflation credentials and the Bank faces some tough decisions as it balances the need to control inflation through higher interest rates, whilst supporting the economy as spending cuts start to bite.

Sources: Datastream, Bank of England.

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

IMPORTANT INFORMATION

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