

Pension Fund Annual Report & Accounts for the year to 31 March 2015



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FOREWORD

The aim of this Annual Report is to provide information about the London Borough of Hillingdon Fund of the LGPS for its members, employers, and other stakeholders.

In addition to the annual accounts for the Pension Fund, the report includes information on the management of the scheme; a report on administration; and detailed information on the investments of the Fund.

The most significant change during the last year was that the 'new 2014 scheme' came into effect from 1 April 2014 changing the scheme from a final salary scheme to a career average scheme.

Over the year, the total membership of the Hillingdon Fund grew by 834 members during the last year, with total membership rising from 19,528 to 20,362. Total contributions received during the year were £38.5m, an increase of £2.7m over 2013/14, primarily due to the increased number of scheme members, and the number of Transfer Values received. Total benefits paid out in 2014/15 amounted to £35.8m, a decrease of £1.8m compared to the previous year. The overall excess between income and expenditure from member activities was £2.7m, compared to a deficit of £1.8m in 2013/14.

The total net assets of the Fund increased by £75.7m (10.4%), from £726.5m to £802.3m. These assets were invested in pooled investment vehicles (71.2%), public equities (17.0%), fixed interest/index linked (8.1%), and (3.7%) in cash and other investment balances.

The fund received an unqualified external financial audit certificate from the Scheme's external statutory auditors, Deloitte.

SCHEME MANAGEMENT REPORT

Scheme Management and Advisers as at 31 March 2015

Administering Authority: London Borough of Hillingdon

Pension Fund Committee Members as at 31 March 2015:

Cllr Philip Corthorne (Chairman)	Cllr Michael Markham (Vice-Chairman)
Cllr Beulah East	Cllr Raymond Graham
Cllr David Simmonds	Cllr Richard Mills
Cllr Tony Eginton	Cllr John Morse
John Holroyd(Pensioner/Deferred Member Rep)	
Andrew Scott (Active Member Rep)	

Corporate Director of Finance: Paul Whaymand

Strategic Investment Consultant: KPMG - David O'Hara

Independent Investment Adviser: Scott Jamieson

Fund Managers:

UBS Global Asset Management	Ruffer LLP
AEW UK	State Street Global Advisors
LGT Capital Partners	Adam Street Partners
Macquarie Investment	M&G Investments (Direct Investment)
JP Morgan Asset management	Kempfen International Investments
Newton Investment Management	Permira LLP
GMO Investments	

Actuary: Hymans Robertson LLP

Administration: Capita Employee Benefits

Legal Services: Raj Alagh, Borough Solicitor LBH

Auditor: Deloitte LLP

Banker: HSBC Bank Plc
Natwest Plc

Custodian for Fund Assets: Northern Trust Company

AVC Provider: Prudential Assurance Company

Officer Support:

Nancy le Roux, Deputy Director - Strategic Finance
Sian Kunert, Chief Accountant
Ken Chisholm, Corporate Pensions Manager
Tunde Adekoya, Pension Fund Accountant

ADMINISTRATION REPORT

INTRODUCTION

London Borough of Hillingdon is the administering authority for the London Borough of Hillingdon Pension Fund, which is part of the Local Government Pension Scheme (LGPS). All aspects of the fund's management and administration, including investment matters are overseen by the Pensions Committee. Pensions Administration is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

MEMBERSHIP

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. Over the last few years total membership of the fund has grown as shown in the table below.

5 Year Analysis of Fund Membership

Membership type	2010/11	2011/12	2012/13	2013/14	2014/15	5 year movement
Active	6,039	5,948	6,213	7,524	8,046	+33.23%
Pensioner	5,187	5,378	5,498	6,003	6,051	+16.66%
Deferred	4,890	5492	5,883	6,311	6,278	+28.38%
Total Membership	16,116	16,818	17,594	19,838	20,375	+26.43%

Early Retirement The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2010/11	2011/12	2012/13	2013/14	2014/15
Redundancy or Efficiency	20	65	23	50	23
Ill Health	11	12	6	3	8
Total	31	77	29	53	31

KEY PERFORMANCE DATA

All LGPS funds measure performance against key industry performance indicators. Targets are set and agreed as part of the contract with CEB. Pensions Committee receive a quarterly report on performance, who then address any concerns in relation to performance.

The table below details CEB's performance against target for the year to 31 March 2015.

Performance Indicator	Hillingdon Target	2013/14 Performance %	2014/15 Performance %
Letter detailing transfer in quote	10 days	87.18	82.56
Letter detailing transfer out quote	10 days	78.38	73.68
Process refund & issue payment	5 days	81.64	54.38
Letter notifying estimate of benefit	10 days	80.07	45.24
Letter notifying actual benefit	5 days	78.14	98.82
Letter acknowledging death	5 days	82.77	25.55
Letter notifying amount of dependant's benefit	5 days	50.50	70.83
Calculate & notify deferred benefits	10 days	78.70	47.65

Performance over the year 2014/15, has been poor, and as a result further monitoring and engagement with CEB has taken place. Performance is being monitored on a weekly basis.

EMPLOYER CONTRIBUTIONS

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer contribution rate is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each employer in 2014/15 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	294,571.98	23.4
Belmore Primary School	140,181.44	22.8
Bishop Ramsey	285,680.16	26.3
Bishopshalt School	286,027.81	29.6
Caterlink	5,137.01	16.9
Chantry School	85,474.13	28.6
Charville Lane School	179,972.97	35.7
Coteford Junior School	101,063.78	27.4
Cowley St. Lawrence School	91,858.36	24.8
Cranford Park	243,680.61	28.0
Douay Martyrs	257,705.25	30.3
Genuine Dining Ltd	39,445.19	21.0
Grangewood School	362,843.11	25.1
Greenwich Leisure	85,409.71	16.8
Guru Nanak	337,014.59	21.2
Harefield Academy	222,234.10	19.0
Haydon School	395,109.67	22.2
Heathrow Travel Care	23,362.79	18.9
Hillingdon & Ealing Citizens Advice	43,560.45	19.1
Hillingdon Primary School	137,028.36	22.5
Lake Farm Park Federation	11,198.54	18.1
Laurel Lane Academy	94,255.31	24.8
London Housing Consortium	140,510.15	21.1
Mitie Cleaning	26,722.50	21.0
Mitie FM	63,701.86	21.0

Moorcroft School	240,664.13	25.1
Nanaksar Primary School	29,843.46	15.3
Northwood School	84,528.98	21.7
Pentland Field School	11,094.01	25.1
Pinkwell School	246,217.76	24.3
Queensmead School	192,465.60	24.3
Rosedale College	287,895.27	24.5
Ruislip High School	176,353.76	21.5
Ryefield Primary School	101,254.30	21.1
St. Matthews Primary School	94,958.89	24.8
Stag Security Services	1,537.32	20.6
Stockley Academy	201,366.48	19.4
Swakeley's School	197,104.35	24.0
The Willows School	33,522.99	27.3
Uxbridge College	823,748.88	17.8
Uxbridge High School	261,434.13	21.5
Vyners School	226,084.55	28.7
Wood End Park School	205,705.40	24.5
Total	7,369,530.09	

RISK MANAGEMENT

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor the key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks.

Key Risk 1 – Financial Risks - a team of officers and advisors support the Pensions Committee who ensures the monitoring of all financial risks for impact. The financial risks cover all aspects of the fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the fund will help further mitigate these risks.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated quarterly and reported to Pension Board.

SCHEME BENEFITS

The Local Government Pension Scheme (LGPS) is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information can be obtained from our pensions administrator Capita Employee Benefits, telephone 0208 972 6050 or email Hillingdon.pensions@capita.co.uk. Further general scheme information regarding the LGPS is available from the website: www.hillingdon.gov.uk

A "New Scheme" was introduced from 1 April 2014, which provides benefits under a Career Average Revalued Earnings (CARE) arrangement. All service up to 31 March 2014, still accrues benefits under the previous Final Salary arrangement. This means that any scheme member with service before 1 April 2014, has their benefits calculated separately, under the different conditions applicable to period of service pre and post April 2014. Further amendments to the New Scheme are outlined below:-

Normal Retirement Age

Retirement age has been aligned to the members State Retirement Age, earlier voluntary retirement allowed from age 55 but benefits are reduced if minimum service conditions are not met.

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert part of their annual pension (within limits), to increase or provide a lump sum.

Pension (Voluntary Retirement)

For all service from 1 April 2014 benefits are calculated at 1/49th times the pay received in the year from 1 April 2014 to 31 March 2015. Added to this is any pension for service prior to 1 April 2014. The pension for this period is based on the average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can request that benefits are based on the average pay received in any three consecutive years, ending on 31 March in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

Pension (Ill Health)

If an employee is certified as being permanently incapable of carry out the duties of their post because of ill health, and has been a member of the pension scheme for at least 2 years, an ill health pension is payable. An ill health pension is calculated in the same manner as voluntary retirement but may be increased, depending of the level of ill health as determined by the Council's Occupational Health Physicians. The different ill heth Tier are outlined below:-

First tier: If there is no reasonable prospect of obtaining gainful employment before the employee attains State Retirement Age. In these cases the employee's LGPS service is enhanced to the individuals State Retirement Age.

Second Tier: If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or to the employees State Retirement Age if earlier, the employee's LGPS service is enhanced by 25% of potential service to State Retirement Age.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement. There is an ill health review after benefits have been paid for eighteen months, and the benefits may be stopped, continued for a further maximum period of eighteen months or the level of ill health may be increased to Tier 2 from date of the review.

Lump Sum Retirement Grant

The lump sum retirement grant is based on the average pensionable pay for the last year of service and the total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as 3/80ths for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service

A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement

A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits

A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on $1/160$ of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child: Child's pension is $1/320$ th of member's service, multiplied by the final pay.

Partner with more than one child: Child's pension is $1/160$ th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.

No partner and one child: Child's pension is $1/240$ th of the member's service, multiplied by the final pay.

No partner and more than one child: Child's pension is $1/120$ th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension

(GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

REGULATIONS

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

INVESTMENT REPORT

INVESTMENT STRATEGY

The setting and maintenance of the Fund's investment strategy was undertaken by the Investment Sub Committee but this responsibility is now reverted back to the Pensions Committee, with the creation of the Pensions Board. The main consideration when devising an investment strategy for the Fund is recognising the objective of the Fund is to pay benefits to members and their dependents, both now and in the future. These benefits, which form the liabilities of the Fund, are very long term in nature. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities, property, private equity and other alternative investments (21.8% of assets) which are expected to deliver higher returns over the longer term.

The allocation of Fund assets among the managers' mandates as at 31 March 2015 was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.82	
AEW UK				3.08		
GMO	0.90	7.32				
JP Morgan			4.81			
Kempen	1.64	9.26				
LGT					1.59	
M&G						4.10
Macquarie						1.64
Newton	0.53	2.86				
Permira						0.67
Ruffer	1.66	4.57	4.13			
State Street	8.85	7.32	4.03			
UBS Equities	12.74			0.01		
UBS Property				7.89		
UBS TAA			3.97			
Total	26.32	31.33	16.94	10.98	4.41	6.41

(A cash holding of 3.61% is not included in the above table.)

FUND MANAGERS

State Street

State Street manages fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently.

UBS (UK equities)

UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2015 was not conducive to their investment style and contributed to their underperforming the benchmark for one year, whilst maintaining impressive returns over three years, five years and since inception categories.

UBS Property

The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a fund of funds arrangement with the assets managed in several pooled property funds managed by several managers, but with UBS responsible for selecting the pooled funds. Following the successful restructure of the UBS Triton part of the Property portfolio, performances have been better and have outperformed the benchmark over one year, three years and five years. But slightly behind on since inception returns.

Private equity

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 4.4% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of Switzerland. Both managers invest globally. Within each managers' portfolios, private equity assets are spread across several funds launched in different years in order to provide time diversification.

Ruffer

Ruffers is an Absolute Return manager and have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year, three years and since inception.

Macquarie

The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with allocation to the India and China funds fully drawdown. The European partnership fund is about 60% drawn down with more allocation confirmed in the last few months. MIP III, the American offering has made drawdown totalling about £1million since commitment in April 2014.

M&G

The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in

the bank market. As at the end of March 2015, two of the three invested funds were fully drawn down and the third, DOF II is 70% drawn. The pension fund is already receiving returns on investment from the first two funds and this should accelerate over the next year as they mature.

JP Morgan

JP Morgan mandate has been in place for just over three and a half years and has been deemed to have performed below expectations. During the year under review, the assets managed have been reallocated to new managers, thus reducing the holdings by 50% and this will be reinvested with the same manager, but in a different product with higher returns.

Newton

Newton was appointed in January 2013 to manage about 3.4% of the fund's assets with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of pension payable outstripping contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate assets.

Kempen

Kempen's appointment in January 2013 was based on the same strategy employed with Newton, but has a slightly different style bias to the latter. Again, their strategy is predominantly geared towards income generation through higher dividend payments to fund possible deficit in "members Dealings" payments/receipts.

GMO

GMO was appointed in October 2014 as replacement for Barings after the manager was defunded due change in investment personnel. GMO is an absolute return manager and such a direct replacement for Barings.

AEW

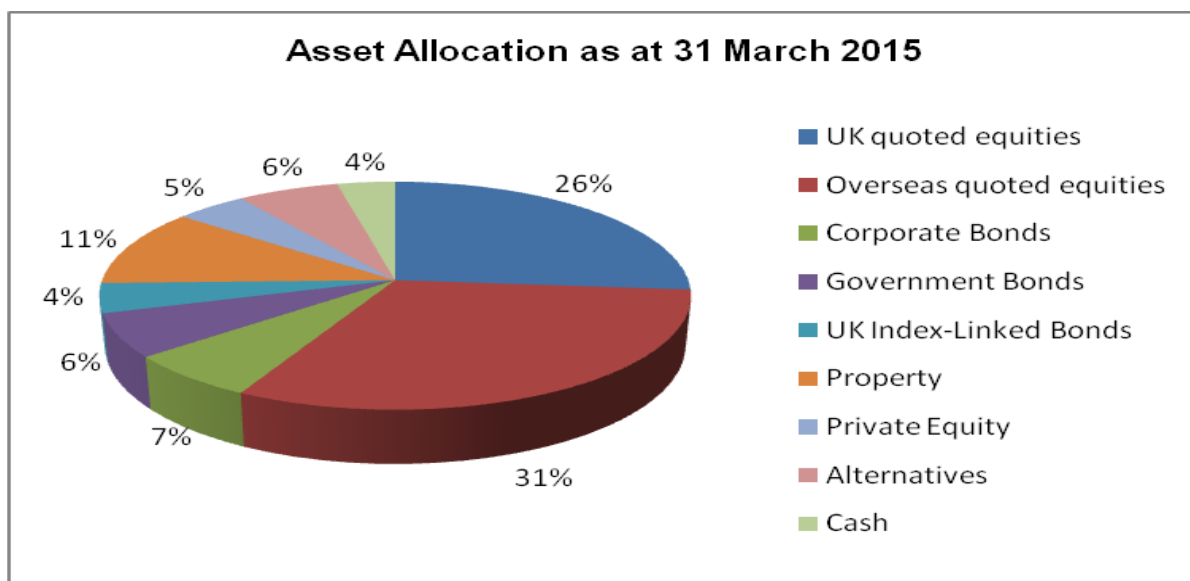
AEW were appointed in June 2014 with a direct property mandate to complement the existing pooled property investment strategy of UBS and generate premium returns commensurate with their investment cycle and strategy. A total of £30 million has been committed and fully drawn down by the manager.

Permira

Permira were appointed in November 2014 and aims to deliver a superior return from lending directly to corporate borrowers. The Manager will generally lend on a fully secured basis, although it may lend sparingly on a weaker basis. The manager will normally secure strong position or fully control the board of most companies it lends money to.

Fund Value and Asset allocation as at 31 March 2015

At 31 March 2015 the total value of the pension fund investment assets was £799,760k. The following diagram identifies the allocation, by asset class, as at 31 March 2015.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of both market gains and revised asset allocation during the year.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2015.

INVESTMENT MANAGER	as at 31 March 2015		as at 31 March 2014	
	£'000	%	£'000	%
Adams Street Partners	22,988	2.87	21,199	2.93
AEW Uk	24,623	3.08	-	-
Barings Global Asset Management	-	-	63,046	8.70
GMO	65,729	8.22	-	-
JP Morgan Asset Management	38,447	4.81	77,397	10.68
Kempfen International Investments	87,276	10.91	77,307	10.67
LGT Capital Partners	12,769	1.60	15,945	2.20
M&G Investments	32,965	4.12	25,822	3.56
Macquarie Infrastructure	13,886	1.74	5,270	0.73
Newton Asset Management	27,173	3.40	23,618	3.26
Permira Credit Solutions	4,029	0.50	-	-
Ruffer LLP	94,758	11.85	84,447	11.66
State Street Global Advisors	161,566	20.20	143,802	19.85
UBS Global Asset Management	104,844	13.11	115,829	15.99
UBS Property	64,119	8.02	54,368	7.51
UBS TAA	31,742	3.97	12,768	1.76
Other*	12,846	1.60	3,643	0.50
Total	799,760	100.00	724,291	100.00

*Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), Schedule 1, sets out the legal requirements which

apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2015 were:

Top 5 Holdings	Market Value as at 31 March 2015 £000s	Percentage of Fund Value
KEMPEN INTL FDS GLOBAL HIGH DIVIDEND I GBP	87,276	10.88%
SSGA MPF EQUITY INDEX	70,937	8.84%
GMO FUNDS GBL REAL RTN UCITS GRRUF A	65,729	8.19%
JPM STRATEGIC BOND X ACCUMULATION SHARES	38,447	4.79%
UNITED STATES TREAS NTS 0.125% 04-15-2019	31,760	3.96%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2015 £000s	Percentage of Fund Value
BP ORD USD0.25	9,656	1.20%
ROYAL DUTCH SHELL 'B'ORD EUR0.07	8,177	1.02%
HSBC HLDGS ORD USD0.50(UK REG)	5,814	0.72%
LLOYDS BANKING GP ORD GBP0.1	5,627	0.70%
GLAXOSMITHKLINE ORD GBP0.25	5,466	0.68%
BARCLAYS PLC ORD GBP0.25	5,298	0.66%
RIO TINTO ORD GBP0.10	4,630	0.58%
3I GROUP ORD GBP0.738636	3,906	0.49%
BAE SYSTEMS ORD GBP0.025	3,709	0.46%
AVIVA ORD GBP0.25	3,543	0.44%

Investment Performance

Over the year, on investment performance, there was a relative excess return of 0.03%. The biggest contributor to the excess return was Ruffer with 11.64% outperformance, whilst the biggest detractor was Kempen with (7.56%) underperformance. The three year and since inception figures were 0.75% and 0.08% relatively better than the respective benchmark returns

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
Adams Street	29.29	-	-	16.93	-	-	4.85	-	-
AEW UK	-	-	-	-	-	-	11.70	11.83	(0.11)
GMO	-	-	-	-	-	-	1.52	(0.32)	1.85
JP Morgan	1.99	3.57	(1.52)	3.11	3.60	(0.48)	3.93	3.66	0.26
Kempen	12.83	22.05	(7.56)	-	-	-	8.96	19.04	(8.47)
Macquarie	10.86	3.57	7.04	3.15	3.60	(0.43)	(3.24)	3.71	(6.69)
M&G	8.54	4.57	3.79	6.57	4.61	1.87	5.75	4.72	0.99
Newton	15.05	21.49	(5.30)	-	-	-	12.35	17.14	(4.09)
Permira	-	-	-	-	-	-	1.45	1.36	0.09
Ruffer	12.26	0.55	11.64	7.86	0.63	7.19	7.13	0.70	6.38
SSgA	12.35	12.34	0.01	11.25	11.35	(0.08)	12.82	12.81	0.01
UBS	3.20	6.57	(3.17)	14.02	10.63	3.06	10.23	8.99	1.14
UBS (Property)	18.62	16.64	1.70	9.82	9.40	0.38	2.43	2.60	(0.17)
UBS TAA	18.12	16.43	1.45	-	-	-	4.57	3.72	0.82
Total Portfolio	10.44	10.41	0.03	9.85	9.03	0.75	6.97	6.89	0.08

During the year under review, four of the ten asset classes of investments underperformed their benchmarks, with commodities (-6.29%) the biggest detractor and cash (7.71%) the biggest contributor, relative to its weighting in the portfolio. Three year and longer term returns were overall relatively better than the fund's benchmarks.

Performance	1 Year			3 Year			Since Inception		
Asset Class	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
UK Equity	4.70	6.57	(1.76)	13.37	10.63	2.48	7.19	7.37	(0.17)
Overseas Equity	12.21	18.80	(5.55)	10.65	14.41	(3.28)	6.34	7.32	(0.91)
Fixed Income	8.90	5.57	3.15	4.62	4.71	(0.09)	6.34	5.46	0.83**
Index Linked Gilts	19.14	18.55	0.55	7.70	7.92	(0.20)	7.02	7.97	(0.88)*
Infrastructure	10.56	3.57	6.75	3.75	3.60	0.14	-	-	-
Private Equity	19.16	23.65	(3.63)	12.86	15.95	(2.66)	11.84	11.11	0.66**
Property	18.72	16.64	1.78	10.32	9.40	0.84	9.29	8.48	0.45
Commodities	(5.78)	0.55	(6.29)	(20.55)	0.63	(21.05)	-	-	-
Hedge Funds	6.69	4.57	2.02	7.91	4.61	3.16	-	-	-
Cash & Cash Equivalent	8.10	0.36	7.71	2.77	0.37	2.39	2.37	0.41	1.96**
Total Portfolio	10.44	10.41	0.03	9.85	9.03	0.75	6.97	6.89	0.08

* 10 Yrs performance returns as no longer term data available

** 5 Yrs Performance returns as no longer term data available

Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements.

Responsible Investing

The Fund supports the principle of socially responsible investment within the requirements of the law and the need to give high priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee are committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio, which have associated with them, a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the fund managers and reported to Committee on a quarterly basis. Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

The Council supports the Stewardship Code issued by the Financial Reporting Council. However in practice the fund's policy is to apply the code through its fund managers. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

INVESTMENT COMMENTARY FOR THE YEAR TO 31 MARCH 2015

Market commentary

Deflation has been a key theme in Europe and the UK following the continued fall in oil prices over the past 12 months. The European Central Bank announced their €1.1 trillion quantitative easing programme at the beginning of the first quarter of 2015 in an attempt to combat deflation in the region. European equities were boosted by the decision as the scale of these measures was larger than anticipated.

There were fresh concerns about a possible Eurozone breakup as anti-austerity party Syriza gained power in the Greek election, however markets experienced limited impact over the year to 31 March 2015.

Global equities delivered strong performance, with North America the primary contributor to performance, though concerns over the strength of the Dollar resulted in a sell-off towards the end of Q1 2015.

Fixed-interest and index-linked gilts rallied strongly as investors valued perceived safe haven assets. Real yields fell in to negative territory over the second quarter of 2014 and remained negative and declined substantially over the 6 months to 31 March 2015.

Over the year as a whole, 20-year real yields fell by 0.92%, which significantly increases the value placed on inflation-linked pension liabilities.

Key asset class information

Equities

Global equities experienced another strong 12-month period to 31 March 2015, returning 19.0%. Over the first half of 2014 markets benefitted from the liquidity provided by loose monetary policy. Strong equity market performance continued into 2015, as US and UK stock markets hit all-time highs, and European markets were buoyed by the ECB's announcement of a larger than expected €60bn-a-month quantitative easing programme.

Bonds

Over the period to 31 March 2015, investors placed a premium on the lower risk characteristics of sovereign backed assets, and real gilt yields fell to record lows. As a result, gilts – both index-linked and fixed-interest – performed strongly over the year (returning 27.0% and 28.1% respectively).

Corporate bonds also performed well over the 12 months to 31 March 2015 (returning 21.0%), but underperformed government bonds as credit spreads widened. This trend reversed slightly in Q1 2015, as corporate bonds outperformed government securities of similar durations.

Property

Property returned 18.3% over the year to 31 March 2015. Property markets benefited from an improved UK economic backdrop, with price rises driven by the London market.

Fund Managers

GMO

The Fund appointed GMO to manage an absolute return mandate during the year. GMO was appointed as a replacement for Barings following concerns over the departure of key members of their team during the year.

GMO provides diversification from equity markets and within the Fund's absolute return allocation, as the investment style of the GMO strategy differs from the approach undertaken by Ruffer, the Fund's other absolute return manager.

GMO has a clearly defined investment process based on 7 year forecasts for each asset class. The process means that strategic longer term positions typically dominate the portfolio with short term tactical positions playing a secondary role.

Permira

The Fund appointed Permira to manage a direct lending portfolio. This portfolio comprises senior loans to a range of companies and the capital committed by the Fund is expected to be drawn down over a period of time as loans are made. This provides an attractive risk adjusted return for the Fund together with a source of contractual income.

David O'Hara on behalf of KPMG LLP

POLICY DOCUMENTS

All policy documents, where in place, are on the LBH Pension Fund web pages and the links to each are included below.

Funding Strategy Statement - Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2014. See appendix for a copy of this statement. This will be updated following the next triennial valuation of the Fund.

Statement of Investment Principles - The Statement of Investment Principles (SIP) is regularly updated and agreed at Committee. See appendix for a copy of this statement. The format of the SIP has not been subject to a formal review for several years, but this will be done along with the Fund's investment consultants following the next valuation.

Communication Policy Statement - The London Borough of Hillingdon Pension Fund's Communication Policy Statement was last approved by Committee in March 2014, see appendix for a copy of this statement. This policy is due to be updated shortly.

Governance Policy Statement - Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. With the forthcoming addition of the Local Pension Board (LPB), this policy will require updating. <http://www.hillingdon.gov.uk/article/6492/Pension-fund>

Reporting of Breaches Policy - This Policy sets out how any breach of the Pensions Act will be reported, and recorded. The Policy can be found at: <http://www.hillingdon.gov.uk/article/6483/Your-pension>

Administration Strategy - currently under development

Training Policy - a training policy for Pensions Board is currently under development.

Discretionary Policies - There are several discretions within the LGPS regulations for which each employer within the Fund must develop a policy on their application. As these are employer discretions they are not approved by Pension Committee, however, the Fund is responsible for ensuring such policies do exist and are maintained. The policies of LBH can be found at: <http://www.hillingdon.gov.uk/article/6483/Your-pension>

We are currently collating policies of other employers and these will be added as links over the next few months.

London Borough of Hillingdon Pension Fund (“the Fund”)

Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund’s assets, which at 31 March 2013 were valued at £683 million, were sufficient to meet 72% of the liabilities (i.e. the

present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £266 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.7 years	24.7 years
Future Pensioners*	24.3 years	26.9 years

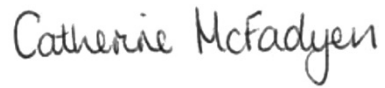
*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Hillingdon, the Administering Authority to the Fund.

Experience over the period since April 2014

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

A handwritten signature in dark ink, reading "Catherine McFadyen". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Catherine McFadyen FFA

Fellow of the Institute and Faculty of
Actuaries
For and on behalf of Hymans Robertson
LLP
21 April 2015

Hymans Robertson LLP
20 Waterloo Street
Glasgow

London Borough of Hillingdon

Pension Fund

Statement of Accounts for the year to 31 March 2015



HILLINGDON
LONDON



INVESTOR IN PEOPLE

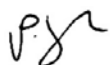
www.hillingdon.gov.uk

Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2015 £000's	Restated 31 March 2014 £000's
Contributions	5	37,383	35,099
Transfers In from other pension funds	6	1,164	750
Less: Benefits	7	(34,448)	(34,748)
Less: Leavers	8	(1,365)	(2,890)
Less: Management expenses	9	(6,834)	(5,981)
Net additions/(withdrawals) from dealings with members		(4,100)	(7,770)
Investment income	10	16,887	15,546
Profit and losses on disposal of investments and changes in value of investments	11	62,982	35,715
Taxes on income		(5)	(7)
Net return on investments		79,864	51,254
Net Increase in the fund during the year		75,764	43,484
Net Assets at start of year		726,536	683,052
Net Assets at end of year		802,300	726,536

		31 March 2015 £000's	31 March 2014 £000's
Investment Assets	11	800,969	725,110
Investment Liabilities	12	(1,209)	(649)
Current Assets	13	3,191	2,802
Current Liabilities	14	(651)	(727)
TOTAL NET ASSETS		802,300	726,536

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Pension Fund Annual Report and these accounts should be read in conjunction with this.



Paul Whaymand
Corporate Director of Finance
25 September 2015

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- the LGPS (Miscellaneous Amendments) Regulations 2014
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory career average revalued earnings (CARE) scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the London Borough of Hillingdon and a range of other scheduled and admitted bodies within the borough.

b) Membership: Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. But since 1 February 2013 all new employees of the Council are automatically enrolled, with the option to opt out of the scheme within three months of auto enrolment.

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2014 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and an automatic lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered by CAPITA Employee Benefits, on behalf of the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Employers, Pension Fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

Employers who contribute to the fund in addition to London Borough of Hillingdon are:

Admitted Bodies:

Genuine Dining Ltd	Mitie Cleaning
Greenwich Leisure	Mitie FM
Heathrow Travel Care	Stag Security Services
Hillingdon & Ealing Citizens Advice	

Scheduled Bodies:

Barnhill Academy	Nanak Sar Primary School
Belmore Academy	Northwood Academy
Bishop Ramsey Academy	Pinkwell School - New in 2014/15
Bishopshalt Academy	Pentland Field School - New in 2014/15
Charville Academy	Queensmead Academy
Coteford Academy	Rosedale Hewens Academy
Cranford Park Academy	Ruislip High School - New in 2014/15
Douay Martyrs Academy	Ryefield Primary School - New in 2014/15
Eden Academy	Stockley Academy
Guru Nanak Sikh Academy	Swakeleys Academy
Harefield Academy	Willows Academy
Haydon Academy	Uxbridge College
Hillingdon Primary School - New in 2014/15	Uxbridge Academy
John Locke Academy - New in 2014/15	Vyners Academy
Lake Farm Park Federation - New in 2014/15	Wood End Academy
LBDS Frays Academy Trust	
London Housing Consortium	

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2015 there were 8,046 active employees contributing to the fund, with 6,051 in receipt of benefit and 6,278 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	40	33
Number of employees in scheme		
London Borough of Hillingdon	5,809	6,002
Other employers	2,237	1,522
Total	8,046	7,524
Number of Pensioners		
London Borough of Hillingdon	5,541	5,505
Other employers	510	498
Total	6,051	6,003
Deferred pensioners		
London Borough of Hillingdon	4,927	4,980
Other employers	1,351	1,331
Total	6,278	6,311

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, Barings Asset Management (Defunded 31 October 2014) GMO Investments, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle

The fund is overseen by the Pensions Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2014/15:

Pensions Committee

Cllr Philip Corthorne (Chairman)	Cllr Tony Eginton
Cllr Michael Markham (Vice-Chairman)	Cllr Beulah East
Cllr David Simmonds	Cllr John Morse
Cllr Raymond Graham	Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Cllr Richard Mills	Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)

Pensions Board

From 01 April 2015, a local Pensions Board has been created.

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009 (as amended). The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted for on a cash basis. Group transfers are accounted for under the agreement which they are made.

Notes To Pension Fund Accounts

3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period. Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) Interest on property developments - Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

i) Contributions - are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

j) Benefits - are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2015 was £35,275k (£37,146k at 31 March 2014).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £35,757k. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING POLICIES

Prior period adjustments have been made to the Pension Fund 2014/15 published financial statements in relation to the following:

Accounting for Scheme Management Expenses

In 2014/15 CIPFA, through the Code of Practise on Local Authority Accounting in the United Kingdom introduced the financial accounting framework to ensure all costs associated with the management of LGPS assets are captured and reflected in the financial statement in one form or another (through either the fund accounts or changes in values in the net assets statement). The main drivers of the changes by the framework were the needs for comparable data, consistency of reported costs and transparency of costs reporting across all LGPS funds. To this end, three cost categories, Investment Management Expenses, Oversight and Governance and Pension Administration were introduced.

One of the main requirements of the revised code of practise in relation to fund expenses is the reporting of pooled fund expenses. Practitioners are expected to disclose all expenses incurred both at partnership and fund of funds level. This prompted the need to seek information from all pooled fund managers engaged by the fund in relation to total fees and expenses charged to the fund at both levels and comparative figures for prior year was requested for completeness. The information received indicated fees and expenses for both private Equity managers engaged by the London Borough of Hillingdon Pension Fund were understated for prior year (2013/14), hence the relevant restatements were made to the fund accounts and notes to both comply with the three new management expenses categories and provide comparative figures for prior year.

Restatement of Pension Fund Accounts

	Published 31 March 2014 £000's	Restatement £000's	Restated 31 March 2014 £000's
Contributions	35,099		35,099
Transfers In from other pension funds	750		750
Less: Benefits	(34,748)		(34,748)
Less: Leavers	(2,890)		(2,890)
Less: Administrative expenses	(610)	610	
Less: Management expenses		(5,981)	(5,981)
Net additions/(withdrawals) from dealings with members	(2,399)	(5,371)	(7,770)
Investment income	15,546		15,546
Profit and losses on disposal of investments and changes in value of investments	34,113	1,602	35,715
Taxes on income	(7)		(7)
Investment management expenses	(3,769)	3,769	
Net return on investments	45,883	5,371	51,254
Net Increase in the fund during the year	43,484	0	43,484
Net Assets at start of year	683,052		683,052
Net Assets at end of year	726,536		726,536

Notes To Pension Fund Accounts

5. CONTRIBUTIONS

Employers

Normal
Deficit funding

Members

Normal
Additional contributions

31 March 2015 £000's	31 March 2014 £000's
23,621	21,098
4,576	5,160
8,410	8,133
776	708
37,383	35,099

Deficit Funding:- At the actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%.

Schedule of contributions by body

Employers

LB Hillingdon
Scheduled Bodies
Admitted Bodies

Members

LB Hillingdon
Scheduled Bodies
Admitted Bodies

31 March 2015 £000's	31 March 2014 £000's
20,827	20,733
7,081	5,250
289	275
7,151	6,983
1,938	1,765
97	93
37,383	35,099

6. TRANSFERS IN

Individual transfers in from other schemes

31 March 2015 £000's	31 March 2014 £000's
1,164	750

7. BENEFITS

Pensions

Commutations and lump sum retirement benefits
Lump sum death benefits

31 March 2015 £000's	31 March 2014 £000's
(29,862)	(28,114)
(4,521)	(6,105)
(65)	(529)
(34,448)	(34,748)

Schedule of benefits by employer

LB Hillingdon
Scheduled Bodies
Admitted Bodies

31 March 2015 £000's	31 March 2014 £000's
(33,985)	(34,205)
(416)	(450)
(47)	(93)
(34,448)	(34,748)

Notes To Pension Fund Accounts

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2015 £000's	31 March 2014 £000's
Individual transfers out to other schemes	1,365	2,890
	1,365	2,890

9. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2015 as follows:

	31 March 2015 £000's	Restated 31 March 2014 £000's
Administrative Costs	534	525
Investment Management Expenses	5,995	5,242
Oversight and Governance	305	214
	6,834	5,981

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management costs.

10. INVESTMENT INCOME

	31 March 2015 £000's	31 March 2014 £000's
Dividends from equities	6,672	6,668
Income from fixed interest Securities	107	40
Income from index-linked securities	205	334
Income from pooled investment vehicles	1,833	1,818
Interest on cash deposits	83	157
Other (for example from stock lending or underwriting)	7,987	6,529
	16,887	15,546

11. INVESTMENT ASSETS

	Value 1 April 2014 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2015 £000's
Equities	148,058	29,090	(44,510)	3,684	136,322
Index-linked securities	41,191	36,172	(21,355)	8,826	64,834
Pooled investment vehicles	516,357	130,560	(124,264)	47,380	570,033
	705,606	195,822	(190,129)	59,890	771,189
Other investment balances	1,131			4,130	913
Fund managers' cash	18,373			(1,038)	28,867
Total Investment Assets	725,110			62,982	800,969

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £218k (£539k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

11. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2015 £000's	Market Value 31 March 2014 £000's Restated
Adams Street Partners	22,988	21,199
AEW UK	24,623	0
Barings Global Asset Management (Defunded 31 October 2014)	0	63,046
GMO	65,729	0
JP Morgan Asset Management	38,447	77,397
Kempen International Investments	87,276	77,307
LGT Capital Partners	12,769	15,945
M&G Investments	32,965	25,822
Macquarie Infrastructure	13,886	5,270
Newton Asset Management	27,173	23,618
Permira Credit Solutions	4,029	0
Ruffer LLP	94,758	84,447
State Street Global Advisors	161,566	143,802
UBS Global Asset Management (Equities)	104,844	115,829
UBS Global Asset Management (Property)	64,119	54,368
UBS TAA	31,742	12,768
Other*	12,846	3,643
Total	799,760	724,461

* Other includes pending trades, accrued income and cash held in Custody accounts, independent of Fund managers not mandated to hold cash.

Forward Foreign Exchange Contracts

Counterparty and Currency	Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust GBP - JPY	11,410	(11,496)	(86)	13/01/2015	17/04/2015
Northern Trust JPY - GBP	2,485	(2,482)	3	22/01/2015	17/04/2015
Northern Trust JPY - GBP	3,352	(3,368)	(16)	30/01/2015	17/04/2015
Northern Trust JPY - GBP	4,349	(4,383)	(34)	02/02/2015	17/04/2015
Northern Trust GBP - JPY	1,546	(1,582)	(36)	16/02/2015	17/04/2015
Northern Trust GBP - USD	20,492	(21,044)	(552)	11/02/2015	15/05/2015
Northern Trust GBP - USD	461	(478)	(17)	02/03/2015	15/05/2015
Northern Trust GBP - EUR	2,216	(2,224)	(8)	09/03/2015	12/06/2015
Total unrealised gains	46,311	(47,057)	(746)		

As at 31 March 2015 eight forward foreign exchange contracts were in place for £47,057k with unrealised loss of £746k. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class

	31 March 2015 £000's	31 March 2014 £000's
Equities		
UK quoted	108,883	121,335
Overseas quoted	27,439	26,723
	136,322	148,058
Index Linked Securities		
UK Public Sector quoted	17,642	14,006
Overseas Public Sector Quoted	47,192	21,357
	64,834	35,363
Pooled Investment Vehicles		
UK Managed funds - other	351,510	364,199
UK Unit Trusts - property	87,738	50,427
Overseas Unit Trusts - other	95,028	70,413
Private Equity	35,757	37,146
	570,033	522,185
Other Investment balances		
Forward foreign exchange unrealised gain	0	288
Amount due from brokers	3	0
Outstanding dividend entitlements and recoverable withholding tax	910	843
	913	1,131
Cash deposits		
Sterling	28,867	18,373
	28,867	18,373
	800,969	725,110

Notes To Pension Fund Accounts

11. INVESTMENT ASSETS (CONTINUED)

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, which manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2015 was £6,488k and as at 31 March 2014 £6,444k (2013/14 restated to include bonus of £1,410k). Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 5.

12. INVESTMENT LIABILITIES

	31 March 2015 £000's	31 March 2014 £000's
Amount outstanding to brokers	(463)	(649)
Forward foreign exchange unrealised loss	(746)	0
	(1,209)	(649)

13. CURRENT ASSETS

	31 March 2015 £000's	31 March 2014 £000's
Employers' contributions due	391	197
Employees' contributions due	111	65
Debtor: London Borough of Hillingdon	0	266
Debtor: Other Entities	0	7
Cash balances	2,689	2,267
	3,191	2,802

NB: The current assets all relate to amounts due from local government bodies with the exception of cash balances which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2015 £000's	31 March 2014 £000's
Creditor: Other Entities	(394)	(721)
Creditor: London Borough of Hillingdon	(257)	(6)
	(651)	(727)

NB: The total of £394k other entities is due to bodies external to government, namely investment managers.

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

	31 March 2015 £000's	31 March 2014 £000's
Financial Assets		
Fixed Interest Securities	57,833	35,363
Equities	136,322	148,058
Pooled Investments	439,607	429,343
Pooled Property Investments	87,743	50,427
Private Equity/Infrastructure	49,684	42,415
Derivative Contracts	0	288
Cash	28,867	18,373
Debtors	913	843
	800,969	725,110
Financial Liabilities		
Derivative Contracts	(746)	0
Creditors	(463)	(649)
	(1,209)	(649)
	799,760	724,461

b) Net Gains and Losses on Financial Instruments

	31 March 2015 £000's	Restated 31 March 2014 £000's
Financial Assets		
Fair Value through profit and loss	63,742	35,427
Financial Liabilities		
Fair Value through profit and loss	(746)	288
	62,996	35,715

c) Fair Value of Financial Instruments and liabilities

	31 March 2015 Fair Value £000's	31 March 2015 Carrying Value £000's	31 March 2014 Fair Value £000's	31 March 2014 Carrying Value £000's
Financial Assets				
Fair Value through profit and loss	771,189	771,189	705,606	705,606
Loans and receivables	29,780	29,780	19,504	19,504
Total Financial assets	800,969	800,969	725,110	725,110
Financial Liabilities				
Fair Value through profit and loss	(1,209)	(1,209)	(649)	(649)
Loans and receivables	0	0	0	0
Total Financial Liabilities	(1,209)	(1,209)	(649)	(649)

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2015

	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	596,838	87,716	86,635	771,189
Loans and Receivables	16,183	8,527	5,070	29,780
Total Financial Assets	613,021	96,243	91,705	800,969
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(1,209)			(1,209)
Total Financial Liabilities	(1,209)	0	0	(1,209)
Net Financial Assets	611,812	96,243	91,705	799,760

Values as at 31 March 2014

	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	586,941	50,427	68,238	705,606
Loans and Receivables	12,316	3,940	3,248	19,504
Total Financial Assets	599,257	54,367	71,486	725,110
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(649)	0	0	(649)
Total Financial Liabilities	(649)	0	0	(649)
Net Financial Assets	598,608	54,367	71,486	724,461

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) undertook a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC were assured that the valuation processes are rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk - The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each Fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

Notes To Pension Fund Accounts

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	10.20%
Overseas quoted equities	7.93%
UK Public Sector quoted Index-Linked Securities	8.26%
Overseas Public Sector quoted Index-Linked Securities	8.26%
Corporate Bonds	4.10%
UK Managed funds - other	10.20%
UK Unit Trusts - property	3.16%
Overseas Unit Trusts - other	7.93%
Private Equity/Infrastructure	4.57%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Notes To Pension Fund Accounts

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	Value as at 31 March 2015 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	28,867	0.01	29,156	28,578
Investment Assets				
UK quoted equities	108,883	10.20	119,989	97,777
Overseas quoted equities	27,439	7.93	29,615	25,263
UK Public Sector quoted Index-Linked Securities	17,642	8.26	19,099	16,185
Overseas Public Sector quoted Index-Linked Securities	47,192	8.26	51,090	43,294
UK Managed funds - Equities	101,728	10.20	112,104	91,352
UK Managed funds - Bonds	67,314	4.10	70,074	64,554
UK Unit Trusts - property	87,738	3.16	90,511	84,965
Overseas Unit Trusts - Equities	223,217	7.93	240,918	205,516
Overseas Unit Trusts - Bonds	40,352	4.10	42,006	38,698
Private Equity/Infrastructure	49,684	4.57	51,955	47,413
Net Derivative assets	(746)	0.00	(746)	(746)
Investment income due	910	0.00	910	910
Amounts receivable for sales	3	0.00	3	3
Amounts payable for purchases	(463)	0.00	(463)	(463)
Total Assets Available to pay benefits	799,760		856,221	743,299

Asset type	Value as at 31 March 2014 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	18,373	0.00	18,373	18,373
Investment Assets				
UK quoted equities	121,335	11.73	135,568	107,102
Overseas quoted equities	26,723	9.97	29,387	24,059
UK Public Sector quoted Index-Linked Securities	14,006	6.73	14,949	13,063
Overseas Public Sector quoted Index-Linked Securities	21,357	6.73	22,794	19,920
UK Managed funds - Equities	155,020	11.73	173,204	136,836
UK Managed funds - Bonds	68,407	4.11	71,219	65,595
UK Unit Trusts - property	50,427	2.38	51,627	49,227
Overseas Unit Trusts - Equities	136,622	9.97	150,243	123,001
Overseas Unit Trusts - Bonds	69,294	4.11	72,142	66,446
Private Equity/Infrastructure	42,415	5.41	44,711	40,121
Net Derivative assets	288	0.00	288	288
Investment income due	843	0.00	843	843
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(649)	0.00	(649)	(649)
Total Assets Available to pay benefits	724,461		784,698	664,225

Notes To Pension Fund Accounts

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2015 £000's	31 March 2014 £000's
Cash	28,867	18,373
Fixed Interest Securities	172,500	173,064
Total	201,367	191,437

Interest rate risk sensitivity analysis - The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Carrying amount 31 March 2015 £000's	Change in the net assets available to pay benefits	
		1% £000's	-1% £000's
Cash	28,867	289	(289)
Fixed Interest Securities	172,500	1,725	(1,725)
Total change in assets available	201,367	2,014	(2,014)

Asset Type	Carrying amount as 31 March 2014 £000's	Change in the net assets available to pay benefits	
		1% £000's	-1% £000's
Cash	18,373	184	(184)
Fixed Interest Securities	173,064	1,730	(1,730)
Total change in assets available	191,437	1,914	(1,914)

Currency Risk is the risk to which the Pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2015 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period ending 31 March 2014.

Notes To Pension Fund Accounts

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value 31 March 2015	Asset value 31 March 2014
	£000's	£000's
Overseas quoted Securities	36,181	26,723
Overseas Corporate Bonds	31,869	69,294
Overseas Index-linked Bonds	40,191	21,357
Overseas managed funds	228,144	136,622
Private Equity/Infrastructure	49,684	42,415
	386,069	296,411

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 6.03%, based on the data provided by WM. A 6.03% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 6.03% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

	Asset value 31 March 2015	Change in the net assets available to pay benefits	
		+6.03%	-6.03%
	£000's	£000's	£000's
Overseas quoted Securities	36,181	38,363	33,999
Overseas Corporate Bonds	31,869	33,791	29,947
Overseas Index-linked Bonds	40,191	42,615	37,767
Overseas managed funds	228,144	241,901	214,387
Private Equity/Infrastructure	49,684	52,680	46,688
	386,069	409,349	362,789

Currency exposure by asset type

	Asset value 31 March 2014	Change in the net assets available to pay benefits	
		+4.32%	-4.32%
	£000's	£000's	£000's
Overseas quoted Securities	26,723	27,877	25,569
Overseas Corporate Bonds	69,294	72,288	66,300
Overseas Index-linked Bonds	21,357	22,280	20,434
Overseas managed funds	136,622	142,524	130,720
Private Equity/Infrastructure	42,415	44,247	40,583
	296,411	309,216	283,606

Notes To Pension Fund Accounts

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAM rated Northern Trust Money Market Fund ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2015 was £2,689k (31 March 2014: £2,267k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2015 £000's	Rating	Balances as at 31 March 2014 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAm	1,700	AAAm	200
Bank current accounts				
Natwest (Capita)	A-	838	A-	949
HSBC Plc	AA-	151	AA-	1,118
Total		2,689		2,267

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,689k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2015 these assets totalled £596,838k, with a further £28,867k held in cash by fund managers.

Notes To Pension Fund Accounts

18. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%

Funding Basis Discount Rate - 4.60%

Pay Increases - 3.30%

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	31 March 2015 % P.a.	31 March 2014 % P.a.
Inflation /Pensions Increase Rate	2.4%	2.8%
*Salary Increase Rate	3.3%	3.6%
Discount Rate	3.2%	4.3%

*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2015 by Hymans Robertson LLP with the following results:

Description	31 March 2015 £000's	31 March 2014 £000's
Present Value of Promised Retirement Benefits	1,308,000	1,102,000
Assets	802,300	726,536
Deficit	505,700	375,464

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net asset Statement surrounding future liabilities of the fund.

20. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (4) to the Pension Fund accounts.

No senior officers or Pension committee member had any interest with any related parties to the pension fund.

Notes To Pension Fund Accounts

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There were two members of the pension fund committee who were deferred members of the pension fund. These members are Cllr Philip Corthorne (Chairman) and Cllr David Simmonds. Each member is required to declare their interest at each meeting.

Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension 31 March 2015 £000's	Accrued pension 31 March 2014 £000's
Corporate Director of Finance	1,241	1,128
Deputy Director - Strategic Finance	741	672

21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2015, securities worth £12,588k were on loan by Northern Trust from our portfolio and collateral worth £13,757k was held within the pool including Hillingdon. In the same period, a net income of £24k was received.

22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2014/15.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2015 totalled £56,975k (31 March 2014: £61,506k). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure, secondary property (AEW) and Credit solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original

25. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

26. POST BALANCE SHEET EVENTS

No Post Balance Sheet events to report for 2014/15

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of London Borough of Hillingdon, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Heather Bygrave (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
30 November 2015

Appendix

London Borough of Hillingdon Funding Strategy Statement 2014

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Hillingdon Pension Fund ("the Fund"), which is administered by London Borough of Hillingdon, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Hillingdon Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Hillingdon Pension Fund, in effect the LGPS for the London Borough of Hillingdon area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for

their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Kenneth Chisholm, Corporate Pensions Manager, in the first instance at kchisholm@hillington.gov.uk or on 01895 250847.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 26 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenants, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

- **Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another

public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations. It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

- **Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

Calculating contributions for individual Employers

2.7 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

2.8 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

2.9 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Police, Fire, Colleges etc	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	25 years	25 years	20 years	20 years	FWL	Outstanding contract term or FWL, whichever is shorter.
Deficit recovery payments – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council
Max cont increase	+1% of pay
Max cont decrease	-1% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- I. Pooling - Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.
- II. Letting employer retains pre-contract risks - Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of

transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

- III. Fixed contribution rate agreed - Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

2.10 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

2.11 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority). Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

2.12 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

2.13 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

2.14 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and

- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

2.15 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

2.16 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

Funding strategy and links to investment strategy

2.17 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

2.18 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

2.19 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

2.20 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability - employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

2.21 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. The Investment Sub Committee use this information when considering changes to the investment strategy.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 10 March 2014 for comment;
- b) Comments were requested within 10 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, following Pensions Committee by 1 April 2014.

A3 How is the FSS published?

The FSS is published on the website, at:
<http://www.hillingdon.gov.uk/article/6492/Pension-fund> and copies are made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at:

<http://www.hillingdon.gov.uk/article/6492/Pension-fund>

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
 - provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
-

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on

Risk	Summary of Control Mechanisms
	pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Risk	Summary of Control Mechanisms
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional</p>

Risk	Summary of Control Mechanisms
	requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</p> <ul style="list-style-type: none"> Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer. 'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the

same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set equal the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a

1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation .
Funding level	The ratio of assets value to liabilities value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed

interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee/ guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer’s annual contribution which relates to past service deficit repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit , or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund’s current pooling policy (see 3.4).
Profile	The profile of an employer’s membership or liability reflects various measurements of that employer’s members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary

or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

**Rates and
Adjustments
Certificate**

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**Scheduled
Bodies**

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Solvency

In a funding context, this usually refers to a 100% **funding level**, ie where the assets value equals the **liabilities** value.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

**Theoretical
contribution
rate**

The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Statement of Investment Principles

(Revised Sep 2015)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the National Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.
- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 (Amended) sets out the powers and duties of the administering authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.
- The CIPFA Pension Panel's guidance "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" which was issued in 2002 brought together ten principles with practical comment on their application to funds in England, Wales, Scotland and Northern Ireland. In 2008, following extensive consultation, the ten original principles which were issued by the government for application to pension funds, corporate and public sector were updated and consolidated into six new principles.
- The Investment Governance Group, with members drawn from the Pensions Regulator, the Department for Communities and Local Government, the CIPFA Pension Panel and LGPS interests, examined these six principles and with the agreement of the Pensions Regulator made changes to the wording to reflect the particular circumstances of the LGPS. The revised principles and guidance reflecting the changes in wording was released at the end of 2009 and this Statement complies with the disclosure of the revised principles.
- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the six headline principles of investment decision making and disclosure and the extent to which the London Borough of Hillingdon complies with the principles.
- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.
- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.

- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.
- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision making is listed below and follows best practice adopted by other Local Authorities in relation to their Pension Schemes.

The **Pensions Committee** has responsibility for:

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.
2. To review the Statement of Investment Principles and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
7. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

The **Chief Finance Officer** has responsibility for:

- Preparation of the Statement of Investment Principles to be approved by the Pensions Committee,
- Assessing the needs for proper advice and recommending to the Committee when such advice is necessary from an external adviser,
- Deciding on whether internal or external investment management should be used for day to day decisions on investment transactions,
- Ensuring compliance with the Statement of Investment Principles and bringing breaches thereof to the attention of the Pensions Committee, and
- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.
- To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Chief Finance Officer has delegated authority to:
 - Increase or decrease the allocation to equities, bonds or property
 - Increase or decrease the amounts / proportions of assets in manager mandates
 - Increase or decrease the level of currency hedging in place

- Select investments for, or dispose of existing investments up to 5% of assets using the feeder funds.

The **Investment Consultants** are responsible for:

- Assisting the Pensions Committee and the Chief Finance Officer in their regular monitoring of the investment managers' performance,
- Assisting the Pensions Committee and the Chief Finance Officer in the setting of investment strategy
- Assisting the Pensions Committee and the Chief Finance Officer in the selection and appointment of investment managers and custodians, and
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this document

The **Actuary** is responsible for:

- Assisting the Pensions Committee in the preparation and review of this document, and
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Pensions Committee in balancing the short-term and long-term objectives of the pension Fund.

The **Investment Managers** are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:

- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.
- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for members. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

All active members are required to make pension contributions based on the percentage of their pensionable pay as defined in the LGPS regulations.

The London Borough of Hillingdon is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary.

Actuarial valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary. Formal inter-valuation monitoring has also been commissioned.

INVESTMENTS

Approach

- The investment approach is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against those benchmarks with the investment manager.
- Overall, the strategic benchmark is intended to achieve a return such that the Fund can, without excessive risk, meet its obligations without excessive levels of employers' contributions.
- Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.
- The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation.

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, AEW UK Investments, GMO Investment Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, M&G Investments, Macquarie Infrastructure & Real Assets Europe, Newton Asset Management, Permira Credit Solutions II Senior (Feeder) L.P, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

Custodian services for the Fund's assets are provided by Northern Trust.

The investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Hymans Robertson LLP acts as the Fund's Actuary. KPMG is the Fund's Investment Consultant and give written advice on appropriate investment strategies. Scott Jamieson acts as an independent advisor to the pension fund and provides advice and challenge on appropriate investment strategies.

Client agreements have been made with each of the above investment managers and advisers. The Chief Finance Officer has been delegated the authority to agree amendments to these agreements.

The Pension Committee regularly monitors the performance of the investment managers and its advisers, on behalf of the Council.

Types of investments to be held and the balance between these investments

Based on expert advice and taking into account the Fund's liabilities, the Pension Committee has determined a benchmark mix of assets considered suitable for the Fund. The asset mix currently includes equities (public and private), bonds (government, corporate and index-linked), property, cash and absolute return, fund of hedge fund strategies and Direct Lending Opportunities. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

A review is carried out after each actuarial revaluation and used to consider the suitability of the existing investment strategy.

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 2009 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix B.

Other types of investment may be approved by the Committee after taking professional advice.

The expected return on investments

Investment managers are given target performance standards and their actual performance is measured against these. These targets (gross of fees) are:

Adams Street Partners	- Outperform benchmark
AEW UK Core Property	- Outperform benchmark
GMO Investment Management	- 5 % p.a. in excess of benchmark
JP Morgan Asset Management	- Outperform benchmark
Kempen International Investments	- 2 – 4.00% p.a. in excess of benchmark
LGT Capital Partners	- Outperform benchmark
M&G Investments	- 5.00% p.a. in excess of benchmark
Macquarie Infrastructure	- Outperform internal rate of return hurdle
Newton Asset Management	- 2% p.a. in excess of benchmark
Permira Credit Solutions II (Feeder) L.P	- 4% p.a. in excess of benchmark
Ruffer LLP	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Asset Management - Property	- 1.00% p.a. in excess of benchmark
UBS Tactical Asset Allocation	- Out Perform benchmark

Overall, the targets are intended to achieve above average performance, relative to earnings and inflation, without excessive risk, so that the Fund can meet its obligations without excessive levels of employer's contribution.

Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.

Fee Structures

Adams Street Partners	- Fee based on subscribed capital + performance fee
AEW UK Investments	- Fixed Fee based on portfolio value
GMO Investment Management	- Fixed Fee based on portfolio value
JP Morgan Asset Management	- Fixed fee based on portfolio value
Kempen International Investments	- Fixed fee based on portfolio value
LGT Capital Partners	- Fee based on subscribed capital + performance fee
M&G Investments	- Fixed fee based on drawn capital
Macquarie Infrastructure	- Fee based on committed capital + performance fee
Newton Asset Management	- Fixed fee based on portfolio value
Permira Credit Solutions II (Feeder) L.P	- Fee based on committed capital + performance fee
Ruffer LLP	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS Asset Management - Property	- Fixed fee based on portfolio value.
UBS Tactical Asset Allocations	- No Fee Charged (Just Transactions Costs)
KPMG LLP	- Price per piece
Scott Jamieson	- Fixed fee

In each case best value is the basis for selection of fee structures.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments to reduce risk to an acceptable level.

Each manager is expected to maintain a diversified portfolio within each asset class and is permitted to use collective investment vehicles as a means of providing diversification in particular markets.

Where managers wish to use futures, specific arrangements are agreed to limit the Fund's exposure to risk.

The management of Fund assets is spread over more than one manager, with different performance targets, as a further measure to reduce overall risk.

The key risks facing the Pension Fund are reported to the Pension Committee on a quarterly basis where they are monitored and reviewed.

The realisation of investments

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property and private equity investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets. In general, the investment managers have discretion as to the timing of realisations. If it becomes necessary for investments to be sold to fund the payment of benefits, the Pension Committee and the manager(s) will discuss the timing of realisations.

Pension Fund Treasury Management Policy

The Local Government Pension Scheme (Management and Investment of Funds) 2009 requires the pension fund to hold its own separate bank account. The use of a separate pension fund bank account requires the introduction of a dedicated treasury management activity solely for the pension fund.

The prime objective of the pension fund treasury management activity is the security of the principal sums invested. As such it will take a prudent approach towards the organisations employed as the banker and deposit taker.

For the Banker, the minimum criteria will be the lowest equivalent short term and long term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).

Long term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)

Short term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

The deposit taker will be limited to AAA-rated money market fund.

The Pension Fund will also take into account information on corporate developments of and market sentiment towards these organisations.

The pension fund will ensure it has adequate, though not excessive, cash resources to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives.

The pension fund may borrow by way of temporary loan or otherwise any sums which it may require for the purpose of paying benefits due under the scheme, or to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment. The pension fund may only borrow money for these circumstances if, at the time of borrowing, the pension fund reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

The pension fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

In terms of treasury management the Pension Fund will operate separately from the Council and as such any transactions carried out by or on behalf of either party will be settled by cash transfer in a timely manner. The financial accounting is also separated, monitored and reconciled, to ensure any balances are identified and accounted for in the proper manner.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

The Council supports the principle of socially responsible investment, within the requirements of the law and the need to give the highest priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Council will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Council, except on the basis of written information from other advisers.

The Pensions Committee has discussed socially responsible investment in the context of investment strategy. It has decided that the principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of LAPFF. (See appendix E)

In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

It is the Council's policy to be an active shareholder. Where the pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Council's policy is that that all proxies are to be voted where practically possible.

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

Fund Managers' right to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and with the prevailing regulations.

From time to time, the Pension Committee may feel strongly concerning certain policies and at this time would advise the managers how to execute their votes. Attached at Appendix C are the Pension Committee's broad guidelines on exercising the Council's voting rights.

STOCK LENDING

The Stock Lending programme is managed by the Fund's custodian Northern Trust. They comply with the limitation that no more than 25% of the fund is to be on loan.

All loans are fully collateralised with Government obligations, Local Authority Bonds or Bills, letters of credit, certificates of deposit or equities issues.

Information regarding Stock Lending activity is reported to Pensions Committee on a quarterly basis.

COMPLIANCE

The London Borough of Hillingdon as the administering authority of the London Borough of Hillingdon Pension Fund complies with the guidance given by the Secretary of State.

The investment managers and all other investment advisers are requested to exercise their investment powers in support of the principles set out in this Statement and in accordance with the Regulations.

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Scott Jamieson meets with Fund Managers on a quarterly basis and make a report on those meetings to Committee. Professional advice is taken as appropriate and an annual review is carried out. This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

CIPFA Principles for Investment Decision Making and Disclosure

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA Principles of Investment Decision Making and Disclosure.

Principle 1 Effective Decision Making	<p>Administering Authorities should ensure that:</p> <ul style="list-style-type: none"> • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implication and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Compliant</p> <p>All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required and have committed to regular training.</p> <p>The officer support team has sufficient experience to support Committee in making decision making responsibilities. It undertakes regular training as part of a continued personal development plan.</p> <p>There is an Investment Sub Group made up of senior officers, committee members, the scheme adviser and an independent Chair which acts as a specialist investment and asset allocation advisory body.</p> <p>An independent adviser sits on the Pension Committee to add additional challenge to the advice received.</p>
Principle 2 Clear objectives	<p>An overall investment objective(s) should be set out for the fund that takes accounts of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.</p>	<p>Compliant</p> <p>The investment objectives and attitudes to risk are set out in the Statement of Investment Principles and Funding Strategy Statement.</p> <p>Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.</p>

Principle 3 Risk and liabilities	<p>In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities.</p> <p>These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</p>	<p>Compliant</p> <p>The review of the Funding Strategy takes into account relevant issues and implications.</p>
Principle 4 Performance assessment	<p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</p>	<p>Partly Compliant</p> <p>Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision making and deferral of decisions are recorded in the committee papers.</p> <p>Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.</p>
Principle 5 Responsible ownership	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme members on the discharge of such responsibilities. 	<p>Partially Compliant</p> <p>The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles.</p> <p>Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.</p>
Principle 6 Transparency and reporting	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with shareholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives 	<p>Partially Compliant</p> <p>The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated as required.</p>

	<ul style="list-style-type: none"> • provide regular communication to scheme members in the form they consider most appropriate. 	<p>The Pension Annual Report provides details of manager and fund monitoring and is available on the Council website. Members are directed to the website but hard copy reports are available on request.</p> <p>The minutes and decisions taken at Pension Committee meetings are available on the Council website.</p>
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Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended and The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 Schedule 1, set out the legal requirements which apply to the investments of the Fund. The statutory regulations specify the following restrictions on investments:

Investment	Limit
Any single sub-underwriting contract	5%
All contributions to any single partnership	5%
All contributions to partnerships.	30%
The sum of: All loans (except Government Loan) Any deposits with any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%
All investments in unlisted securities of companies	15%
Any single holding (but see paragraphs 1 and 2 below).	10%
All deposits with any single bank, institution or person (other than the National Savings Bank).	10%
All sub-underwriting contracts.	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 2 below	35%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 2 below).	35%
Any single insurance contract.	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	35%
<p>Restrictions identified in the above table does not apply if:</p> <ul style="list-style-type: none"> the investment is made by an investment manager appointed under regulation 8; and the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme. <ul style="list-style-type: none"> • Restrictions identified in the above table do not apply to: <ul style="list-style-type: none"> National Savings Certificates; fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills; any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or a deposit with a relevant institution. 	

An Investment Management Agreement is in place with each Fund Manager which clearly defines the investment guidelines for the portfolio they manage.

If individual managers invest outside the laid down investment guidelines then they will consult with the Chief Finance Officer for direction and report to the Pension Committee at the next available opportunity.

Voting Guidelines

The main focus is to promote maximum long-term shareholder value and protect the interest of shareholders.

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25% of total fees. Appointment of auditors be for at least 5 years.

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

ADAMS STREET PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	100		

AEW UK CORE PROPERTY FUND			
Asset Class	Benchmark %	Ranges %	Index
Secondary Property	100	100	IPD ALL BALANCED PROPERTY
Cash	0	0 - 10	LIBOR 7 Day
Total	100		

GMO INVESTMENT MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	100	OECD CPI G7 (GBP) +5% (Net)
Total	100		

JP MORGAN ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Fixed Interest	100	100	LIBOR 3 month + 3%
Total	100		

Kempen International Investments			
Asset Class	Benchmark %	Ranges %	Index
Global High Dividend Income	100	n/a	MSCI World +2-4%
Total	100		

LGT CAPITAL PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	100		

M&G INVESTMENTS			
Asset Class	Benchmark %	Ranges %	Index
Private Placement	100	n/a	LIBOR 3 month +4%
Total	100		

MACQUARIE INFRASTRUCTURE & REAL ASSETS EUROPE			
Asset Class	Benchmark %	Ranges %	Index
Infrastructure	100	n/a	Internal rate of return hurdle
Total	100		

Newton Asset Management			
Asset Class	Benchmark %	Ranges %	Index
Global Higher Income	100	n/a	FTSE World Index +2%
Total	100		

PERMIRA CREDIT SOLUTIONS II (Feeder) L.P			
Asset Class	Benchmark %	Ranges %	Index
Direct Lending Opportunities	100	n/a	LIBOR 3 month +4%
Total	100		

RUFFER LLP			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	n/a	LIBOR 3 month
Total	100		

STATE STREET GLOBAL ADVISORS			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	Rebalanced Quarterly +/- 10% of Benchmark	FTSE All Share (or similar)
North America Equity Index sub-fund	11		FTSE World North America (or similar)
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK (or similar)
Asia Pacific Equity Index sub-fund	11		FTSE Pacific Basin (excl Japan) (or similar)
Emerging Markets	3		FTSE All-World All Emerging

Equity Index fund			(or similar)
UK Conventional Gilts All Stocks fund	1.5		FTA British Govt Conventional Gilts All Stocks (or similar)
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks (or similar)
Sterling Corporate Bond All Stocks fund	8.5		Barclays Capital Sterling Aggregate (or similar)
Total	100		

UBS GLOBAL ASSET MANAGEMENT – EQUITIES			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	100	40 - 100	FTSE All Share Ex- Tobacco
Cash	0	0 – 10	
Total	100		

UBS GLOBAL ASSET MANAGEMENT - PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD ALL BALANCED PROPERTY
Cash	0	0 - 10	LIBOR 7 Day
Total	100		

UBS TACTICAL ASSET ALLOCATION - US TREASURY INFLATION PROTECTED SECURITIES (TIPS)			
Asset Class	Benchmark %	Ranges %	Index
TIPS	100	100	BARCLAYS CAPITAL US GOVT INFLATION-LINKED BOND INDEX
Total	100		

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	<p>The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.</p> <p>In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the LAPFF and NAPF.</p>
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	<p>The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.</p> <p>In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings.</p>
Principle 3 - Institutional investors should monitor their investee companies	<p>Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from our fund managers on voting are received and engagement activity is reported to committee quarterly.</p> <p>In addition the fund receives 'alerts' from Local Authority Pension Fund Forum. These highlight corporate governance issues of concern and are considered accordingly.</p>
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	<p>As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</p> <p>On occasions, the fund may participate in escalation of poignant issues, principally through engagement activity through the Local Authority Pension Fund Forum.</p>
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.	<p>The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.</p>

<p>Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.</p>	<p>In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.</p> <p>Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.</p> <p>Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings.</p> <p>The fund does not currently disclose any voting data.</p>
<p>Principle 7 - Institutional investors should report periodically on their stewardship and voting activities</p>	<p>The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.</p>

Communication Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

Issued by: Pension Section, Finance Department

Authorised by: Pensions Committee March 2014

Under the terms of regulation 61 of the above regulations, which came into force on 1st April 2014, the Council must publish a statement of policy concerning communications with members and Scheme employers.

This Communications Policy Statement concerns communications with scheme members, representatives of members, prospective members and Scheme employers. It details:

- a) the provision of information and publicity about the Scheme
- b) the format, frequency and method of distributing such information or publicity, and
- c) the promotion of the scheme to prospective members and their employing authority

There are a number of stakeholders that have an interest in the affairs of the Fund and these may be summarised as follows:- Stakeholder	Primary Interests
London Borough of Hillingdon as Administering Authority Capita Employee Benefits as Scheme Administrators	<ul style="list-style-type: none">• administration of the scheme in accordance with the regulations• cost of scheme• stability of cost of scheme• fiduciary duty to other stakeholders whom it must treat equally• investment strategy
Scheduled Employers: Academies within the London Borough of Hillingdon Uxbridge College London Housing Consortium	<ul style="list-style-type: none">• cost of scheme• stability of cost of scheme• investment strategy• production of FRS17/IAS19 Reports
Admission Employer Bodies: Hillingdon & Ealing Citizens Advice Heathrow Travel Care MITIE FM Stag Security Genuine Dining Greenwich Leisure	<ul style="list-style-type: none">• affordability of scheme• stability of cost of scheme• investment strategy• production of FRS17/IAS Reports

Active Members: London Borough of Hillingdon Pension Fund Scheduled and Admitted bodies, who have elected to join the scheme	<ul style="list-style-type: none"> • solvency of scheme • ability to pay pensions at distant future date • implications of rising costs for benefits and contributions
All literature and communications sent to Scheme members will be branded with the Capita Employee Benefit Logo	
Deferred Members	<ul style="list-style-type: none"> • solvency of scheme • ability to pay pensions at distant future date
Pensioners	<ul style="list-style-type: none"> • ability to pay pensions now • security of pensions liability
Prospective Members	<ul style="list-style-type: none"> • benefits • solvency of scheme ability to pay pensions at distant future date
Local Taxpayers	<ul style="list-style-type: none"> • rising impact on Council Tax and services • returns on scheme [as a cost mitigating factor] • funding level (i.e. unfunded liabilities)
Government	<ul style="list-style-type: none"> • stability of cost of scheme • avoidance of political issues arising • good governance • consistency of administration • funding level (i.e. unfunded liabilities)

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, Communities & Local Government, Department of Works and Pensions, Pensions Advisory Service, Solicitors, actuaries and other pension providers.

1. **WEB SITES:** www.hillingdon.gov.uk/central/pensions/index.php
2. : www.mylgspension.co.uk

The **web site** of the London Borough of Hillingdon Pension Fund is the main vehicle for publishing information in relation to the fund. All information relating to the Local Government Pension Scheme and to the Hillingdon Fund is available on the web site. As this site is part of Hillingdon Council's public web site it is available to all our stakeholders. Hard copies of any of the documents will be made available to any member, prospective member or employer on request.

The web site is split into the following sections to make it easier to find the required information.

Fund Information:

- Annual Report and Accounts
- Statement of Investment Principles
- Funding Strategy Statement
- Copies of all pension Fund Policies
- Details of Pension Committee meetings, reports and minutes
- Performance information of the funds investments

Member Information:

- Joining Information
- Details of the Benefits available
- Scheme booklets
- Regulations
- Information on relevant topics – eg increasing contributions,
- Copies of all relevant forms
- Some frequently asked questions

Latest News

- This section highlights all the latest information available about the scheme

Communications:

- Newsletters
- Circulars
- Regulation Updates

Useful Links:

There are links to other related web sites – for example DWP, HMRC, The Pensions Regulator.

Capita Employee Benefits (CEB) also maintain a website providing general information regarding the LGPS. This website is for the use of the London Boroughs participation in the CEB London Framework. Work is in progress to allow individual Scheme members access to their own pension record via this website. Development of this access is planned for mid 2014.

2. OTHER METHODS OF COMMUNICATION

The next section details the means by which CEB communicate directly with our key stakeholders and the frequency of such communications. Where information is sent to members it is posted to their home address.

Scheme Employers

- Main contact with scheme employers is through operational contact.
- Currently, CEB write directly to all scheme employers to keep them informed of any changes. As the web site is developed, there will be more frequent use made of email and notifications of postings on the web site.
- CEB aim to commence an annual consultative meeting with employers, both as an information forum and as a means of direct consultation with our Scheme employers.

Active Members

- CEB send annual benefits statements to our members following the end of the financial year, and plan to send these statements by August each year.
- The Pensions Fund Annual Report will be available on request.
- Each time there is a regulations change, which affects members benefits, updates are made to both web sites.
- Updates to the web site are notified via 'Horizon', and CEB will also inform Scheme employers.

Pensioner Members

- CEB are planning on allowing pensioner members access to their pension records via the web site. This will also maintain a record of each monthly pension payment for information. This enhancement is due to be in place by the end of 2014. A message is contained on pensioners March payslip to inform them of any annual percentage increase to pensions.

- The Pensions Fund Annual Report will be available on request.

Deferred Members

- CEB send annual benefits statements to our deferred members following the end of the financial year. These statements will be sent by the end of June each year.
- The Pensions Fund Annual Report will be available on request.

Prospective Members

A summarised version of the scheme and details of the available web sites are sent to all new members of staff along with an application form.