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HILLINGDON
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Pensions Committee

Date:	**WEDNESDAY, 26 MARCH 2014**
Time:	**5.30 PM**
Venue:	**COMMITTEE ROOM 3A - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**
Meeting Details:	Members of the Public and Press are welcome to attend this meeting

Councillors on the Committee

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Janet Duncan
Raymond Graham
Paul Harmsworth
David Simmonds

Advisory Members

John Holroyd
Andrew Scott

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This Committee

To discharge the functions of the Pensions Committee aimed at improving market governance across the Pension Fund and the operational effectiveness of Investment Strategy.

Terms of Reference

The Constitution defines the terms of reference of the Pensions Committee as:

1. To maintain a business plan for its activity and evaluates progress against this plan.

2. To monitor financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework, and reports any issues or breaches to the Pension Committee.

3. To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Sub-Committee 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 in, the "opportunity fund" (5% of assets), using the feeder fund.

4. To consider the framework for the allocation of new money among managers. Similarly, in the event that assets need to be realised, the Sub-Committee also considers this matter.

5. To formally review annually the mandates of the managers, and their adherence to their expected investment process and style. This ensures that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.

6. To consider the need for any changes to the investment managers' mandates (e.g. in relation to continuing appropriateness of benchmarks and operating guidelines).

7. To consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) and makes recommendations to the Pension Committee.

8. In the event of a proposed change of managers, to evaluate the credentials of potential managers. To make recommendations to the Pension Committee in respect of any change of managers.

9. To monitor the investment advice from their investment consultant and investment adviser at least annually. To also review their own decision making process at the same time.

10. To be responsible for maintenance of the Fund’s Statement of investment Principles (SIP).

11. To carry out any additional tasks delegated to it by the Pension Committee.

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

Minutes

PENSIONS COMMITTEE

11 December 2013

HILLINGDON
LONDON

Meeting held at Committee Room 3A - Civic Centre, High Street, Uxbridge UB8 1UW

	Committee Members Present: Councillors Philip Corthorne (Chairman), Beulah East, Raymond Graham, Michael Markham and David Simmonds. **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Nancy LeRoux and Khalid Ahmed. **Also Present:** Scott Jamieson (Advisors) **Apologies:** Councillors Janet Duncan, Paul Harmsworth (Councillor Beulah East substituting), John Holroyd (Advisory Member), Andrew Scott (Advisory Member) and Catherine McFadyen (Fund Actuary).	
22.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** Councillor Corthorne declared a Non-Pecuniary Interest in all Agenda Items, because he was a member of the Local Government Pension Scheme. He remained in the room.	**Action by**
23.	**MINUTES OF THE MEETINGS OF 24 SEPTEMBER 2013** Agreed as an accurate record.	
24.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** That Agenda Items 9 and 10 be considered in private for the reasons stated on the agenda and the rest of the items be considered in public.	
25.	**REVIEW OF PERFORMANCE MEASUREMENT OF THE PENSION FUND** Consideration was given to the report on the review of the fund manager performance for the London Borough of Hillingdon Pension Fund for the period ending 30 September 2013. The Committee was informed that the total value of the Fund's investments at 30 September was £698m, however the Fund's value had increased to around £713m up to the end of November 2013. Reference was made to the performance of the Fund for the quarter to 30 September 2013, showing and underperformance of 0.8%, with a	**Action by**

	return of 2.44% compared to the benchmark of 2.5%. The underperformance by Macquarie had slightly skewed the whole fund position.	
	Discussion took place on this underperformance of Macquarie and Members were assured that returns on this long term investment would come in future years. Officers would provide further information on Macquarie's approach at the next meeting.	**Nancy Le Roux**
	Reference was made to Kempden International and their performance in relation to the benchmark of 11.16%. Officers reported that this benchmark was based on income based investments.	
	RESOLVED: **1. That the report and the performance of the Fund Managers be noted.**	
26.	**2013 ACTUARIAL VALUATION RESULTS**	
	The Committee noted the non-attendance at the meeting of the Fund Actuary.	
	The report provided Members with a summary of the 2013 valuation results which indicated that the funding level was now 72% which was decrease from the 77.6% 2010 valuation. This had resulted in the deficit increasing from £163m as at 31 March 2010 to £266m as at 31 March 2013. Members were informed that this deterioration of the funding position was largely due to the fall in gilt yields.	
	The Committee was informed that Hillingdon's results were similar to other London Boroughs who had Hymans Robertson as an actuary, however, it was hoped that once the new 2014 scheme came into effect and contribution stabilisation methods were enforced, that standardised assumptions would be used across the whole scheme.	
	Discussion took place on the potential merger with other Pension Funds and officers indicated that this would be an option in the long term.	
	RESOLVED: **1. That the report be noted.**	
27.	**RETIREMENT PERFORMANCE STATISTICS AND COST OF EARLY RETIREMENTS MONITOR**	
	Consideration was given to the report which summarised the number of early retirements in the second quarter of 2013/14.	
	The report also provided Members with an update on the current situation on the cost to the fund of early retirements.	
	RESOLVED: **1. That the contents of the report be noted.**	

28.	**PENSIONS ADMINISTRATION PERFORMANCE** Consideration was given to the report which summarised the pension administration performance across key areas of work for the period 1 July 2013 to 30 September 2013. Members were informed that there had been a marked and ongoing fall in Capita's overall performance and the report provided details on the specific management actions which were underway to address this poor performance. Members were informed that average performance over the quarter had deteriorated significantly compared to the previous quarter, with a reduction of 17.7% from the previous performance of 94.16%. Officers reported that the continuing downward trend was of concern. Reference was made to the suggested management action which would be taken to address the performance issues. Two recent experienced ex Local Government Pension Fund Managers had recently been appointed who would be tasked with driving forward improvements. Officers reported by regular monitoring reports would be submitted to the Committee **RESOLVED:** **1. That the contents of the report be noted.**	**Action By:** **Nancy Le Roux**
29.	**REPORT FROM INVESTMENT SUB-COMMITTEE** This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act). **RESOLVED:** **1. That the contents of the report be noted.**	
30	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act). **RESOLVED:** **1. That the contents of the report be noted.**	

	The meeting, which commenced at 5.30 pm, closed at 6.15 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	Tunde Adekoya, 01895 556350

Papers with this report	Northern Trust Executive Report WM Local Authority Quarter Reports Private Equity Listing Private Equity reports from Adams Street and LGT

SUMMARY

This report provides a summary of fund manager performance for the quarter ending 31 December 2013. Full details of Manager performance over the quarter are contained in the attached Northern Trust report. The total value of the fund's investments as at the 31 December was £718m.

RECOMMENDATION

That the content of this report be noted.

1. PERFORMANCE

The performance of the Fund for the quarter to 31 December 2013 showed a relative underperformance of (0.18)%, with a return of 3.02% compared to the benchmark of 3.21%. One year figures show returns of 14.04%, 1.12% relatively better than the benchmark.

Performance Attribution Relative to Benchmark

	Value £m	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Barings	63.4	0.87	-	-	-	(0.85)
JP Morgan	76.5	1.80	(1.09)	-	-	1.00
Kempen	46.9	(5.75)	-	-	-	(10.37)
Macquarie	6.0	2.75	1.26	(11.24)	-	(10.22)
M&G Investments	24.4	(0.51)	1.53	0.38	-	0.21
Newton	23.4	(2.08)	-	-	-	(3.55)
Ruffer	84.8	0.49	10.83	4.60	-	5.53
SsgA	143.4	(0.04)	(0.16)	(0.01)	(0.01)	0.01
UBS TAA	11.9	(3.76)	-	-	-	(6.00)
UBS	145.3	0.99	8.54	3.73	1.72	1.29
UBS Property	53.4	0.09	(0.36)	(0.30)	(1.15)	(0.64)
Private Equity	36.8	-	-	-	-	-
Total Fund	**718.4**	**(0.18)**	**1.12**	**0.70**	**(0.01)**	**0.04**

1.1 Manager: Barings Asset Management
Performance Objective: The fund aims to achieve an absolute return of 4% in excess of cash based on the 3 month Libor.
Approach: Focus on identifying and exploiting unrecognized growth opportunities.
Performance: In the quarter under review, Barings mandate returned 2.00% which compares favorably against the target of the 3 Month LIBOR +4% per annum, which posted 1.12%. However in the period since inception in April 2013 they returned 2.22% which is (0.85%) relatively below the target of 3.09%.

1.2 Manager: JP Morgan
Performance Objective: The investment objective of the company is to achieve a return of +3% over Libor 3 Month rate.
Approach: The aim of the portfolio is to be diversified across various corporate bonds with an average quality of BBB+ and derivatives may be used to achieve fund objectives.
Performance: To incorporate an element of risk adjusted return, the benchmark has been set to include outperformance of an absolute benchmark, in this case 3 Month Libor, by a further 3%. In relation to this benchmark JP Morgan have relatively outperformed since inception (Nov 2011) by 1.00%. In the quarter under review, JP Morgan relatively outperformed by 1.80 % with a return of 2.69 % against benchmark return of 0.87%.

1.3 Manager: Kempen International
Performance Objective: Seek to outperform their benchmark index by 2% per annum over rolling three year periods.
Approach: To earn a higher total return than its benchmark, MSCI World Total Return Index, including reinvestment of net dividends.
Performance: In the quarter under review, the Kempen mandate, produced a positive return with 0.12% versus 6.22% for the MSCI All World Index +2%, but relatively underperformed its' benchmark by (5.75)%. This translates into a since inception (January 2013) return of 5.82% compared to the benchmark return of 18.07% and a relative underperformance of (10.37)%. Q4, 2013 poor performance can be attributed to a combination of sector allocation (overweight utilities and cash underweight Information technology) and negative stock selection within sectors (e.g. Energy, Telecom and Industrials).

1.4 Manager: Macquarie
Performance Objective: Seek to outperform their benchmark index by 3% per annum over rolling three year periods.
Performance: Macquarie in contrast to their last quarter, outperformed the benchmark by 2.78% with a return of 3.65% against benchmark return (3 Month Libor+3% p.a) of 0.87%. Over the last twelve months Macquarie relatively outperformed the benchmark by 1.26% with a return of 4.83% compared to the benchmark of 3.53%. However, three years and since inception returns of (7.91)% and (6.84)% led to relative underperformance figures of (11.24)% and (10.22)% respectively.

1.5 Manager: M&G
Performance Objective: The investment objective of the Prudential/M&G UK Companies Financing Fund LP is to seek to maximise returns consistent with prudent investment management. The Fund aims to provide an absolute return of Libor +4-6% (net of fees). Additional returns may be achieved through equity participation or success fees.
Approach: 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.

Relative Performance

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	0.60	6.13	5.16	-	4.99
Benchmark	1.12	4.53	4.77	-	4.77
Relative Return	(0.51)	1.53	0.38	-	0.21

During the fourth quarter of 2013, M&G produced a 0.60% return, about (0.51)% less than the 3 Month LIBOR +4% p.a. Over the last year the account registers 6.13% against 4.53%; whilst since inception (May 2010), the portfolio returned 4.99% pa against the benchmark of 4.77% pa.

1.6 Manager: Newton
Performance Objective: To outperform the FTSE World Index by over 2% p.a. over rolling five year periods.
Approach: Increasing income and capital growth over the long term by investing in shares (i.e. equities) and similar investments of companies listed or located throughout the world.
Performance: During the fourth quarter of 2013 Newton posted a 3.31% return compared to 5.50% for the FTSE World Index +2%, leading to a relative underperformance of (2.08)%. Since inception (January 2013) Newton have delivered a return of 10.94% against the benchmark of 15.03%, producing a relative underperformance of (3.55)%.

1.7 Manager: RUFFER
Performance Objective: The overall objective is to preserve the Client's capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable United Kingdom bank.
Approach: Ruffer applies active asset allocation that is unconstrained, enabling them to manage market risk and volatility. The asset allocation balances “investments in fear”, which should appreciate in the event of a market correction and protect the portfolio value, with “investments in greed”, assets that capture growth when conditions are favourable. There are two tenets that Ruffer believes are central to absolute return investing which are to be agnostic about market direction and also to remove market timing from the portfolio.

Performance: The Ruffer portfolio returned 0.62% over the quarter under review, which was relatively 0.49% more than its benchmark of 3 Month Libor. Driven by Q4's return all longer periods show high absolute and relative returns. As a result, over the last twelve months they have posted a return of 11.40% against 0.52% for the target, resulting in the highest relative outperformance of all mandates at 10.83%. While since the inception in May 2010, 11 out of 14 quarters show positive returns and lead to figures of 6.33% versus 0.75% per annum, which translates as a relative return of 5.53%.

1.8 Manager: SSgA
Performance Objective: To replicate their benchmark indices
Approach: The calculation of the index for passive funds assumes no cost of trading. In order to simply match the index, it is necessary to trade intelligently in order to minimise costs, and where possible, make small contributions to return in order to mitigate the natural costs associated with holding the securities in the index. Activities which SSgA employ to enhance income include; tactical trading around index changing events and stock lending. They also aim to alleviate costs by efficient trading through internal and external crossing networks.

Relative Performance

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	3.68	16.29	8.25	12.06	13.50
Benchmark	3.72	16.48	8.26	12.07	13.49
Relative Return	(0.04)	(0.16)	(0.01)	(0.01)	0.01

The SSGA passively managed portfolio produced a return of 3.68% in the quarter which was 4 basis points below the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So over the year they produce a 16.29% return, which is 16 basis points behind relative target, while over 3 years the per annum return falls to 8.25%, 1 basis point behind its benchmark. Since inception (November 2008) a return of 13.50% pa is also1 basis point short of the benchmark.

1.9 Manager: UBS Tactical Asset Allocation
Performance Objective: Outperform the Barclays Capital US Inflation Linked Index.
Performance: The UBS Tactical mandate during the quarter under review returned (7.93)% compared to benchmark of (4.34)%, translating to a relative underperformance of (3.76)%. Since inception (June 2013) returns was no better at (15.25)% against benchmark of (9.83)% .

1.10 Manager: UBS
Performance Objective: To seek to outperform their benchmark index by 2% per annum, over rolling three year periods.
Approach: UBS follow a value-based process to identify businesses with good prospects where, for a variety of reasons, the share price is under-estimating the company's true

long term value. Ideas come from a number of sources, foremost of which is looking at the difference between current share prices and UBS's price target for individual stocks. The value-based process will work well in market environments where investors are focussing on long term fundamentals.

Relative Performance:

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	6.51	31.12	13.49	16.27	10.61
Benchmark	5.46	20.81	9.41	14.31	9.21
Relative Return	0.99	8.54	3.73	1.72	1.29

Performance for the quarter was positive and ahead of the benchmark with the largest contributions to out-performance coming from overweight positions in Darty, BP and Carnival. UBS has again, outperformed the benchmark all through one, three and five year periods. This resulted in the since inception performance relative return increasing to 1.29% from 1.26% in Q3, 2013.

1.11 Manager: UBS Property
Performance Objective: To seek to outperform their benchmark index by 0.75% per annum over rolling three year periods.
Approach: UBS take a top down and bottom up approach to investing in property funds. Initially the top down approach allocates sector and fund type based on the benchmark. The bottom up approach then seeks to identify a range of funds which are expected to outperform the benchmark.

Relative Performance:

	Q4 2013 %	1 Year %	3 Years %	5 Years %	Since Inception %
Performance	4.39	9.07	5.44	4.23	0.19
Benchmark	4.30	9.46	5.75	5.44	0.83
Excess Return	0.09	(0.36)	(0.30)	(1.15)	(0.64)

The UBS Property portfolio produced a return of 4.39%, in contrast to last quarter this was 9 basis points above the IPD UK PPFI All Balanced Funds index figure of 4.30%. Underperformance continues to be seen in all long periods, with one, three and five years showing positive returns of 9.07%, 5.44% and 4.23 % respectively. But these were (0.36)%, (0.30)% and (1.15)% below their benchmarks. Since inception, in March 2006, the funds loses value with a figure of 0.19% against benchmark of 0.83% return, meaning the underperformance is now (64) basis points.

2. ABSOLUTE RETURNS FOR THE QUARTER

	Opening Balance	Net Investment	Appreciation £000's	Income Received	Closing Balance	Active Management

	£000's			£000's	£000's	Contribution £000's
Barings	62,112	11	1,242	-	63,365	544
JP Morgan	74,497	-	2,002	-	76,499	1,351
Kempen	46,782	30	54	-	46,866	(2,871)
Macquarie	6,613	(895)	253	-	5,971	159
M&G	22,253	1,972	145	-	24,370	(126)
Newton	22,637	-	749	-	23,386	(506)
Ruffer	84,242	(1)	242	284	84,767	415
SSgA	138,355	-	5,092	-	143,447	(55)
SSgA Drawdown	1	-	-	-	1	-
UBS	136,436	-	7,906	970	145,311	1,409
UBS Property	51,141	-	1,699	548	53,388	50
UBS TAA	12,966	(20)	(1,054)	27	11,919	(454)

The above table provides details on the impact of manager performance on absolute asset values over the quarter based on their mandate benchmarks.

3. Other Items

At the end of December 2013, £23.8m (book cost) had been invested in **Private Equity**, which equates to 3.32% of the fund against the target investment of 5.00%. This level is within the limits of the over-commitment strategy of 8.75%. In terms of cash movements over the quarter, Adams Street called £298k and distributed £934k, whilst LGT called £396k and distributed £1,017k. This trend is set to continue in the next few years as the fund's investments in private equity climbs up the "J-Curve" and more distributions will be received as the various funds mature.

The **securities lending** programme for the quarter resulted in income of £13.7k. Offset against this was £4.8k of expenses leaving a net figure earned of £8.9k. The fund is permitted to lend up to 25% of the eligible assets total and as at 31 December 2013 the average value of assets on loan during the quarter totalled £25.2m representing approximately 12.5% of this total.

The passive currency overlay agreed by Committee was put in place at the end of January 2011 with 100% Euro hedge. The latest quarterly roll occurred on the 6 February 2014 and yielded a realised gain of £262k.

For the quarter ending 31 December 2013, Hillingdon returned (0.18) %, underperforming against the WM average of 3.70% by (3.88) %. The one year figure also, shows an under-performance of (0.96) %, returning 14.04% against the WM average return of 15.0%.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

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London Borough of Hillingdon

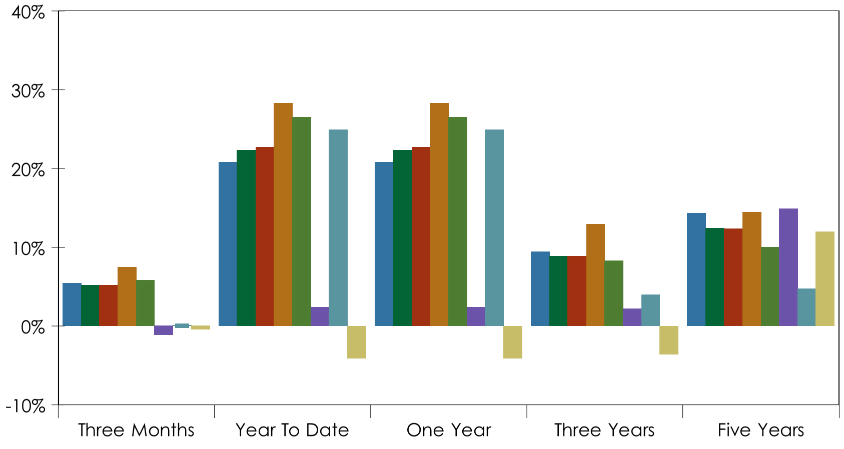
4th Quarter, 2013

Executive Report

Appendix

Equity Index Performance (in GBP)

Performance History



Performance Returns%

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Share	5.5	20.8	20.8	9.4	14.3
FT: World	5.2	22.4	22.4	8.8	12.4
FT: World ex UK	5.2	22.7	22.7	8.8	12.3
FT: AWI North America	7.5	28.3	28.3	12.9	14.5
FT: Developed Europe ex UK	5.8	26.5	26.5	8.3	10.0
FT: Developed Asia Pac x Jp	-1.1	2.4	2.4	2.2	14.8
FT AW: Japan	0.1	24.9	24.9	4.0	4.7
MSCI Emerging Markets GD	-0.4	-4.1	-4.1	-3.6	11.9

Bargain hunters revelled in some of the earliest seasonal sales on record as retailers jostled for Christmas custom. The Fed started to reduce its stimulus; cutting monthly purchases by $10bn in December and raising its job market outlook for 2014. Emerging and Asian markets responded calmly to the beginning of the end of easy money largely due to the hints made in previous months that this was coming. The OECD reduced its global outlook for 2014 from 4% to 3.6% blaming a slowdown in Emerging Markets, the stalemate endured over the US debt ceiling and the tapering of Fed stimulus. Disappointing growth in the Eurozone and Japan, both suffered from weak exports over Q3, will limit the final global expansion figures for 2013. Globally, Technology gained most value over the quarter and Industrials was the second best performer once again, leading a pack of sectors including Health Care and Consumer Services that performed strongly. Those two latter sectors are the stand out high performers of 2013. Utilities again lost most value over the quarter but Basic Materials was the worst performing sector of the year. The price of crude oil futures ended the quarter up slightly at $110 per barrel. The FTSE World was up by 5.2% (GBP) over quarter four 2013 and is ahead by 22.4% over the year (GBP).

The Eurozone is looking enviously at the economic success story in the UK as global investors seek involvement in the British recovery. The OECD upgraded its UK growth projection from 0.8% to 1.4% for 2013 and from 2.7% to 3.6% for 2014. Continuing the string of flotations in 2013, SAGA the +50s travel agent and insurer looks set to come to market in a deal worth £3bn. BT shocked by winning the rights, at huge expense, to show UEFA football as they battle Sky for broadband customers. BT shares fared better than those of Sky in the aftermath. Unemployment fell again to 7.4% in the three months to October, the lowest since April 2009. The Pound rose vs the Dollar to its strongest level in more than two years helped by the sustained recovery of the housing market. Basic Materials reverted to being weakest sector over the quarter and year. Telecoms and Technology gained most value over the quarter and the former was also the top performer of 2013. The FTSE All Share was up 5.5% (GBP) over the fourth quarter and remains ahead over one year, now by 20.8% (GBP).

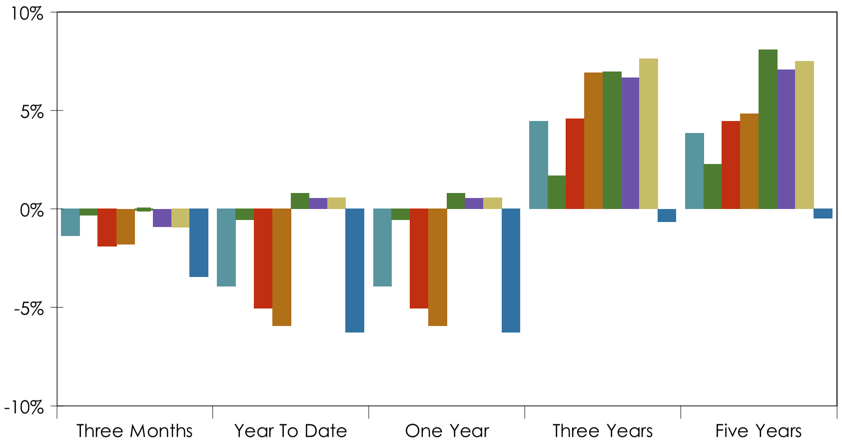
Despite the emergence from recession, European countries like Spain are struggling to get back to pre-crisis conditions as consumers are burdened with high unemployment and household debt. Portugal unveiled a digital clock counting down to the planned exit from its EUR 78bn bailout programme but the IMF has warned that the necessary reforms to its economy will take long hard years to implement. Unemployment in Greece pushed higher to 27.4%, more than double the September Eurozone average of 11.6%. Ireland became the first Eurozone member state to leave its rescue programme and growth of 2% is forecast for next year despite high unemployment, high taxes and salary cuts. Q3 Eurozone GDP dropped to 0.1% as both France and Germany continued to slow and Italy entered its ninth consecutive quarter of recession. The FTSE Developed Europe ex UK index returned 5.8% (GBP) over quarter four and 26.5% (GBP) over the year.

Wall Street led global markets higher to end the year following encouraging signs the US is picking up. Ford increased its quarterly dividend 25% after enjoying a sales boom at home and despite falling European and South American sales impacting profitability targets. A second batch of sought after Facebook shares worth $4bn will come to market, possibly in preparation for a large acquisition. In the same sector, Twitter's share price had doubled a month after its IPO in November. S&P analysis suggests that US banks may yet have to spend $100bn to settle claims on bad subprime investments. Hewlett-Packard shares surprised by reporting higher than expected earnings having performed well in the Emerging Markets. The 3rd US GDP estimate was revised up sharply to 4.1% for Q3, up from 2.5% in Q2. Technology and Industrials made the biggest gains over Q4 and Utilities was the worst performing sector. Industrials led alongside Consumer Services over the year. The FTSE North America index returned 7.5% (GBP) over the fourth quarter and 28.3% (GBP) for the year.

Japan's CPI returned its highest reading in 15 years giving the strongest sign yet that the war with deflation is being won. Industrial output is also showing a steady increase to end the year and the government lauded their success with claims that a "good cycle has begun" supported by steady domestic demand. Sony is one former flagship firm not sharing this good fortune as it cut profit forecasts for 2013 by 40% following net losses over quarters two and three. Samsung's CFO promised a modest rise in dividend to about 1% of the average share price. The FTSE Japan returned 0.1% (GBP) for quarter four and the FTSE Developed Asia Pacific ex Japan returned -1.1% (GBP). The World Bank has warned that sudden increases in advanced economy interest rates could lead to an abrupt contraction of funding to emerging markets, causing instability and potential domestic financial crises. China ended the year weakly as stocks recorded their worst losing streak in 20 years. Chinese GDP slowed to 7.7% from 7.8% in Q3. Turkey's corruption crisis deepened with the sacking of half the cabinet by Prime Minister Erdogan which sent the Lira to a record low vs USD. Thailand has seen mass protests in the street after the main opposition party quit parliament. Peaceful protests in Ukraine have turned violent following a lack of progress. Russia's long term growth forecast is down to just 2.5% annually to 2030 prompting questions about President Putin's economic model. Gold was down from last quarter ending the year at $1,200 per ounce. The MSCI Emerging Markets index returned -0.4% (GBP) for the fourth quarter and -4.1% (GBP) for the year.

Fixed Income Index Performance (in GBP)

Performance History



Performance Returns %

	Three Months	Year To Date	One Year	Three Years	Five Years
FTSE All Stock Index	-1.4	-3.9	-3.9	4.5	3.9
FTSE All Stock 0-5 Yr. Gilts	-0.3	-0.6	-0.6	1.7	2.3
FTSE All Stock 5-15 Yr. Gilts	-1.9	-5.0	-5.0	4.6	4.5
FTSE All Stock > 15 Yr. Gilts	-1.8	-5.9	-5.9	6.9	4.8
ML STG N-Gilts All Stocks	-0.1	0.8	0.8	7.0	8.1
FTSE Index Linked	-0.9	0.5	0.5	6.7	7.1
FTSE Index Linked 5+ yrs	-0.9	0.6	0.6	7.6	7.5
JPM GBI Global	-3.5	-6.3	-6.3	-0.7	-0.5

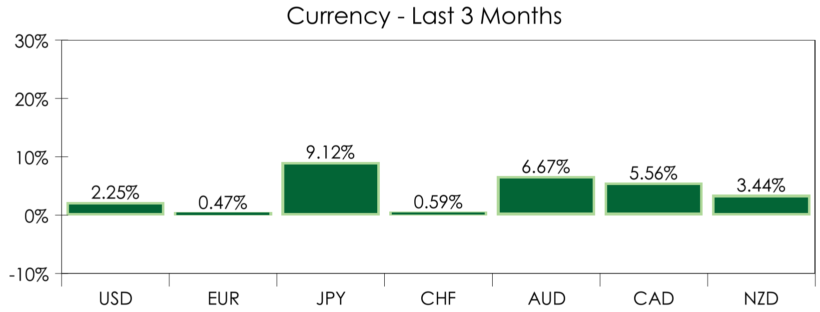
Global economic growth accelerated through the final quarter of 2013 with economic output expanding for the fifteenth successive month as the JP Morgan Global Manufacturing & Services PMI read 54.2 at the end of December. Overall, recorded expansion for 2013 as a whole was faster than in 2012. In Japan, the upward trend in consumer prices and exit from its most recent period of deflation continued, as the benchmark CPI exceeded 1% for the first time in 5 years. The Bank of Japan's latest quarterly Tankan survey, a poll of business confidence that measures the perceived health of the domestic economy, soared to its highest level in six years, and despite economic growth slowing to 0.5% in Q3 from 0.9% in the previous quarter, many analysts conclude that Prime Minister Shinzo Abe's stimulus policies (known as Abenomics) are starting to have the desired effect. China's third quarter GDP growth was 7.8% year-on-year, up from the second quarter's 7.5% expansion, industrial output, retail sales and exports were all up significantly from a year ago, and even though the HSBC composite purchasing managers index (PMI) retreated from 50.8 in November to 50.5 for December, the survey has remained above the neutral 50 mark, indicating expansion, for five consecutive months. Over the quarter and year to date the JPM Global Government Bond index has declined -3.5% and
-6.3%, while the Barclays Capital Global Aggregate Corporate Bond index fell -1.0% and -1.5% (all GBP).

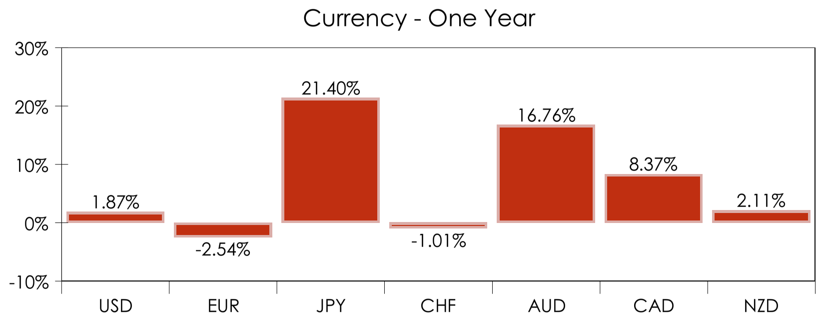
Data showed further signs of continuing improvement in the UK economy through Q4. The UK unemployment rate fell to 7.4%, its lowest level since 2009, and with the jobless rate having been linked to future interest rate movements, this and the fast improving economic recovery has the spotlight firmly on the Bank's Monetary Policy Committee (MPC). Despite the heightened speculation that interest rate increases are edging ever closer, Governor Mark Carney remained guarded, informing markets that the 7% unemployment threshold would not automatically lead to an interest rate rise. After the quarter, December's inflation rate, as measured by the Consumer Prices Index, was revealed to have fallen to 2%, the first time inflation has been at or below the government-set target of 2% since November 2009. The Office for National Statistics confirmed that the economy grew by 0.8% in the third quarter of 2013, which was the fastest rate for three years. The manufacturing PMI ended 2013 at 57.3, with output rising for the ninth successive month in December. The UK housing market picked up speed over the quarter, with construction output rising at the fastest pace in more than six years in November and the Halifax reporting that house prices rose by 1.1% in November compared with the previous month, and up 7.7% annually. In addition, new housing projects jumped 5.8% in October from September's level. Consequently, in an endeavour to cool the housing market, HM Treasury announced that from 2014 home purchases will no longer be covered by the Funding for Lending Scheme. The benchmark 10-year gilt yield settled at 3.02% at the end of the quarter, up from 2.72% at the end of Q3. The FTSE All Stock Gilt Index returned -1.4% for the quarter and -3.9% year to date while the ML Sterling Non Gilts Index returned -0.1% and +0.8% (all GBP) over the same periods.

The eurozone recorded quarterly growth of 0.1% in the third quarter of 2013, lower than the 0.3% recorded in the second quarter. The region's inflation rate fell to 0.9% in November, well below the target of 2.0%, and the European Central Bank (ECB), citing continuing economic weakness, cut the benchmark interest rate to a record low of 0.25% from 0.5%. During the quarter, credit ratings agency Standard & Poors cut France's credit rating by one notch to AA and the Netherlands' credit rating by one notch to AA+. Subsequently, the European Union had its credit rating trimmed to AA+ from AAA. France's economy is worrying, with GDP negative in the third quarter at -0.1%. By contrast in Germany, consumer confidence hit a six-year high during the quarter, manufacturing grew at the fastest rate since 2011, and unemployment fell for the first time in five months in December. Elsewhere, Spain emerged from recession as third quarter GDP recorded 0.1%, and Ireland exited from its bailout rescue, the first eurozone nation to complete the lending deal put in place by a group of international lenders, known as the troika. The Markit composite purchasing managers' (PMI) index saw Eurozone manufacturing record the strongest growth in over two-and-a-half years, ending the quarter at 52.7, a 31-month high. German 10-year bund yields rose from 1.78% to 1.93% over the period. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, tightened further over the quarter, from 94.6 at the end of September, closing the year at 61.9. The JPM European Government Bond Index returned +0.3 and +2.8% for Q4 and the year to date respectively, while the Barclay Capital Euro Aggregate Credit Index was up at +0.5% and +5.0% (all EUR) for the same periods.

US markets were pleased to observe a minimal impact on the US economy from the government shutdown early in the quarter. When a last-minute Congressional deal was struck to extend the debt ceiling ahead of the 17 October deadline, the wheels of government began turning again, and the economic data released throughout the quarter was predominately positive. A fourth straight month of solid new job creation saw the unemployment rate fall to a five-year low of 7.0% in November. Demand for new building permits hit a five-and-a-half year high in October as the housing market continued to recover. The third quarter GDP figure was confirmed as 4.1% on an annualised basis, significantly outstripping the previous estimate of 3.6%, and the manufacturing PMI read 55.0, an 11-month high as output increased at the fastest pace since March 2012. As data pointed to an ever more robust economy, the Federal Reserve announced it would begin tapering its five-year-old quantitative easing programme in January 2014, reducing the pace of asset purchases from $85 billion to $75 billion per month. The Fed confirmed that further reductions in purchases were probable if the economic recovery continued, but stressed that forward guidance would continue indefinitely, meaning no set timeline for any future interest rate hikes. The benchmark 10-year US Treasury yield rose over the quarter from 2.62% to 3.03%. The JPM US Government Bond Index was down for the quarter and for the year at -3.1% and -5.2% respectively, while the Barclay Capital US Aggregate Corporate Bond Index returned -1.1% over the quarter and -3.4% (all USD) over the same periods.

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	2.25	1.87	1.87	1.87	2.83
European Union euro	0.47	-2.54	-2.54	0.98	3.00
Japanese yen	9.12	21.40	21.40	10.51	5.79
Swiss franc	0.59	-1.01	-1.01	0.31	-0.76
Australian dollar	6.67	16.76	16.76	6.40	-2.16
Canadian dollar	5.56	8.37	8.37	4.10	-0.17
New Zealand dollar	3.44	2.11	2.11	0.14	-4.02

The fourth quarter of 2013 saw a strengthening of the Sterling compared to all reported currencies. The Dollar, on the other hand lost ground compared to Sterling and Euro. The Yen lost substantial ground compared to the Dollar, Euro and Sterling. In Japan, the unemployment remained at a high 4.0% in November, the same as for October with 2.49 million unemployed. Japanese business confidence has soared to its highest level in six year, according to the Bank of Japan's latest Tankan survey. The weaker Yen has helped many large Japanese companies. The results indicate that the government's stimulus policies, aimed at encouraging growth, may be starting to take effect. Analysts said the survey's results indicate that Prime Minister Abe's policies were starting to have an impact. Growth in China's manufacturing sector slowed for the first time in six months in December, dragged down by weak demand for Chinese export. The state-sponsored PMI fell to 51 in December, marking a four-month low and highlighting the challenges facing the ruling party as it tries to transform the growth model in the world's second-largest economy. December's PMI level of 51 showed that Chinese manufacturing as a whole is still growing but in the crucial export sector producers saw a contraction last month for the first time since July. The Reserve Bank of Australia decided on 3-12-13 to leave the cash rate unchanged at 2.5%, citing sluggish growth and stable inflation. The RBA Governor Glenn Stevens also made mention that the Australian Dollar remains uncomfortably high.

In the UK, Q4 2013 saw Sterling strengthen against the Dollar, Yen and Euro. After three years of stagnation and almost seven years after the financial crisis started, economists have finally regained their confidence that Britain's economy is on the move. The Bank of England's Monetary Policy Committee minutes from 5 December show the nine-strong committee agreed unanimously to keep the official interest rate at 0.5% and to maintain its stock of asset purchases at £375bn. Policy holders have pledged to keep interest rates at their record low of 0.5% until the unemployment rate falls to 7%. UK inflation fell to a four-year low in November, dipping to 2.1% on the back of lower food and energy price pressures. David Cameron, on unemployment, told MPs that "The plan is working, let's stick to it and get unemployment down even further". The UK unemployment rate has fallen to its lowest level since 2009, official figures show. The rate of unemployment dropped to 7.4% in October, down from 7.7% in July. The number of people out of work fell by 99,000 to 2.39 million in the three months to October the Office of National Statistics said. According to the Nationwide building society, the price of a typical UK house rose 2.7% in Q4 2013. Prices were up 7.1% over the year as a whole, bring the average house in at £174,444 - its highest level since 2008. Sterling closed the quarter up against the Yen, Dollar and Euro by 9.12%, 2.25% and 0.47% respectively.

In the US, the Dollar lost ground against both Sterling and the Euro. The Fed had previously stated they would maintain interest rates at 0.5% until unemployment fell to 6.5% but now require unemployment levels to fall well below 6.5%. In late December, the Federal Reserve took its first step away from a historic era of monetary stimulus by reducing its monthly asset buying from $85bn to $75 bn. Ben Bernanke signaled, in his final press conference as chairman, that the Fed is likely to keep slowing its purchases by $10bn per meeting with an eventual end to the program in late 2014. The key indicator of consumer confidence produced by the Conference Board showed a sharp rebound from 72 in November to 78.1 in December, with sentiment about current conditions hitting its highest level in more than five years. The jump in consumer confidence also reflects the removal of budgetary uncertainty hanging over the US economy in the wake of the bipartisan deal to set government spending levels for two years and avert new shutdown threats. In November the US un-employment rate fell to 7.0% compared to 7.3% in August. US home values have risen for twenty consecutive months, helped by an improving economy and labour market that has bolstered household wealth. The most striking data released in late December came from the S&P/Case-Shiller index, which tracks property values in 20 metropolitan regions across the US. It rose 13.3% in October year on year, the biggest 12 month rise since February 2006. The US trade deficit stood at $34.3bn in November 2013, the smallest monthly deficit since October 2009. November saw imports fall 1.4% from October as a fall in demand for foreign oil offset a record level of imported cars. The Dollar ended the quarter up against the Yen by 6.87% but weakened against the Euro and Sterling by 1.78% and 2.25% respectively.

In the Euro area, the Euro strengthened against the Dollar and Yen but weakened compared to Sterling. In early November, borrowers across the Eurozone received some unexpected news when the European Central Bank cut interest rates to a new record low of 0.25%, in a bid to stave off a slide into deflation. Mario Draghi, the ECB's president, warned that the outlook for the 18-member single currency area could deteriorate in the coming months. As well as the rate cut, Draghi said the ECB would continue making low-cost loans to Eurozone banks until at least mid-2015, to try to prevent the financial sector from seizing up. Eurozone economic confidence increased more than economists forecasted in December, buoying up policy makers as they grapple with the legacy of the currency block's longest recession. Economic sentiment indicator rose to 100 in December, thus back to its long-term average for the first time since July 2011. It improved in three of the five biggest Eurozone economies, namely Spain, Italy and Netherlands. Unemployment in the Eurozone remained high, but stable, in November at 12.1%, prompting some analysts to suggest that the region's problems might be beginning to abate. In Portugal and Ireland the jobless rate declined to 15.5% and 12.3% respectively. In Spain the rate remained steady at 26.7%. Youth unemployment in the Eurozone is at 24.2%, leaving 3.6 million young people out of work. The number of unemployed now sits at 19.2 million. The Euro ended the quarter up against the Dollar and Yen by 1.78% and 8.65% respectively, but weakened against Sterling by 0.47%.

Scheme Performance

Global equities made strong gains although the period began on an uncertain footing with the US government in shutdown for 16 days. The US Federal Reserve announced that it would begin tapering its quantitative easing programme in January, reducing quantitative easing by $10 billion per month. The Federal Reserve also emphasised that interest rates would remain low which helped send US equity indices to record highs at year end. Corporate bonds outperformed core sovereign bonds over the period and returns were slightly positive. US credit outperformed both euro and sterling denominated credit. Against this backdrop the London Borough of Hillingdon returned 3.02% but this fell 18 basis points short of the Total Plan benchmark of 3.21%. In monetary terms this is a growth in assets of £19.7 million and the value of the combined scheme now stands at £718.4 million as at 31st December 2013. This period saw little reallocation of assets with just a small amount moving from Private Equity and into M&G. Looking further into the analysis the most notable effects were the outperformance of JP Morgan and UBS although this was offset by the negative impact of Kempen. While in allocation terms most mandates are in line with the neutral position, so effects are minimal.

This means that the Scheme finishes 2013 with a return of 14.04%, which is relatively 1.12% ahead of the total benchmark figure of 12.78%. Over the year selection effects in UBS continue to add value coupled with the good results in Ruffer, similar to the quarter, allocation is fairly balanced with only small impacts in some areas. While over the longer periods, the Scheme continues to outperform, producing a return of 7.59% over three year versus 6.84%, however the 5 year period is slightly down on the target by 1 basis points with a return of 9.88% per annum. Then since inception in September 1995, the Fund remains ahead of target by 4 basis points with an annualised return of 6.82% against 6.77%.

Manager Performance

Barings

In the final quarter of 2013 the new Barings mandate produced a return of exactly 2% which compares favourably against the target of the 3 Month LIBOR +4% per annum, which posted 1.12%. However in the short period since inception in April 2013 they return 2.22% which is below the target of 3.09%.

JP Morgan

Over the fourth quarter JP Morgan returned 2.69%, which was 1.80% ahead of the 0.87% target for the 3 Month LIBOR + 3%. This was not enough to make up for the losses seen earlier in the year so the 1 year period still falls behind target with a relative return of -1.09%, while since inception (November 2011) remains ahead with figures of 4.74 % versus 3.71%, which is 1.00% on a relative annualised basis.

Kempen

Over the last three months the Kempen mandate produced a return of 0.12%, which translates as the largest underperformance seen this period with -5.75% when compared to the 6.22% posted by the MSCI All World Index +2%. This culminates in a return since inception in January 2013 of 5.82% versus the benchmark of 18.07%; which is a relative return of -10.37%.

Macquarie

In contrast to the previous quarter Macquarie posted the highest relative return with 2.75% in Q4 coming from an absolute return of 3.65%, against 0.87% for the 3 Month LIBOR +3% p.a. This leads to a 1 year growth of 4.83% which is 1.26% above the benchmark of 3.53%; however since inception they've delivered eight negative quarterly relative returns, leading to an annualised loss of -6.84% against the target of 3.76%.

Manager Performance

M&G Investments
In the fourth quarter M&G produced a 0.60%, which against the 3 Month LIBOR +4% p.a return of 1.12% translates as an underperformance of -0.51%. Over the last year the account registers 6.13% against 4.53% whilst since inception at the end of May 2010, the portfolio return falls to 4.99% pa return whilst the benchmark is 4.77% pa. While the since inception Internal Rate of Return for this portfolio moves further ahead of the target with a figure of 5.64% opposed to the comparator of 4.69%.

Newton
During the fourth quarter of 2013 Newton posted a 3.31% return compared to 5.50% for the FTSE World Index +2%, leading to an underperformance of -2.08%. Which feeds into the since inception (January 2013) numbers with a return of 10.94% against the benchmark of 15.03%, producing a relative return of -3.55%.

Ruffer
The Ruffer portfolio produced 0.62% over the last three months, which beats the 0.13% for LIBOR 3 Month GBP. Driven by Q1's return all longer periods show high absolute and relative returns, so over the last twelve month post a return of 11.40 % against 0.52% for the target, resulting in the highest outperformance of all mandates at 10.83%. While since the inception of the fund in May 2010 eleven out of fourteen quarters show positive returns and lead to figures of 6.33% versus 0.75% per annum, which translates as a relative return of 5.53%.

Private Equity
The private equity assets, consisting of funds with Adam Street and LGT, both bounced back from last quarter's losses with quarterly figures of 3.11% and 2.17% respectively. So over the last year figures remain positive with Adam Street on 10.27% and LGT with 9.27%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. Over three years Adam Street increases slightly to 10.53% while LGT falls to 8.65% for the same period. Then since their respective inceptions in May 2004 and January 2005, while LGT falls further to 8.30% pa, Adam Street drops to 1.78% pa.
At present no benchmark has been applied to these mandates.

SSGA
The SSGA passively managed portfolio produced a return of 3.68% in the quarter which was a mere 4 basis points below the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So over the year they produce an 16.29% return, which is 16 basis points behind target, while over 3 years the per annum return falls to 8.25% which matches the benchmark. Since inception (November 2008) a return of 13.50% pa is just 1 basis points above the benchmark, but the passive nature is best demonstrated by the 3 year R squared and beta figures of 1, while the tracking error is just 0.16.

UBS
UBS UK Equity produced a return of 6.51%, which compared to the FTSE All Share figure of 5.46%, once again demonstrates outperformance at 0.99%. Looking into the attribution analysis, stock selection was the main driver with the largest impacts coming from Consumer Services and Oil & Gas at 0.80% and 0.47% respectively. Whilst within allocation the most significant decision was the large underweight of Consumer Goods (0.27%) offset by the cash drag (-0.15%). These results filter through the longer periods and over the year demonstrate the highest absolute return with 31.12% and the second highest relative figure of 8.54%. This outperformance is also attributable to selection effects and Financials lead the way (3.23%) coupled with Consumer Services (2.08%), while the overweight of Consumer Services is the stand-out effect within asset allocation. UBS maintain this outperformance although relative returns are reducing over time, translating as a since inception return of 10.61% versus 9.21% on an annualised basis.

UBS Property
The UBS Property portfolio produced it's largest absolute return since Q1 2010 with a figure of 4.39%, which was also 9 basis points above the IPD UK PPFI All Balanced Funds index figure of 4.30%. This now means that all time periods demonstrate positive absolute return but underperformance continues to be seen, with 1 and 3 year showing returns of 9.07% and 5.44 % respectively by these were -0.36% and -0.30% below the benchmark. Since inception, in March 2006, the fund now shows growth of 0.19% per annum while the benchmark shows a positive 0.83% return, meaning the underperformance is now -64 basis points.

UBS Tactical
With a return which almost exactly matches the previous quarter the UBS Tactical mandate posts a return of -7.93% against the Barclays US Inflation Linked Index of -4.34%. Which means in the 6 months since the inception of the fund it shows losses of -15.25%, while the index only falls -9.83%.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 10/13	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 11/13	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 12/13	Active Contribution 4Q 2013
Adam Street	0.80	-	0.80	-	165,428.51	-1.29	-	-1.29	-	-263,230.78	3.63	-	3.63	-	730,315.72	632,513.46
Barings	2.06	0.37	1.69	1.69	1,055,132.69	-0.54	0.37	-0.91	-0.91	-578,588.97	0.48	0.37	0.11	0.11	67,146.35	543,690.06
JP Morgan	1.30	0.29	1.01	1.00	752,343.22	0.46	0.29	0.17	0.17	127,037.25	0.91	0.29	0.62	0.62	471,107.53	1,350,487.99
Kempen	3.72	4.93	-1.22	-1.16	-597,708.82	-3.06	0.03	-3.09	-3.09	-1,500,956.22	-0.42	1.20	-1.62	-1.60	-772,136.10	-2,870,801.13
LGT	2.18	-	2.18	-	355,408.28	-0.40	-	-0.40	-	-66,971.74	0.40	-	0.40	-	63,351.43	351,787.97
Macquarie	4.67	0.29	4.38	4.37	253,195.37	-0.65	0.29	-0.94	-0.94	-57,111.65	-0.33	0.29	-0.62	-0.62	-37,188.14	158,895.58
M&G Investments	-0.00	0.37	-0.37	-0.37	-90,519.32	0.05	0.37	-0.32	-0.32	-77,028.55	0.54	0.37	0.17	0.17	41,922.38	-125,625.48
Newton	3.90	5.03	-1.13	-1.07	-268,483.47	-1.24	-0.34	-0.90	-0.90	-210,906.45	0.68	0.79	-0.11	-0.11	-26,106.92	-505,496.85
Ruffer	0.97	0.05	0.93	0.93	780,719.59	-0.24	0.04	-0.28	-0.28	-237,223.87	-0.11	0.04	-0.15	-0.15	-128,073.19	415,422.54
SSGA	3.87	3.91	-0.04	-0.03	-52,089.99	-0.78	-0.78	-0.00	-0.00	-2,568.64	0.60	0.60	-0.00	-0.00	-217.86	-54,876.48
UBS	3.94	4.29	-0.34	-0.33	-488,671.45	-0.04	-0.70	0.66	0.67	933,491.84	2.50	1.84	0.67	0.66	963,803.41	1,408,623.81
UBS Property	1.10	1.13	-0.02	-0.02	-11,701.78	1.37	1.46	-0.09	-0.09	-47,374.84	1.85	1.65	0.20	0.20	109,039.96	49,963.34
UBS Tactical	1.94	1.38	0.56	0.55	73,642.38	-6.31	-3.12	-3.19	-3.29	-407,219.72	-3.61	-2.60	-1.00	-1.03	-120,605.61	-454,182.96

Total Fund Market Value at Qtr End: £718.4 M

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Scheme Performance

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
London Borough of Hillingdon	718.4	100.00	3.02	3.21	-0.18	-0.18	14.04	12.78	1.26	1.12	14.04	12.78	1.26	1.12

By Manager

	Market Value £m	% of Fund	Three Months Portfolio	Three Months Benchmark	Three Months Excess Return	Three Months Relative Return	Year To Date Portfolio	Year To Date Benchmark	Year To Date Excess Return	Year To Date Relative Return	One Year Portfolio	One Year Benchmark	One Year Excess Return	One Year Relative Return
Adam Street	20.8	2.90	3.11	-	-	-	10.27	-	-	-	10.27	-	-	-
Barings	63.4	8.82	2.00	1.12	0.88	0.87	-	-	-	-	-	-	-	-
JP Morgan	76.5	10.65	2.69	0.87	1.81	1.80	2.40	3.53	-1.12	-1.09	2.40	3.53	-1.12	-1.09
Kempen	46.9	6.52	0.12	6.22	-6.10	-5.75	-	-	-	-	-	-	-	-
LGT	16.0	2.23	2.17	-	-	-	9.27	-	-	-	9.27	-	-	-
Macquarie	6.0	0.83	3.65	0.87	2.77	2.75	4.83	3.53	1.30	1.26	4.83	3.53	1.30	1.26
M&G Investments	24.4	3.39	0.60	1.12	-0.52	-0.51	6.13	4.53	1.60	1.53	6.13	4.53	1.60	1.53
Newton	23.4	3.26	3.31	5.50	-2.19	-2.08	-	-	-	-	-	-	-	-
Ruffer	84.8	11.80	0.62	0.13	0.49	0.49	11.40	0.52	10.88	10.83	11.40	0.52	10.88	10.83
SSGA	143.4	19.97	3.68	3.72	-0.04	-0.04	16.29	16.48	-0.18	-0.16	16.29	16.48	-0.18	-0.16
UBS	145.3	20.23	6.51	5.46	1.05	0.99	31.12	20.81	10.32	8.54	31.12	20.81	10.32	8.54
UBS Property	53.4	7.43	4.39	4.30	0.09	0.09	9.07	9.46	-0.40	-0.36	9.07	9.46	-0.40	-0.36
UBS Tactical	11.9	1.66	-7.93	-4.34	-3.59	-3.76	-	-	-	-	-	-	-	-

Total Fund Market Value at Qtr End: £718.4 M

Scheme Performance

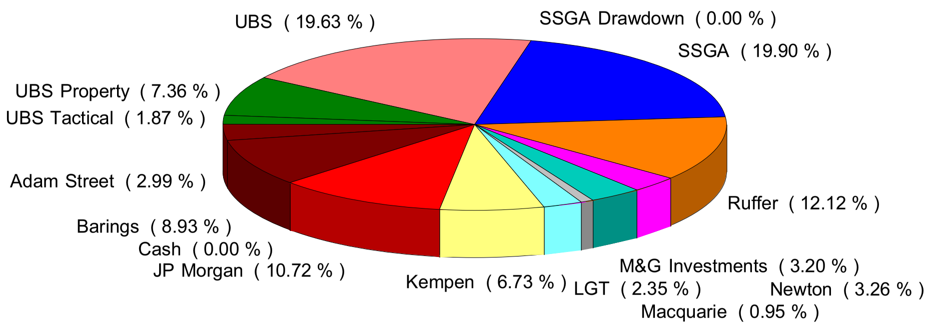
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	7.59	6.84	0.75	0.70	9.88	9.89	-0.02	-0.01	30/09/95	6.82	6.77	0.04	0.04

By Manager

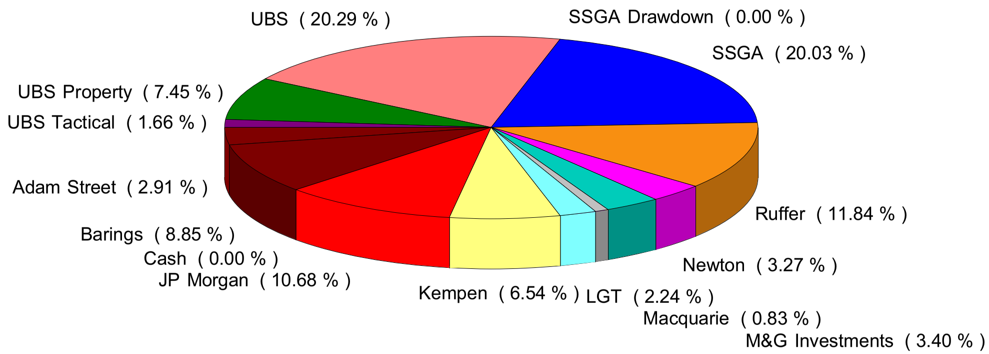
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	10.53	-	-	-	3.60	-	-	-	31/01/05	1.78	-	-	-
Barings	-	-	-	-	-	-	-	-	24/04/13	2.22	3.09	-0.87	-0.85
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	4.74	3.71	1.03	1.00
Kempen	-	-	-	-	-	-	-	-	31/01/13	5.82	18.07	-12.25	-10.37
LGT	8.65	-	-	-	2.89	-	-	-	31/05/04	8.30	-	-	-
Macquarie	-7.91	3.76	-11.67	-11.24	-	-	-	-	30/09/10	-6.84	3.76	-10.60	-10.22
M&G Investments	5.16	4.77	0.39	0.38	-	-	-	-	31/05/10	4.99	4.77	0.22	0.21
Newton	-	-	-	-	-	-	-	-	24/01/13	10.94	15.03	-4.08	-3.55
Ruffer	5.40	0.76	4.64	4.60	-	-	-	-	28/05/10	6.33	0.75	5.57	5.53
SSGA	8.25	8.26	-0.01	-0.01	12.06	12.07	-0.00	-0.00	30/11/08	13.50	13.49	0.02	0.01
UBS	13.49	9.41	4.08	3.73	16.27	14.31	1.97	1.72	31/12/88	10.61	9.21	1.40	1.29
UBS Property	5.44	5.75	-0.32	-0.30	4.23	5.44	-1.21	-1.15	31/03/06	0.19	0.83	-0.64	-0.64
UBS Tactical	-	-	-	-	-	-	-	-	30/06/13	-15.25	-9.83	-5.41	-6.00

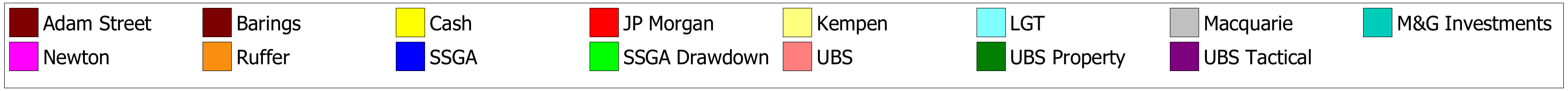
Total Fund Market Value at Qtr End: £718.4 M

Weighting at Beginning of Period



Weighting at End of Period





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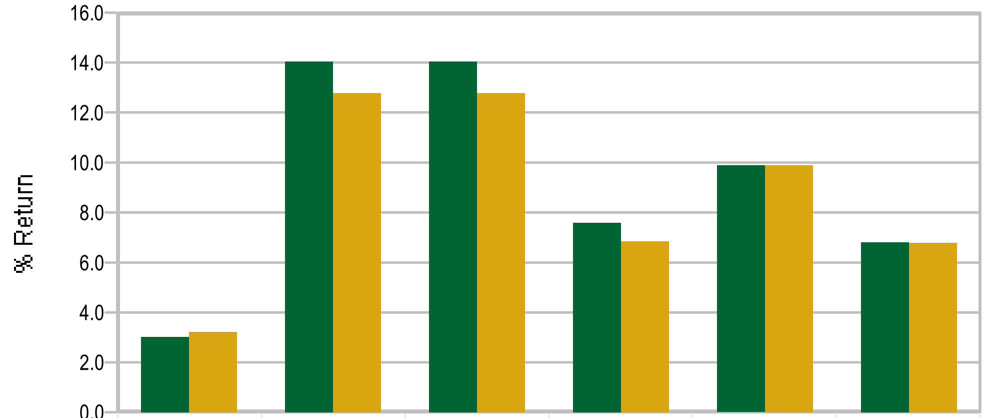
	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	698,730	100.00	-1,463	19,289	1,834	718,389	100.00
Adam Street	20,805	2.98	-600	625	4	20,834	2.90
Barings	62,112	8.89	11	1,242	0	63,364	8.82
Cash	15	0.00	-2	-0	0	12	0.00
JP Morgan	74,497	10.66	0	2,002	0	76,500	10.65
Kempen	46,782	6.70	30	54	0	46,866	6.52
LGT	16,313	2.33	-621	354	0	16,046	2.23
Macquarie	6,613	0.95	-895	253	-0	5,971	0.83
M&G Investments	22,253	3.18	1,972	145	-0	24,370	3.39
Newton	22,637	3.24	0	749	0	23,386	3.26
Ruffer	84,242	12.06	-1	242	284	84,767	11.80
SSGA	138,355	19.80	0	5,092	0	143,447	19.97
SSGA Drawdown	1	0.00	0	-0	0	1	0.00
UBS	136,435	19.53	0	7,906	970	145,311	20.23
UBS Property	51,141	7.32	0	1,699	548	53,388	7.43
UBS Tactical	12,966	1.86	-20	-1,054	27	11,919	1.66

London Borough of Hillingdon

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.02	14.04	14.04	7.59	9.88	6.82
Benchmark	3.21	12.78	12.78	6.84	9.89	6.77

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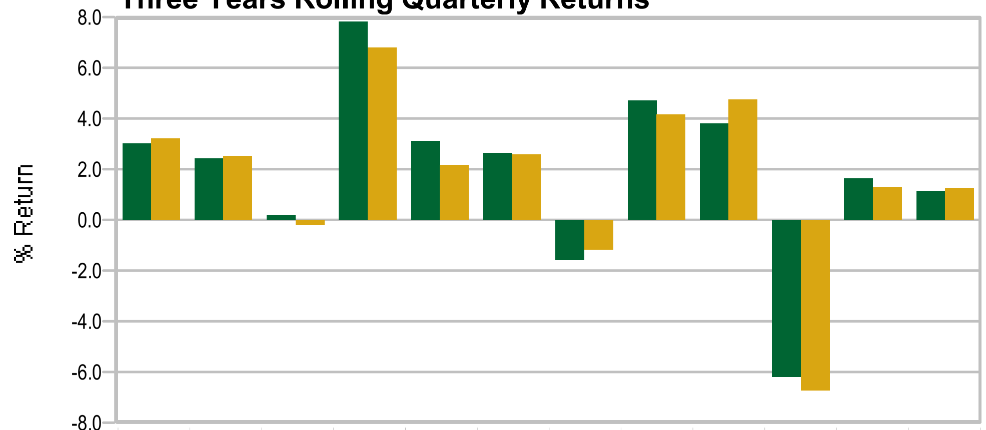
Risk Statistics - 3 years

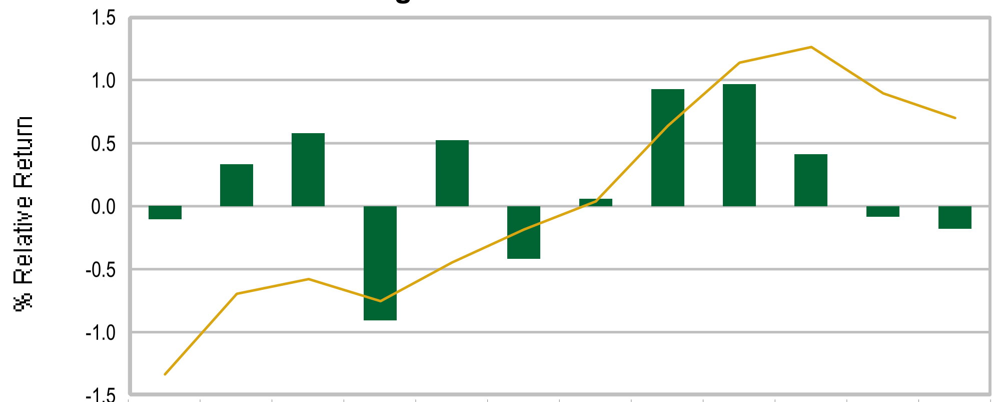
Risk Statistics - 3 years	Fund	B'mark
Performance Return	7.59	6.84
Standard Deviation	6.11	5.68
Relative Return	0.70	
Tracking Error	1.30	
Information Ratio	0.57	
Beta	1.05	
Alpha	0.42	
R Squared	0.96	
Sharpe Ratio	1.07	1.02
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	698,730	
Net Investment £(000)	-1,463	
Income Received £(000)	1,834	
Appreciation £(000)	19,289	
Closing Market Value (£000)	718,389	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	3.02	2.43	0.21	7.84	3.12	2.64	-1.59	4.71	3.82	-6.20	1.64	1.15
Benchmark	3.21	2.52	-0.20	6.80	2.18	2.58	-1.18	4.16	4.76	-6.74	1.31	1.26

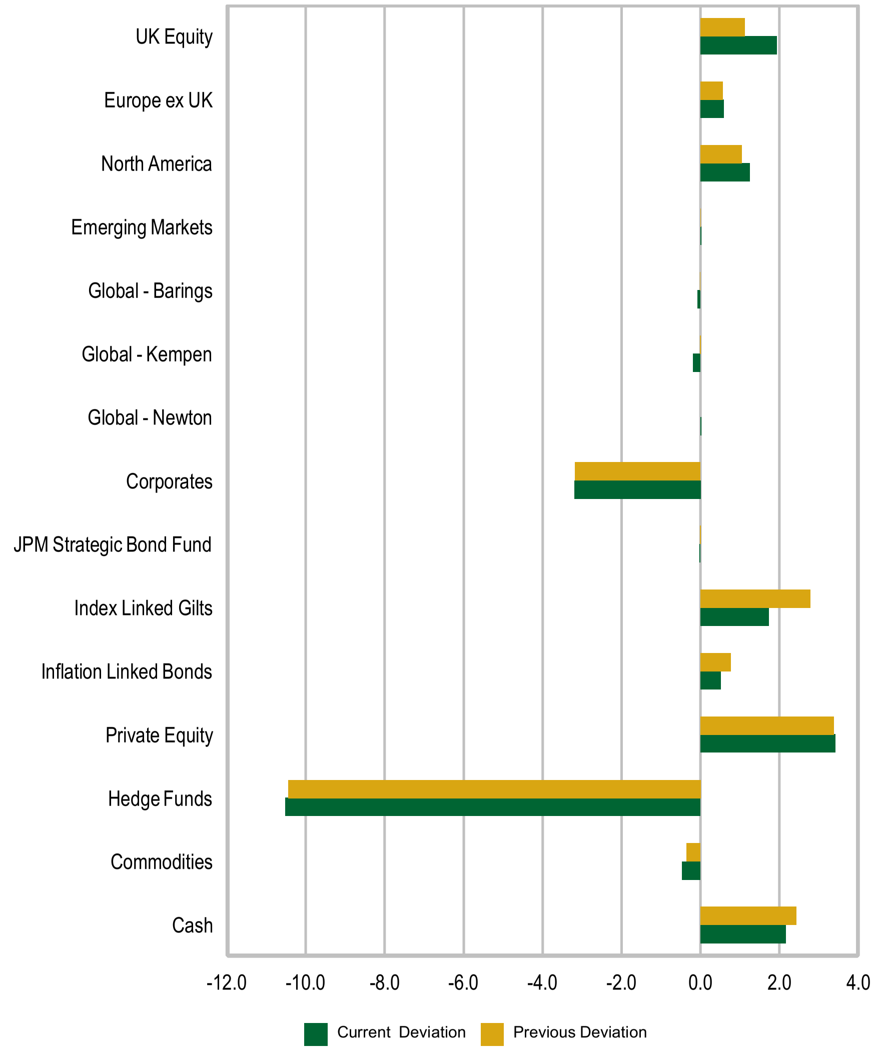
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-0.11	0.33	0.58	-0.90	0.52	-0.42	0.06	0.93	0.97	0.41	-0.08	-0.18
3Y Relative	-1.34	-0.70	-0.58	-0.75	-0.45	-0.19	0.04	0.64	1.14	1.26	0.89	0.70

London Borough of Hillingdon

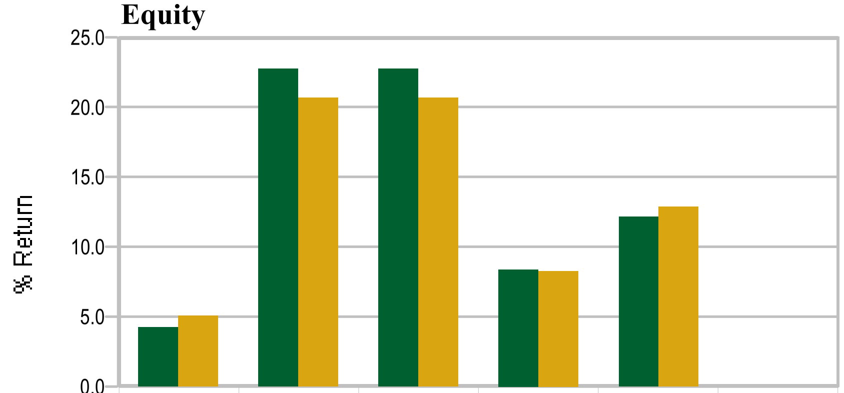
By Asset Category



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
UK Equity	30.14	29.32	28.20	1.94	28.20	1.12
Europe ex UK	2.76	2.74	2.17	0.59	2.17	0.57
North America	3.40	3.20	2.16	1.24	2.16	1.04
Emerging Markets	0.59	0.58	0.58	0.01	0.58	0.00
Global - Barings	8.82	8.89	8.90	-0.08	8.90	-0.01
Global - Kempen	6.52	6.69	6.71	-0.19	6.71	-0.02
Global - Newton	3.26	3.24	3.24	0.02	3.24	-0.00
Corporates	1.69	1.71	4.89	-3.20	4.89	-3.18
JPM Strategic Bond Fund	10.65	10.66	10.68	-0.03	10.68	-0.02
Index Linked Gilts	4.06	5.11	2.33	1.73	2.33	2.78
Inflation Linked Bonds	2.37	2.62	1.86	0.51	1.86	0.76
Private Equity	9.24	9.20	5.83	3.41	5.83	3.37
Hedge Funds	1.52	1.59	12.03	-10.51	12.03	-10.44
Commodities	0.48	0.60	0.95	-0.47	0.95	-0.35
Cash	2.28	2.54	0.12	2.16	0.12	2.42

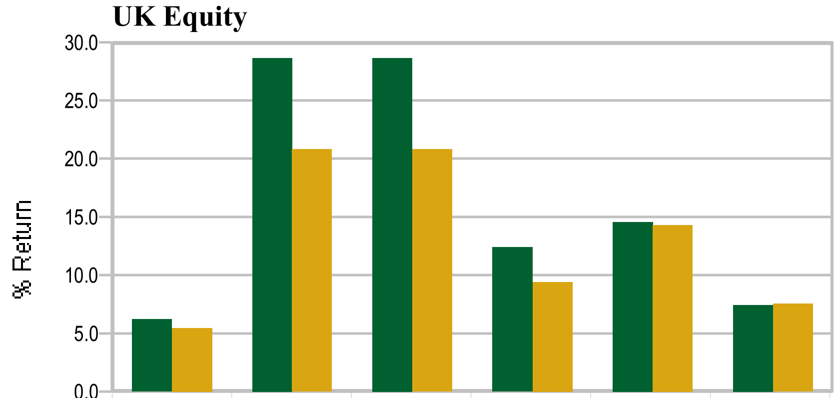
London Borough of Hillingdon

Equity



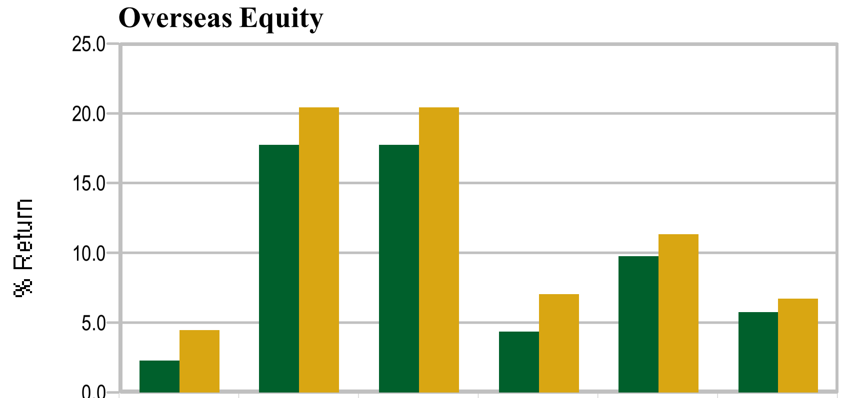
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.25	22.75	22.75	8.39	12.17	-
B'Mark	5.08	20.68	20.68	8.28	12.88	-

UK Equity



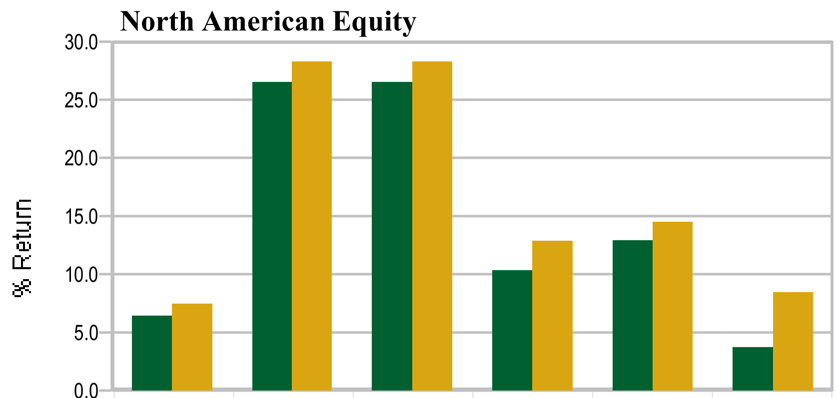
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.21	28.65	28.65	12.39	14.56	7.44
B'Mark	5.46	20.81	20.81	9.41	14.31	7.55

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.28	17.72	17.72	4.36	9.75	5.76
B'Mark	4.46	20.39	20.39	7.04	11.33	6.71

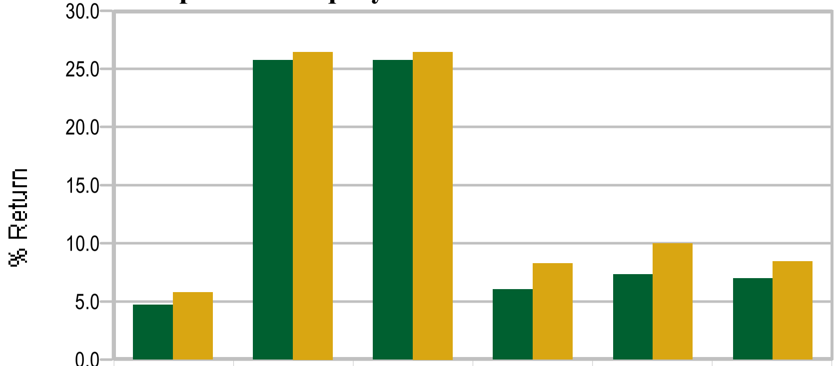
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.41	26.52	26.52	10.35	12.87	3.74
B'Mark	7.48	28.30	28.30	12.87	14.48	8.46

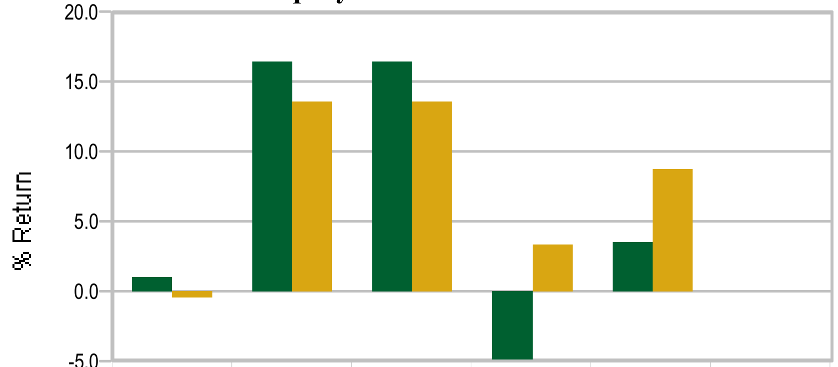
London Borough of Hillingdon

Europe ex UK Equity



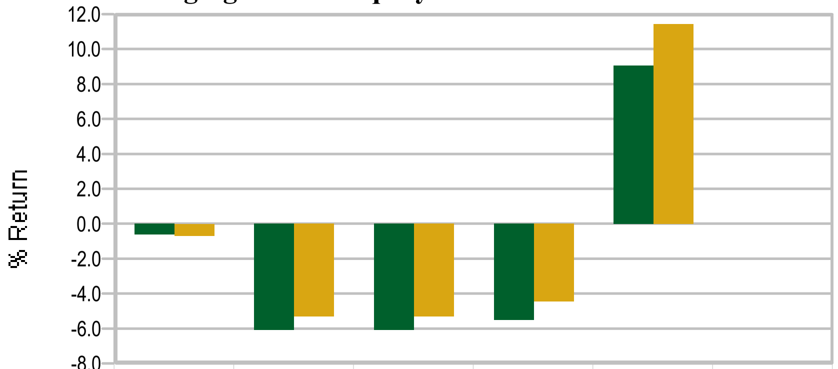
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.72	25.75	25.75	6.05	7.31	6.98
B'Mark	5.79	26.47	26.47	8.28	9.98	8.46

Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.05	16.42	16.42	-4.88	3.55	-
B'Mark	-0.45	13.59	13.59	3.35	8.75	-

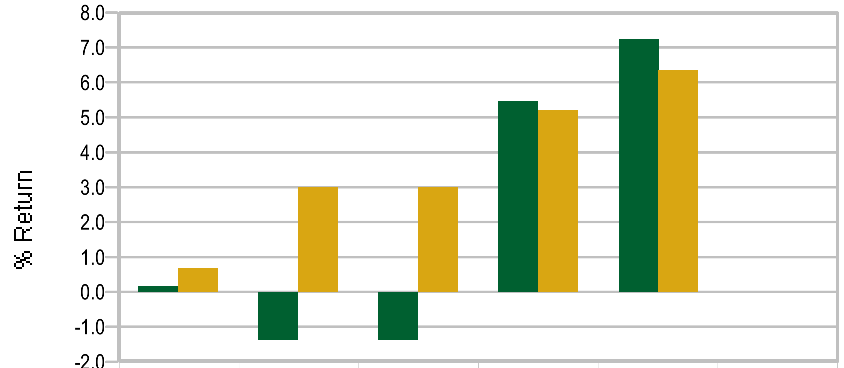
Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.60	-6.08	-6.08	-5.53	9.05	-
B'Mark	-0.69	-5.29	-5.29	-4.47	11.42	-

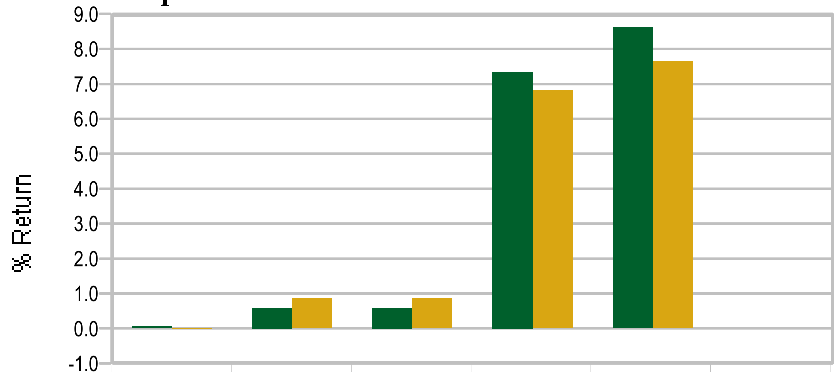
London Borough of Hillingdon

Fixed Income



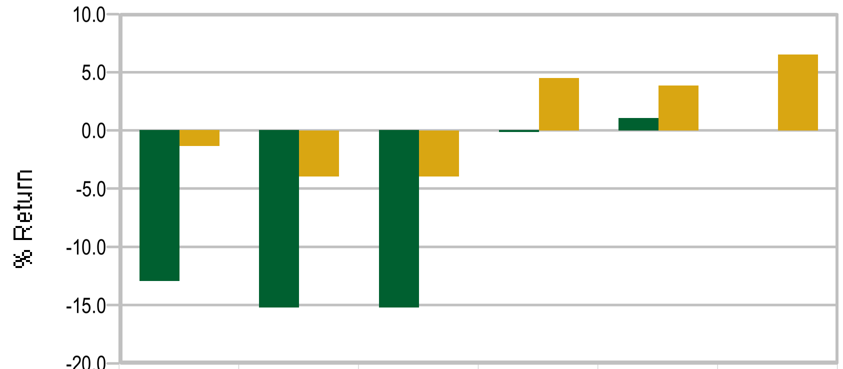
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.15	-1.37	-1.37	5.46	7.25	-
B'Mark	0.68	2.99	2.99	5.21	6.34	-

Corporate Bonds



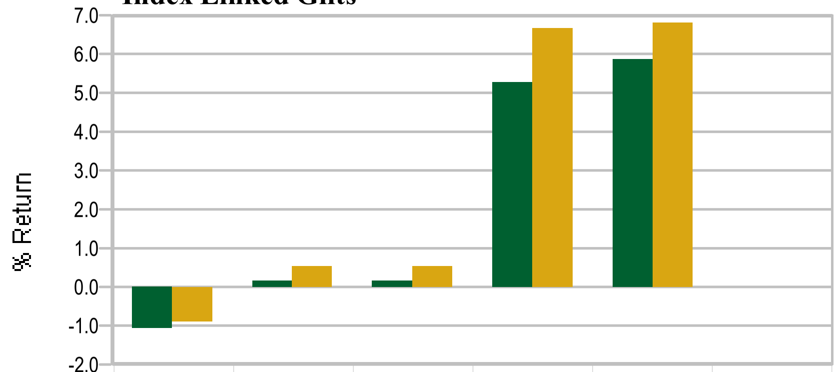
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.07	0.58	0.58	7.34	8.60	-
B'Mark	-0.02	0.87	0.87	6.83	7.65	-

Government Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-12.93	-15.20	-15.20	-0.14	1.04	-
B'Mark	-1.35	-3.94	-3.94	4.47	3.85	6.53

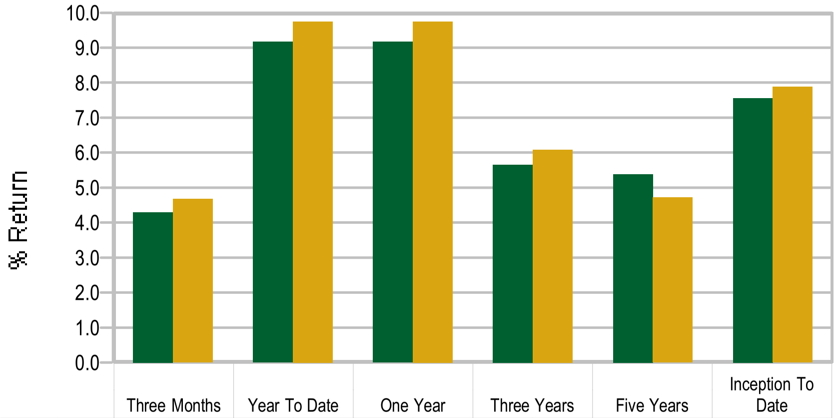
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.06	0.16	0.16	5.29	5.87	-
B'Mark	-0.89	0.54	0.54	6.66	6.81	-

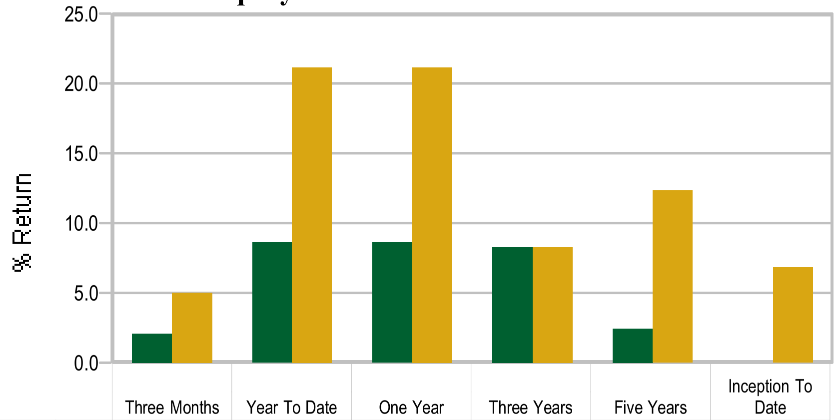
London Borough of Hillingdon

Real Estate



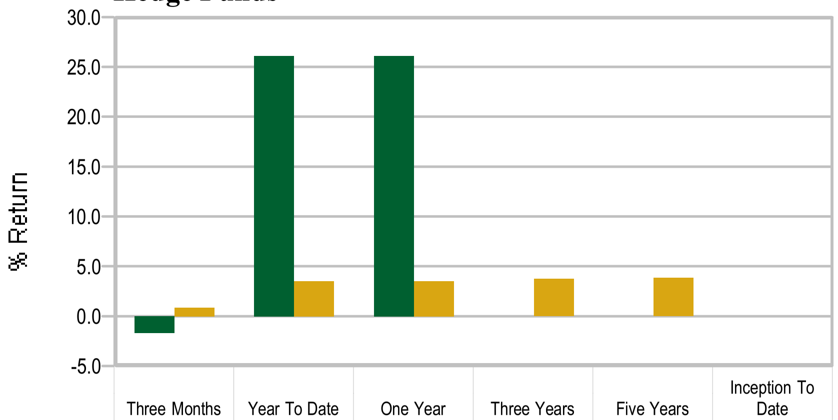
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.68	9.75	9.75	6.09	4.71	7.87
B'Mark	4.30	9.16	9.16	5.66	5.38	7.55

Private Equity



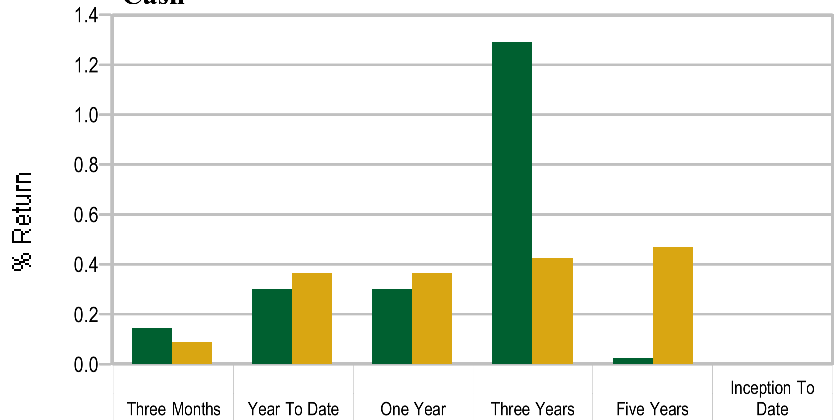
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.09	8.61	8.61	8.27	2.44	-
B'Mark	5.03	21.15	21.15	8.28	12.31	6.83

Hedge Funds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.71	26.11	26.11	-	-	-
B'Mark	0.87	3.53	3.53	3.76	3.85	-

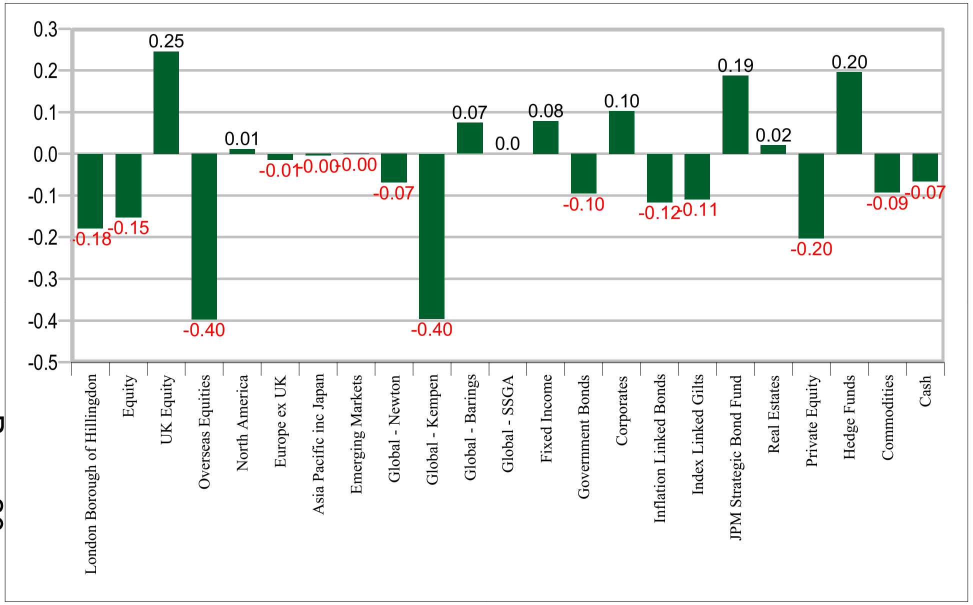
Cash



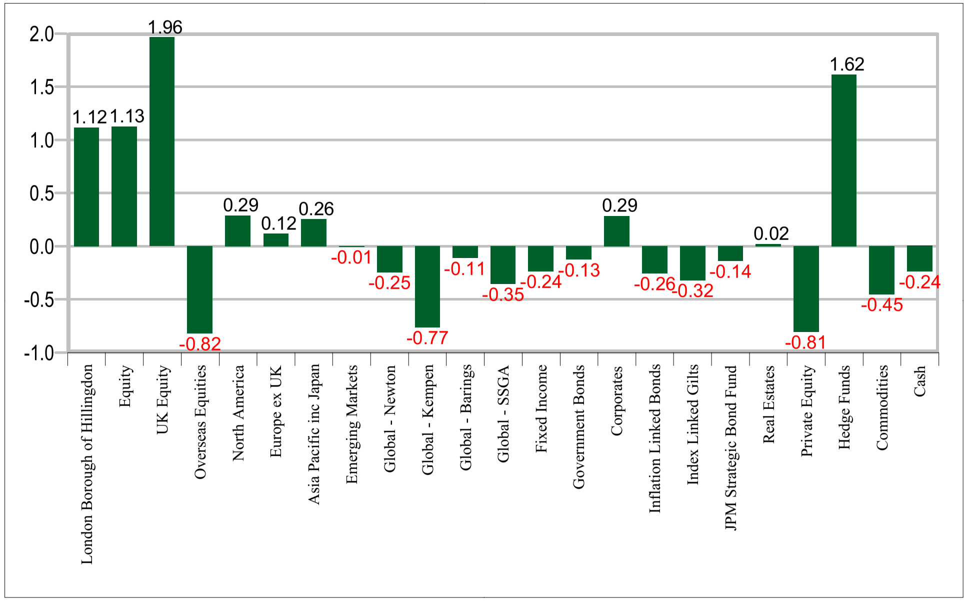
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.15	0.30	0.30	1.29	0.02	-
B'Mark	0.09	0.36	0.36	0.43	0.47	-

London Borough of Hillingdon

Relative Contribution - Three Months



Relative Contribution - One Year



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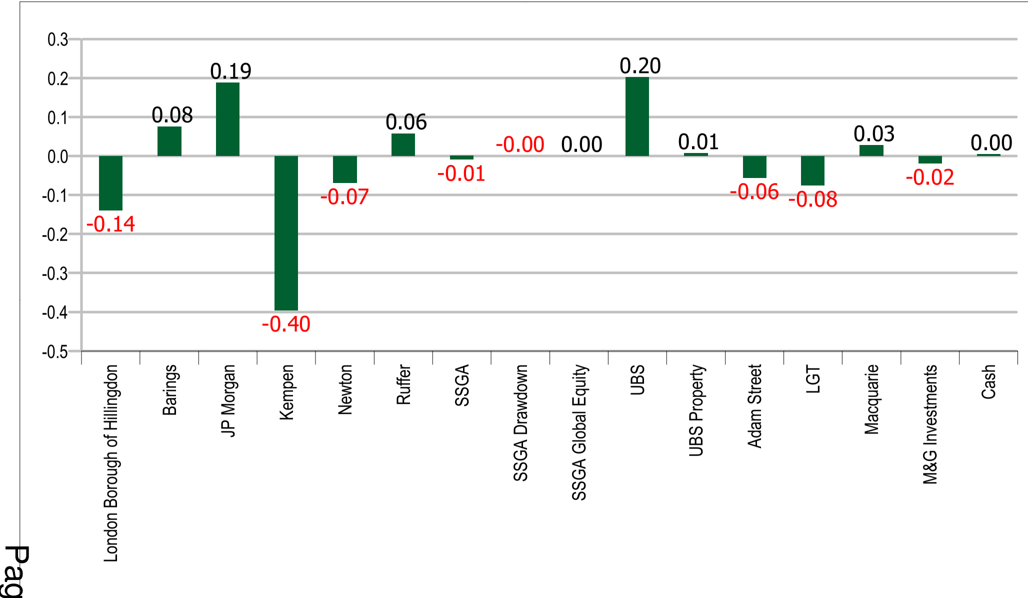
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	3.02	3.21	-0.18	0.15	-0.30	0.38	-0.40	-0.18
Equity	4.25	5.08	-0.79	0.00	-0.31	0.15	0.01	-0.15
UK Equity	6.21	5.46	0.72	0.00	0.01	0.02	0.22	0.25
Overseas Equities	2.28	4.46	-2.09	0.00	-0.32	0.13	-0.20	-0.40
North America	6.41	7.48	-1.00	0.00	-0.02	0.07	-0.04	0.01
Europe ex UK	4.72	5.79	-1.01	0.00	-0.01	0.01	-0.01	-0.01
Asia Pacific inc Japan	1.05	-0.45	1.50	0.00	-0.20	0.05	0.15	-0.00
Emerging Markets	-0.60	-0.69	0.08	0.00	0.00	-0.00	0.00	-0.00

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	14.04	12.78	1.12	0.21	-0.73	1.82	-0.39	1.12
Equity	22.75	20.68	1.72	0.00	-0.86	0.75	1.24	1.13
UK Equity	28.65	20.81	6.49	0.00	0.00	0.07	1.89	1.96
Overseas Equities	17.72	20.39	-2.22	0.00	-0.86	0.68	-0.63	-0.82
North America	26.52	28.30	-1.38	0.00	0.09	0.25	-0.05	0.29
Europe ex UK	25.75	26.47	-0.57	0.00	0.13	0.14	-0.15	0.12
Asia Pacific inc Japan	16.42	13.59	2.49	0.00	-0.61	0.41	0.47	0.26
Emerging Markets	-6.08	-5.29	-0.84	0.00	0.01	0.00	-0.01	-0.01

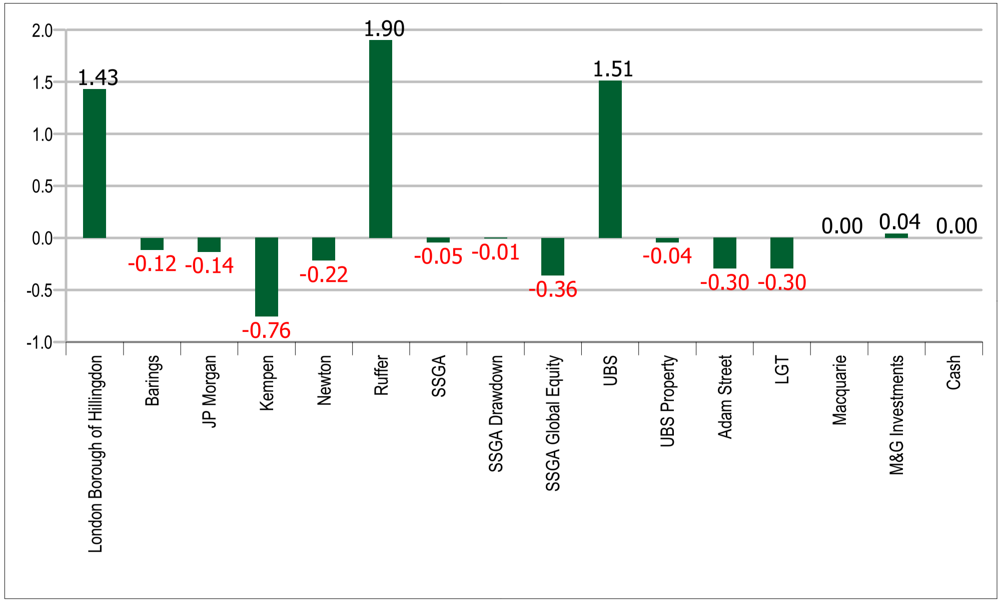
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Global - Newton	3.31	5.50	-2.08	0.00	0.00	-0.00	-0.07	-0.07
Global - Kempen	0.12	6.22	-5.75	0.00	-0.04	-0.00	-0.35	-0.40
Global - Barings	2.00	1.12	0.87	0.00	-0.04	0.00	0.12	0.07
Global - SSGA	-	-	-	0.00	0.00	0.00	0.00	0.00
Fixed Income	0.15	0.68	-0.53	0.00	-0.03	-0.01	0.12	0.08
Government Bonds	-12.93	-	-	0.00	-0.01	-0.09	0.00	-0.10
Corporates	0.07	-0.02	0.09	0.00	-0.01	0.11	0.00	0.10
Inflation Linked Bonds	-6.84	-4.34	-2.61	0.00	-0.01	-0.04	-0.07	-0.12
Index Linked Gilts	-1.06	-0.89	-0.17	0.00	-0.00	-0.11	0.00	-0.11
JPM Strategic Bond Fund	2.69	0.87	1.80	0.00	-0.00	0.00	0.19	0.19
Real Estates	4.68	4.30	0.37	0.00	-0.00	-0.00	0.03	0.02
Private Equity	2.09	5.03	-2.80	0.00	0.13	0.14	-0.48	-0.20
Hedge Funds	-1.71	0.87	-2.56	0.00	-0.09	0.28	0.01	0.20
Commodities	-16.66	0.87	-17.38	0.00	-0.00	0.01	-0.10	-0.09
Cash	0.15	0.09	0.05	0.00	0.01	-0.08	0.00	-0.07

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Global - Newton	9.43	15.03	-4.86	0.00	-0.01	-0.04	-0.19	-0.25
Global - Kempen	5.62	-	5.62	0.00	-0.14	-0.02	-0.61	-0.77
Global - Barings	-	-	0.00	0.00	-0.19	0.04	0.05	-0.11
Global - SSGA	-	-	-	0.00	-0.15	-0.09	-0.12	-0.35
Fixed Income	-1.37	2.99	-4.23	0.00	-0.03	0.04	-0.24	-0.24
Government Bonds	-15.20	-	-	0.00	-0.01	-0.12	0.00	-0.13
Corporates	0.58	0.87	-0.29	0.00	-0.02	0.31	-0.01	0.29
Inflation Linked Bonds	-8.29	-10.94	2.98	0.00	-0.00	-0.15	-0.11	-0.26
Index Linked Gilts	0.16	0.54	-0.38	0.00	0.05	-0.29	-0.08	-0.32
JPM Strategic Bond Fund	2.40	3.53	-1.09	0.00	-0.00	-0.01	-0.13	-0.14
Real Estates	9.75	9.16	0.54	0.00	-0.00	-0.01	0.04	0.02
Private Equity	8.61	21.15	-10.35	0.00	0.25	0.37	-1.42	-0.81
Hedge Funds	26.11	3.53	21.81	0.00	-0.12	1.23	0.50	1.62
Commodities	-42.99	3.53	-44.93	0.00	-0.01	-0.00	-0.44	-0.45
Cash	0.30	0.36	-0.06	0.00	-0.02	-0.26	0.04	-0.24

Three Months



One Year

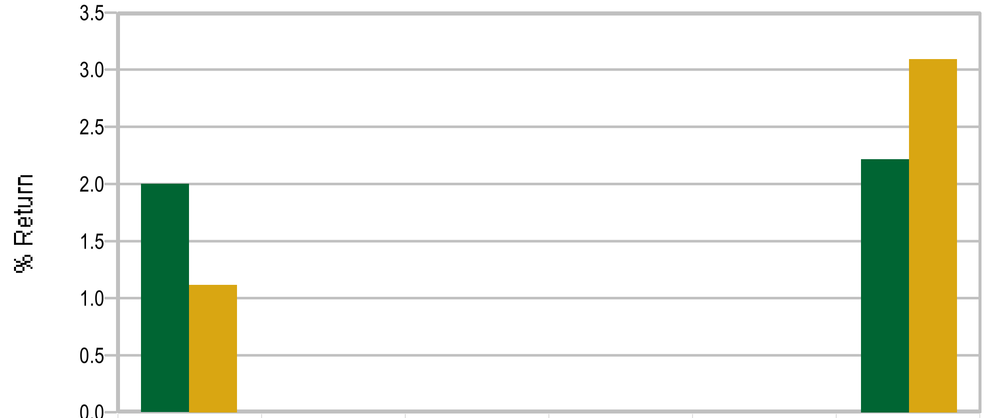


	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	3.02	3.17	-0.14	-0.02	-0.12	-0.14
Barings	2.00	1.12	0.87	0.00	0.08	0.08
JP Morgan	2.69	0.87	1.80	-0.00	0.19	0.19
Kempen	0.12	6.22	-5.75	-0.00	-0.40	-0.40
Newton	3.31	5.50	-2.08	-0.00	-0.07	-0.07
Ruffer	0.62	0.13	0.49	-0.00	0.06	0.06
SSGA	3.68	3.72	-0.04	-0.00	-0.01	-0.01
SSGA Drawdown	-1.42	0.07	-1.50	-0.00	-0.00	-0.00
SSGA Global Equity	-	-	0.00	0.00	0.00	0.00
UBS	6.51	5.46	0.99	0.00	0.20	0.20
UBS Property	4.39	4.30	0.09	0.00	0.01	0.01
Adam Street	3.11	5.03	-1.82	0.00	-0.06	-0.06
LGT	2.17	5.03	-2.72	-0.01	-0.06	-0.08
Macquarie	3.65	0.87	2.75	-0.00	0.03	0.03
M&G Investments	0.60	1.12	-0.51	-0.00	-0.02	-0.02
Cash	-2.45	0.09	-2.53	0.00	-0.00	0.00

	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	14.04	12.43	1.43	-0.46	1.39	1.43
Barings	-	-	0.00	0.01	-0.13	-0.12
JP Morgan	2.40	3.53	-1.09	-0.01	-0.13	-0.14
Kempen	5.75	-	5.75	-0.02	-0.74	-0.76
Newton	10.94	15.03	-3.55	-0.02	-0.20	-0.22
Ruffer	11.40	0.52	10.83	-0.03	1.94	1.90
SSGA	16.29	16.48	-0.16	-0.01	-0.03	-0.05
SSGA Drawdown	-6.12	0.63	-6.71	-0.00	-0.00	-0.01
SSGA Global Equity	-	-	0.00	-0.17	-0.19	-0.36
UBS	31.12	20.81	8.54	-0.05	1.56	1.51
UBS Property	9.07	9.46	-0.36	-0.01	-0.03	-0.04
Adam Street	10.27	21.15	-8.98	0.01	-0.31	-0.30
LGT	9.27	21.15	-9.81	-0.03	-0.27	-0.30
Macquarie	4.83	3.53	1.26	-0.01	0.01	0.00
M&G Investments	6.13	4.53	1.53	0.00	0.04	0.04
Cash	27.34	0.36	26.88	0.00	0.00	0.00

Barings

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.00	-	-	-	-	2.22
Benchmark	1.12	-	-	-	-	3.09

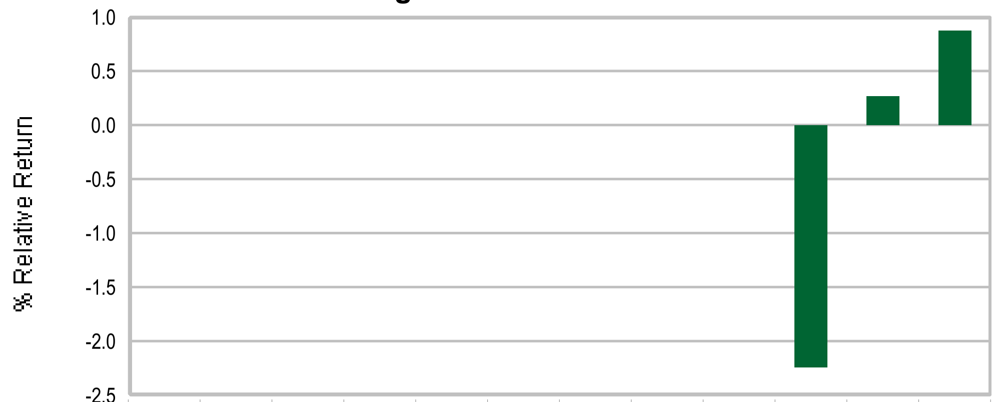
Risk Statistics - 3 years

Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	8.8	
Inception Date	Apr-2013	
Opening Market Value (£000)	62,112	
Net Investment £(000)	11	
Income Received £(000)	0	
Appreciation £(000)	1,242	
Closing Market Value (£000)	63,364	

Three Years Rolling Quarterly Returns

	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	2.00	1.38	-	-	-	-	-	-	-	-	-	-
Benchmark	1.12	1.12	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-	-	-	-	-	-	-	-	-	-2.24	0.27	0.87
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

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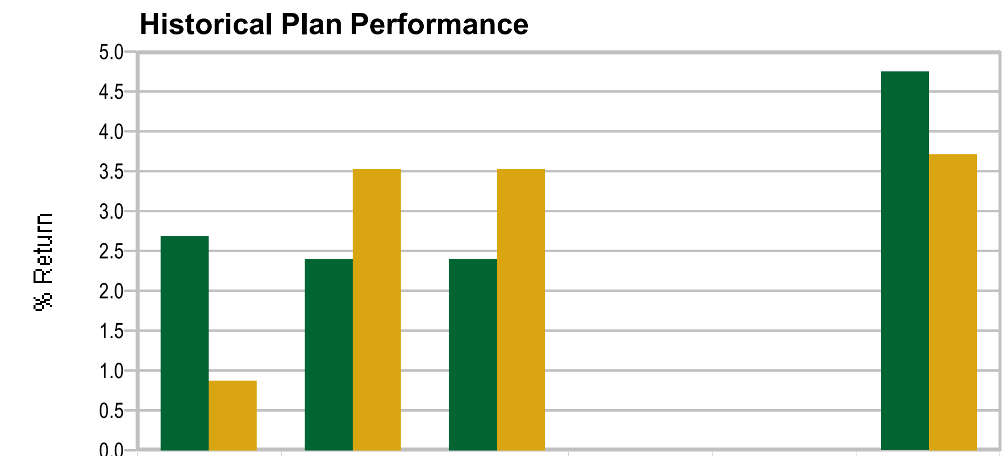
JP Morgan

Historical Plan Performance

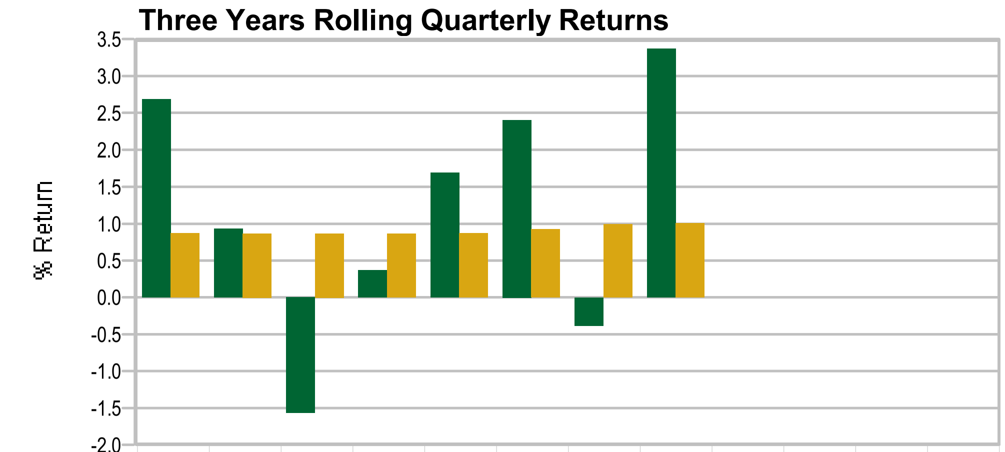


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.69	2.40	2.40	-	-	4.74
Benchmark	0.87	3.53	3.53	-	-	3.71

Risk Statistics - 3 years

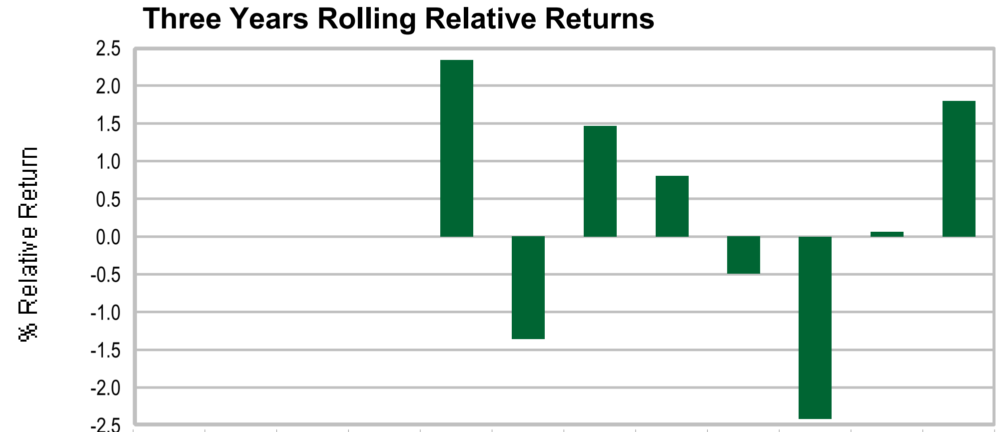
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	10.6	
Inception Date	Nov-2011	
Opening Market Value (£000)	74,497	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	2,002	
Closing Market Value (£000)	76,500	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	2.69	0.94	-1.57	0.37	1.69	2.41	-0.38	3.37	-	-	-	-
Benchmark	0.87	0.87	0.87	0.87	0.88	0.93	0.99	1.01	-	-	-	-

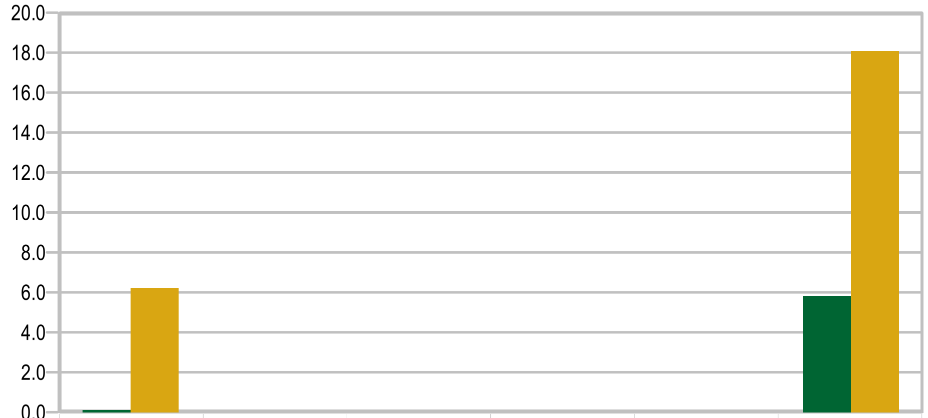
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-	-	-	-	2.34	-1.36	1.47	0.81	-0.49	-2.41	0.06	1.80
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Kempen

Historical Plan Performance

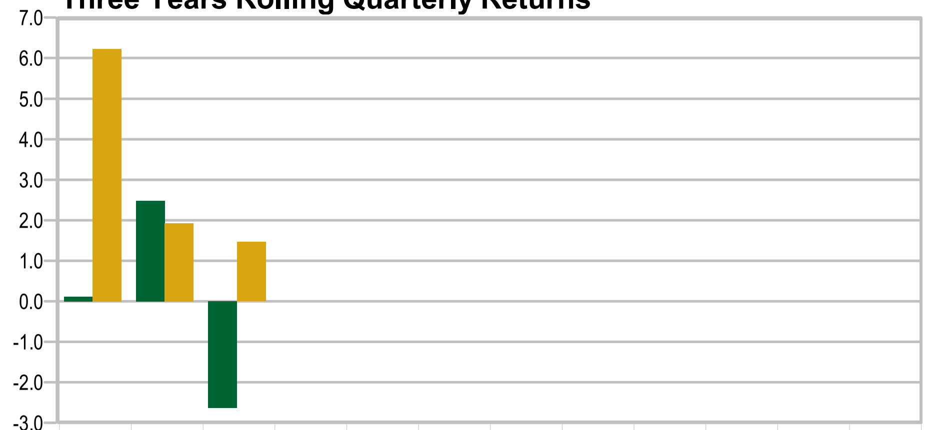


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.12	-	-	-	-	5.82
Benchmark	6.22	-	-	-	-	18.07

Risk Statistics - 3 years

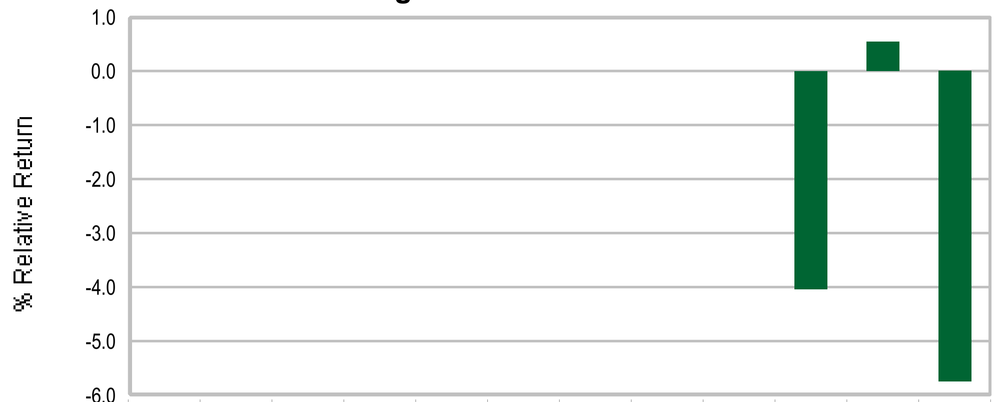
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	6.5	
Inception Date	Jan-2013	
Opening Market Value (£000)	46,782	
Net Investment £(000)	30	
Income Received £(000)	0	
Appreciation £(000)	54	
Closing Market Value (£000)	46,866	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	0.12	2.48	-2.63	-	-	-	-	-	-	-	-	-
Benchmark	6.22	1.93	1.46	-	-	-	-	-	-	-	-	-

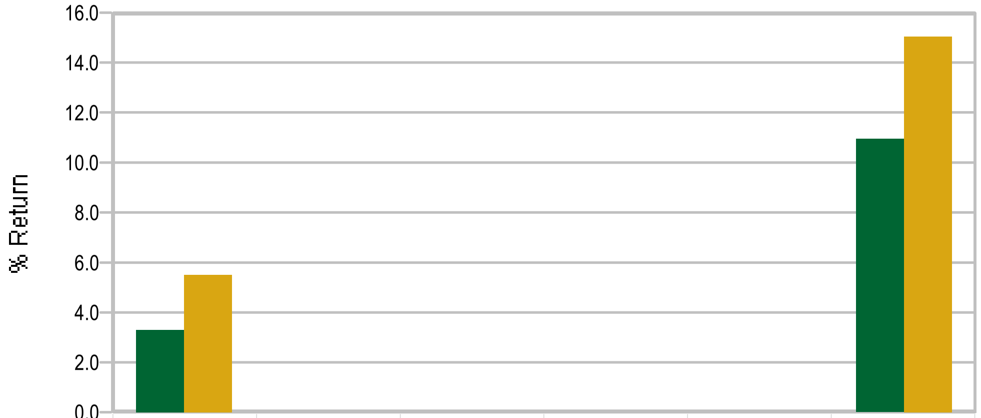
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-	-	-	-	-	-	-	-	-	-4.04	0.54	-5.75
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Newton

Historical Plan Performance

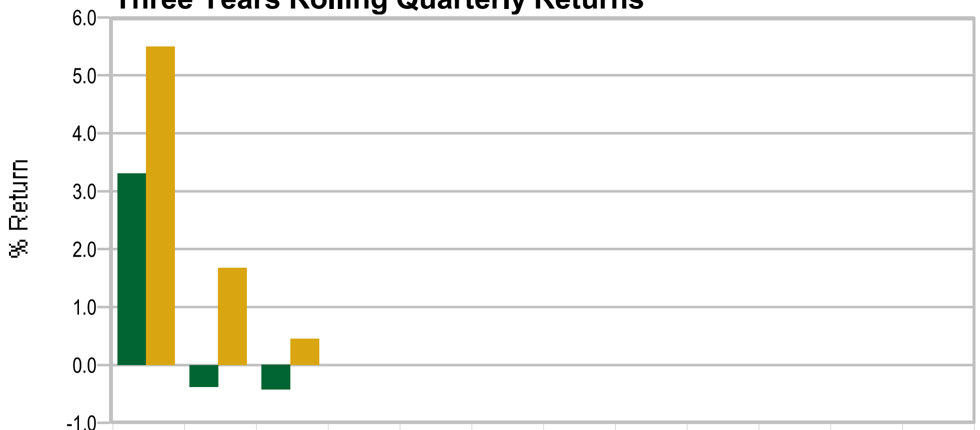


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.31	-	-	-	-	10.94
Benchmark	5.50	-	-	-	-	15.03

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	3.3	
Inception Date	Jan-2013	
Opening Market Value (£000)	22,637	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	749	
Closing Market Value (£000)	23,386	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	3.31	-0.38	-0.42	-	-	-	-	-	-	-	-	-
Benchmark	5.50	1.68	0.46	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-	-	-	-	-	-	-	-	1.41	-0.88	-2.02	-2.08
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

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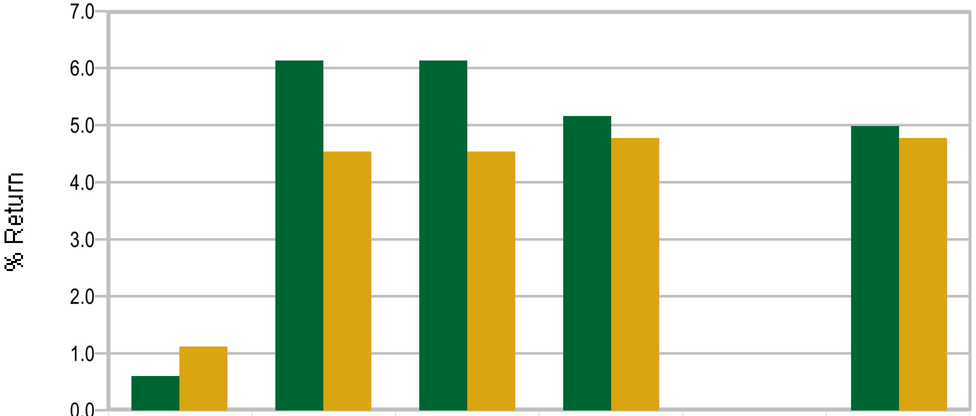
M&G Investments

Historical Plan Performance

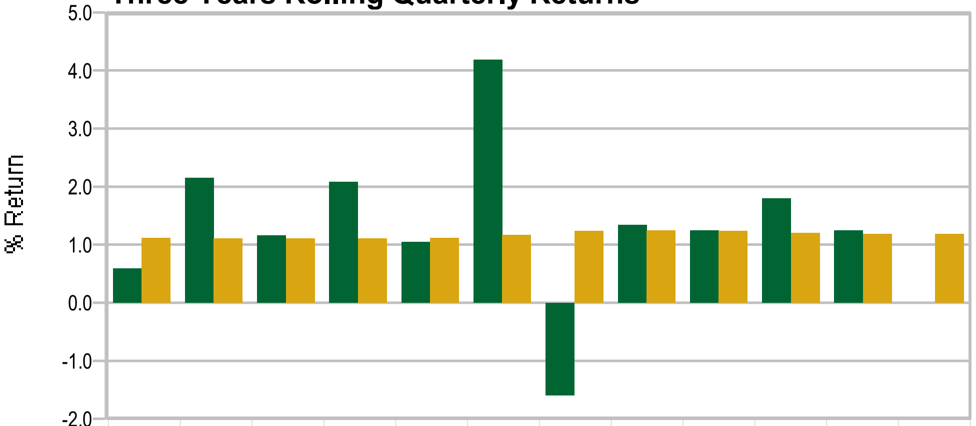


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.60	6.13	6.13	5.16	-	4.99
Benchmark	1.12	4.53	4.53	4.77	-	4.77

Risk Statistics - 3 years

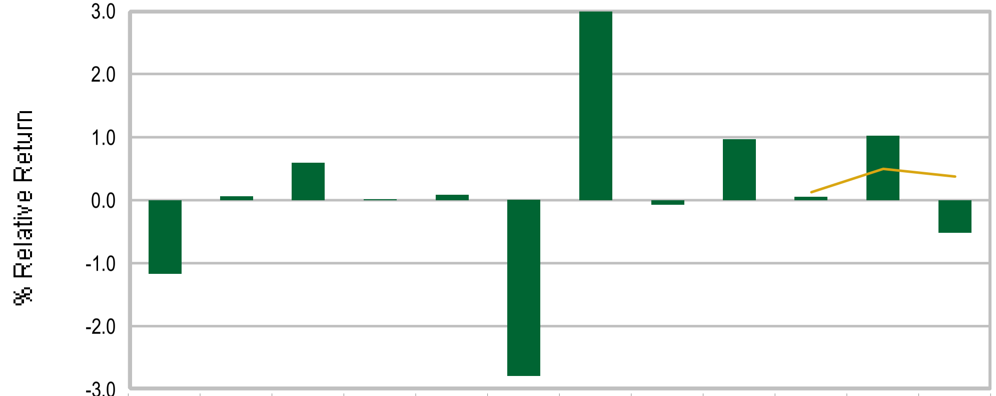
	Fund	B'mark
Performance Return	5.16	4.77
Standard Deviation	2.70	0.06
Relative Return	0.38	
Tracking Error	2.71	
Information Ratio	0.15	
Beta	1.97	
Alpha	-3.06	
R Squared	0.00	
Sharpe Ratio	1.52	61.12
Percentage of Total Fund	3.4	
Inception Date	May-2010	
Opening Market Value (£000)	22,253	
Net Investment £(000)	1,972	
Income Received £(000)	-0	
Appreciation £(000)	145	
Closing Market Value (£000)	24,370	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	0.60	2.15	1.16	2.09	1.05	4.19	-1.59	1.34	1.25	1.80	1.25	0.00
Benchmark	1.12	1.12	1.11	1.11	1.12	1.17	1.23	1.25	1.24	1.21	1.19	1.18

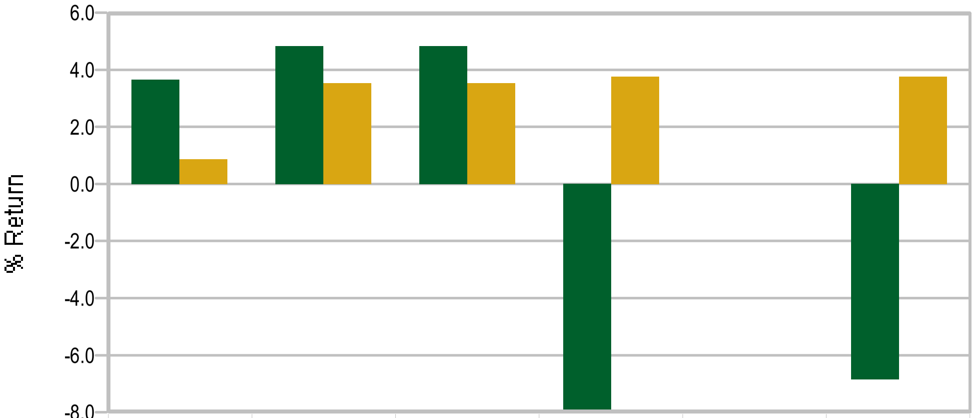
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-1.17	0.06	0.59	0.01	0.08	-2.79	2.99	-0.07	0.97	0.05	1.03	-0.51
3Y Relative	-	-	-	-	-	-	-	-	-	0.13	0.50	0.38

Macquarie

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.65	4.83	4.83	-7.91	-	-6.84
Benchmark	0.87	3.53	3.53	3.76	-	3.76

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	-7.91	3.76
Standard Deviation	12.00	0.06
Relative Return	-11.24	
Tracking Error	12.01	
Information Ratio	-0.97	
Beta	40.96	
Alpha	-70.86	
R Squared	0.07	
Sharpe Ratio	-0.75	44.55
Percentage of Total Fund	0.8	
Inception Date	Sep-2010	
Opening Market Value (£000)	6,613	
Net Investment £(000)	-895	
Income Received £(000)	-0	
Appreciation £(000)	253	
Closing Market Value (£000)	5,971	

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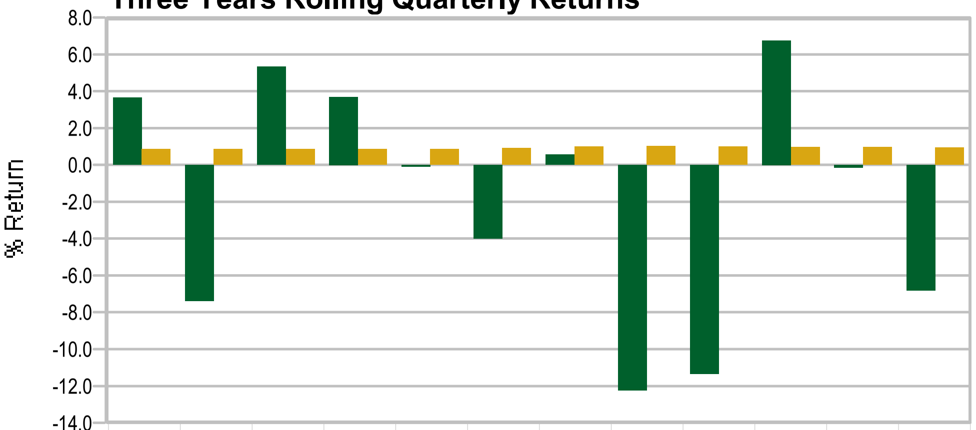
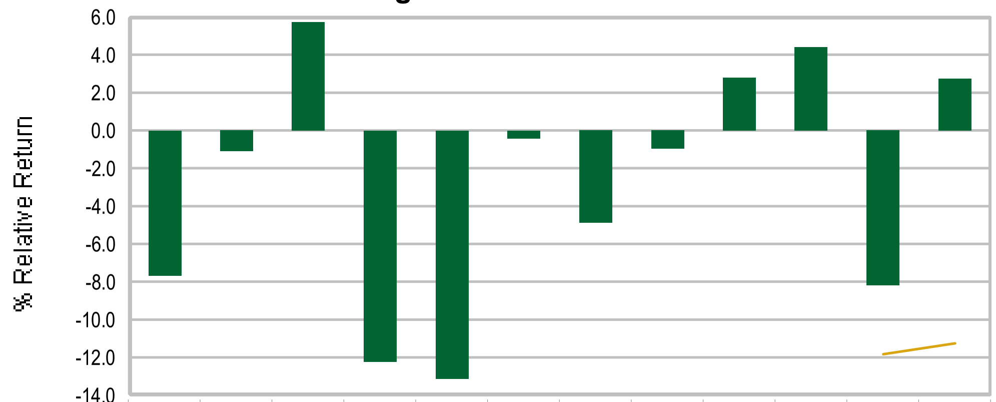
Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	3.65	-7.37	5.31	3.69	-0.10	-4.01	0.56	-12.25	-11.35	6.74	-0.16	-6.81
Benchmark	0.87	0.87	0.87	0.87	0.88	0.93	0.99	1.01	1.00	0.96	0.95	0.94

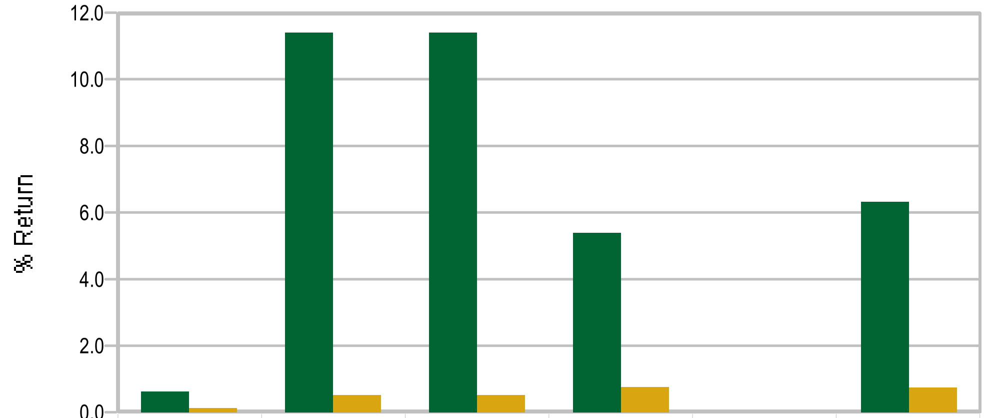
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-7.68	-1.09	5.73	-12.22	-13.12	-0.43	-4.89	-0.96	2.79	4.40	-8.17	2.75
3Y Relative	-	-	-	-	-	-	-	-	-	-	-11.82	-11.24

Ruffer

Historical Plan Performance

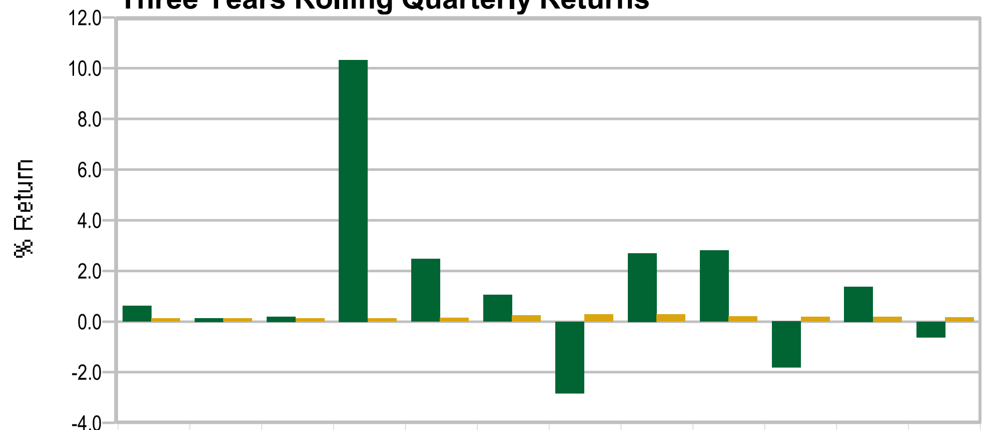


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.62	11.40	11.40	5.40	-	6.33
Benchmark	0.13	0.52	0.52	0.76	-	0.75

Risk Statistics - 3 years

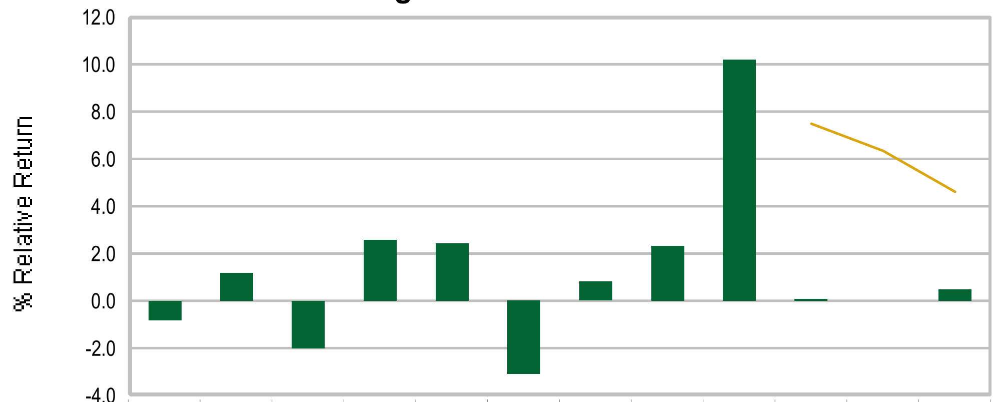
	Fund	B'mark
Performance Return	5.40	0.76
Standard Deviation	5.41	0.07
Relative Return	4.60	
Tracking Error	5.43	
Information Ratio	0.85	
Beta	23.89	
Alpha	11.79	
R Squared	0.09	
Sharpe Ratio	0.80	-4.26
Percentage of Total Fund	11.8	
Inception Date	May-2010	
Opening Market Value (£000)	84,242	
Net Investment £(000)	-1	
Income Received £(000)	284	
Appreciation £(000)	242	
Closing Market Value (£000)	84,767	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	0.62	0.14	0.20	10.33	2.49	1.06	-2.83	2.70	2.81	-1.82	1.39	-0.64
Benchmark	0.13	0.13	0.13	0.13	0.15	0.26	0.28	0.28	0.22	0.19	0.20	0.18

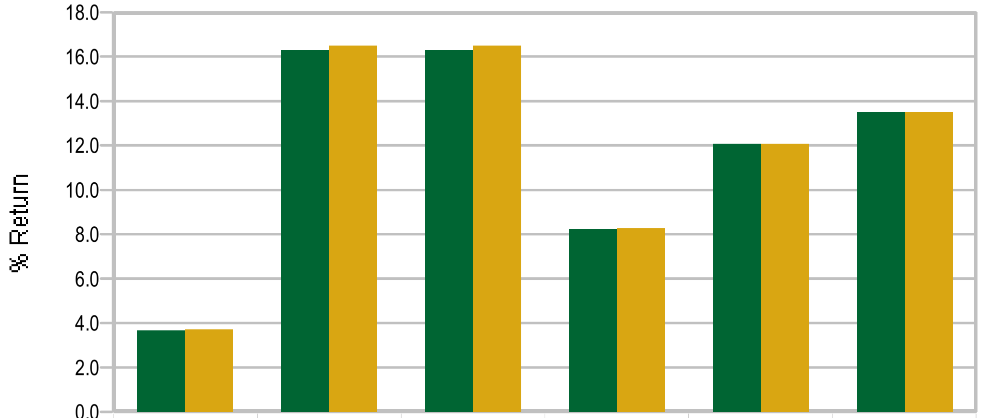
Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-0.82	1.18	-2.01	2.58	2.42	-3.10	0.80	2.33	10.19	0.08	0.01	0.49
3Y Relative	-	-	-	-	-	-	-	-	-	7.48	6.34	4.60

SSGA

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.68	16.29	16.29	8.25	12.06	13.50
Benchmark	3.72	16.48	16.48	8.26	12.07	13.49

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	8.25	8.26
Standard Deviation	9.06	9.14
Relative Return	-0.01	
Tracking Error	0.16	
Information Ratio	-0.09	
Beta	0.99	
Alpha	0.04	
R Squared	1.00	
Sharpe Ratio	0.79	0.79
Percentage of Total Fund	20.0	
Inception Date	Nov-2008	
Opening Market Value (£000)	138,355	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	5,092	
Closing Market Value (£000)	143,447	

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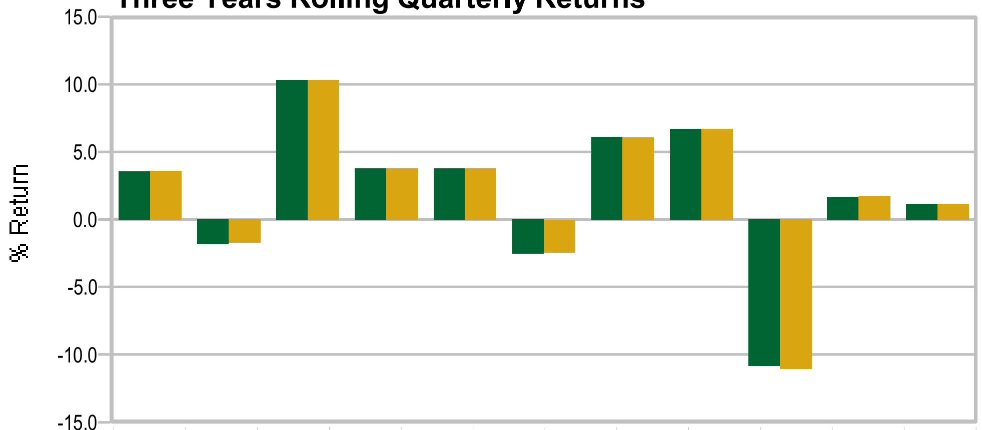
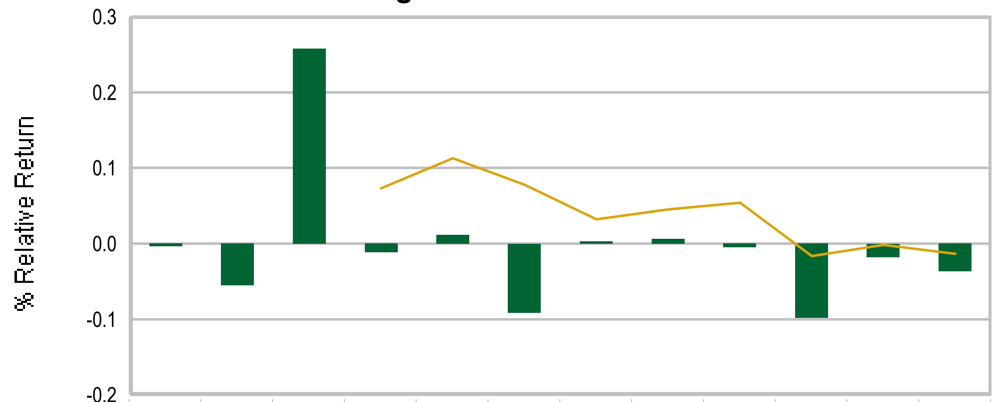
Three Years Rolling Quarterly Returns



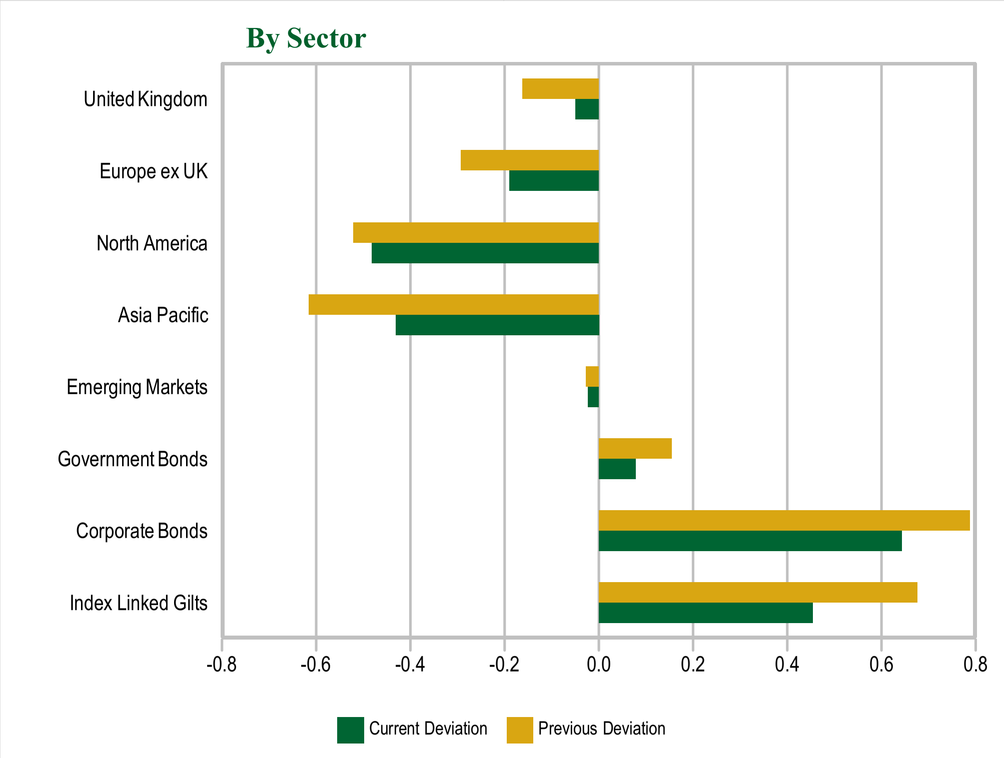
	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	3.68	3.57	-1.83	10.32	3.80	3.77	-2.53	6.11	6.71	-10.84	1.69	1.19
Benchmark	3.72	3.59	-1.73	10.32	3.79	3.77	-2.44	6.09	6.73	-11.07	1.75	1.20

Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-0.00	-0.06	0.26	-0.01	0.01	-0.09	0.00	0.01	-0.01	-0.10	-0.02	-0.04
3Y Relative	-	-	-	0.07	0.11	0.08	0.03	0.05	0.05	-0.02	-0.00	-0.01

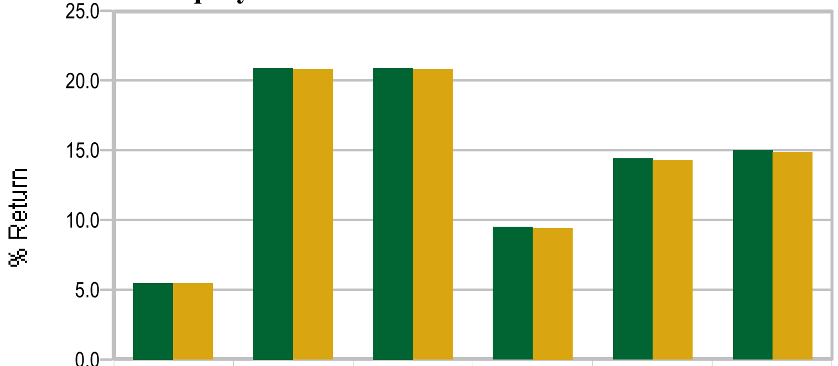
SSGA



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
United Kingdom	44.03	43.92	44.08	-0.05	44.08	-0.16
Europe ex UK	11.06	10.96	11.25	-0.19	11.25	-0.29
North America	10.96	10.92	11.44	-0.48	11.44	-0.52
Asia Pacific	11.06	10.87	11.49	-0.43	11.49	-0.62
Emerging Markets	2.96	2.95	2.98	-0.02	2.98	-0.03
Government Bonds	1.45	1.52	1.37	0.08	1.37	0.15
Corporate Bonds	8.48	8.63	7.84	0.64	7.84	0.79
Index Linked Gilts	10.00	10.23	9.55	0.45	9.55	0.68

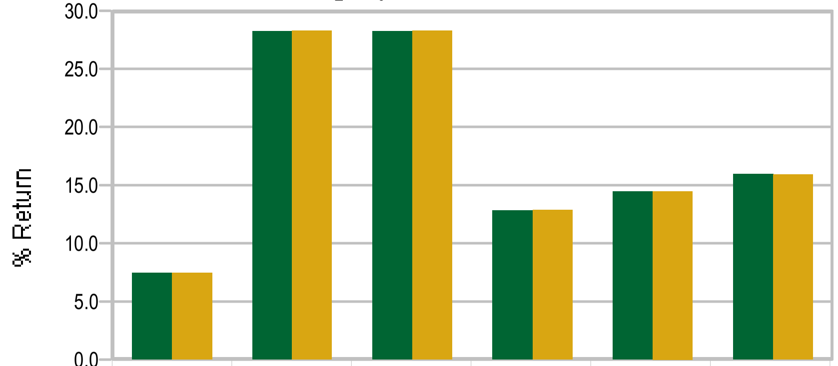
SSGA

UK Equity



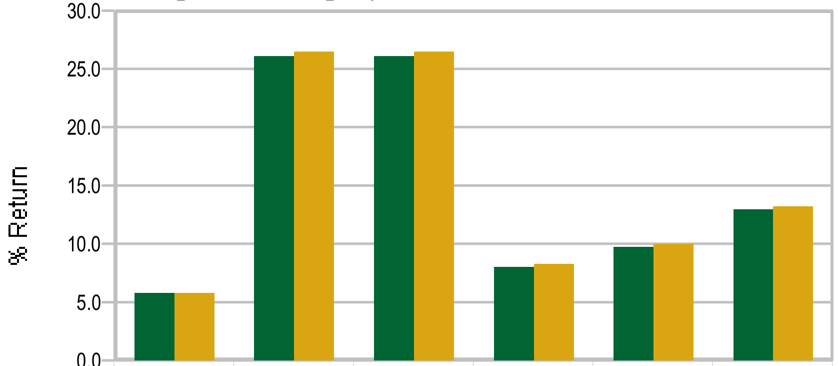
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.48	20.89	20.89	9.51	14.41	15.00
B'Mark	5.46	20.81	20.81	9.41	14.31	14.87

North America Equity



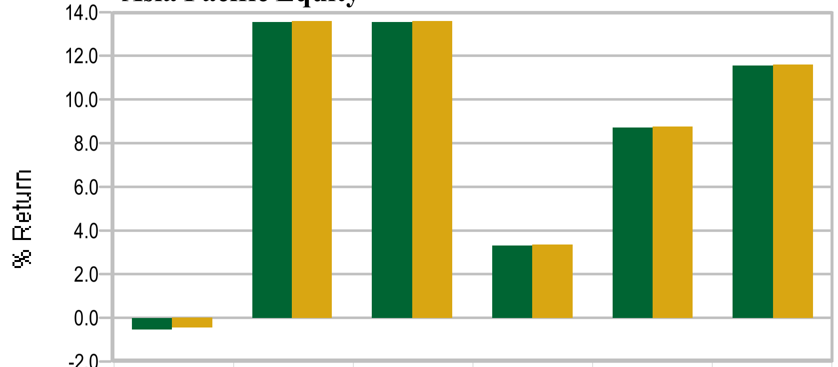
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	7.46	28.23	28.23	12.85	14.46	15.95
B'Mark	7.48	28.30	28.30	12.87	14.48	15.92

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.78	26.11	26.11	8.00	9.72	12.96
B'Mark	5.79	26.47	26.47	8.28	9.98	13.19

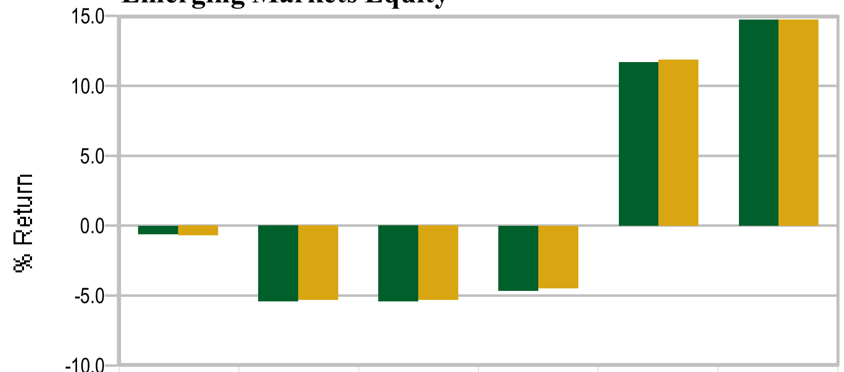
Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.52	13.55	13.55	3.30	8.71	11.55
B'Mark	-0.45	13.59	13.59	3.35	8.75	11.60

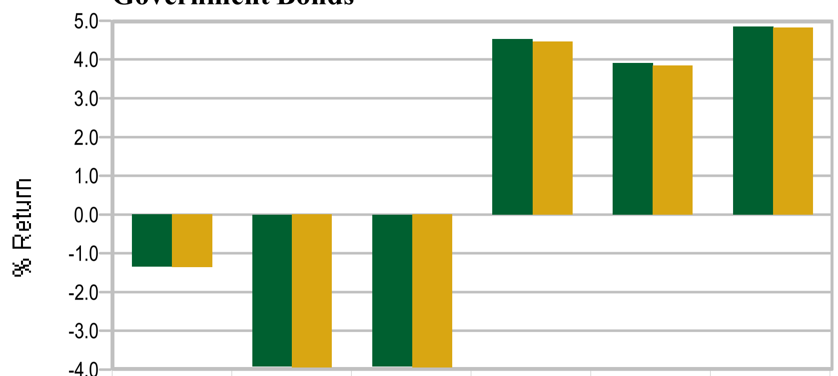
SSGA

Emerging Markets Equity



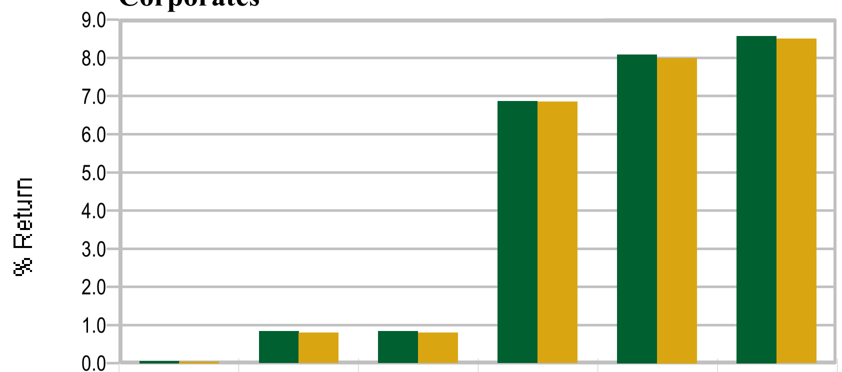
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.61	-5.44	-5.44	-4.64	11.70	14.70
B'Mark	-0.69	-5.29	-5.29	-4.47	11.86	14.74

Government Bonds



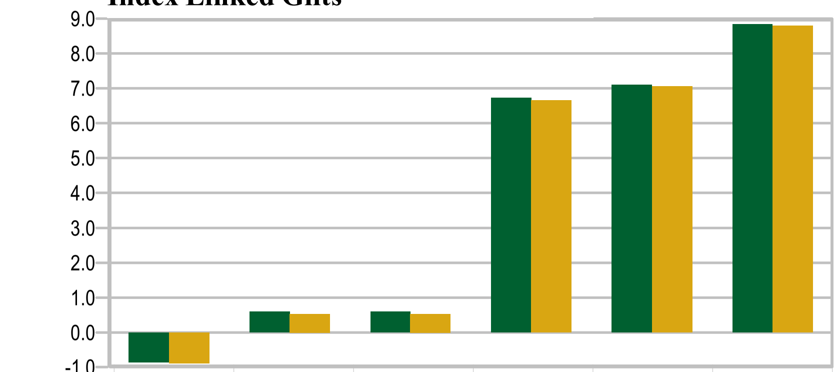
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-1.34	-3.92	-3.92	4.52	3.91	4.85
B'Mark	-1.35	-3.94	-3.94	4.47	3.85	4.83

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.07	0.84	0.84	6.86	8.09	8.58
B'Mark	0.05	0.79	0.79	6.85	8.00	8.50

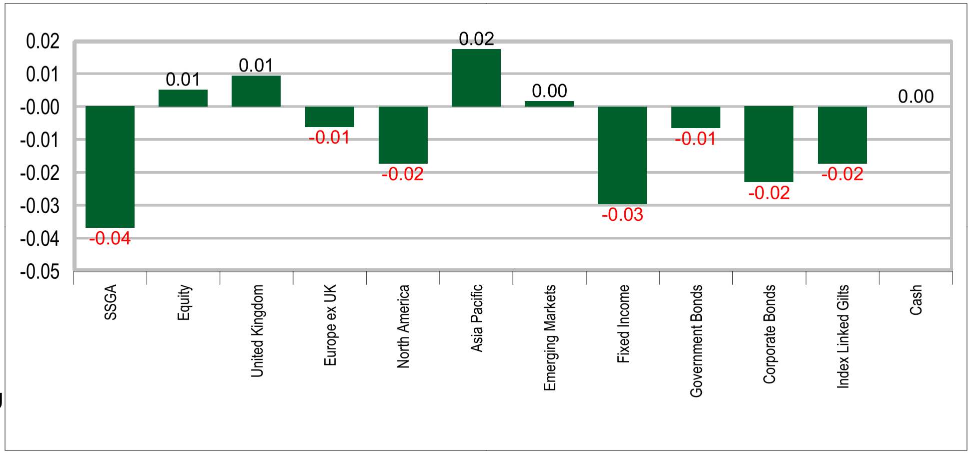
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.86	0.60	0.60	6.73	7.11	8.84
B'Mark	-0.89	0.54	0.54	6.66	7.06	8.79

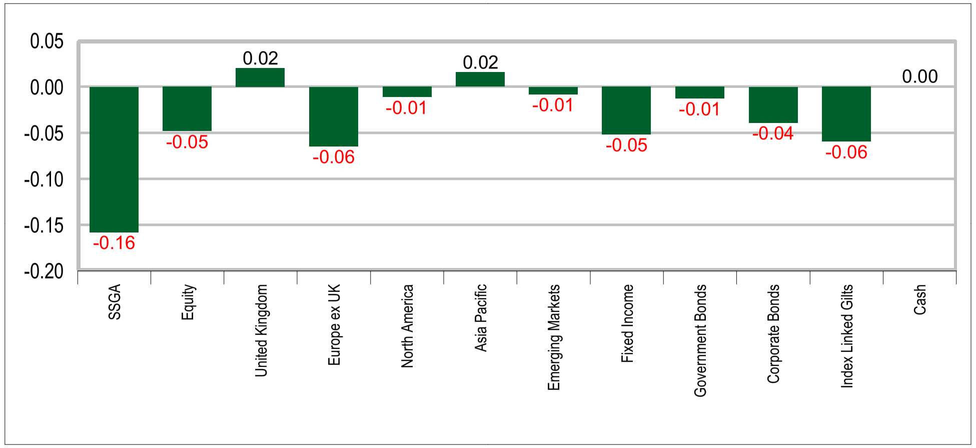
SSGA

Relative Contribution - Three Months



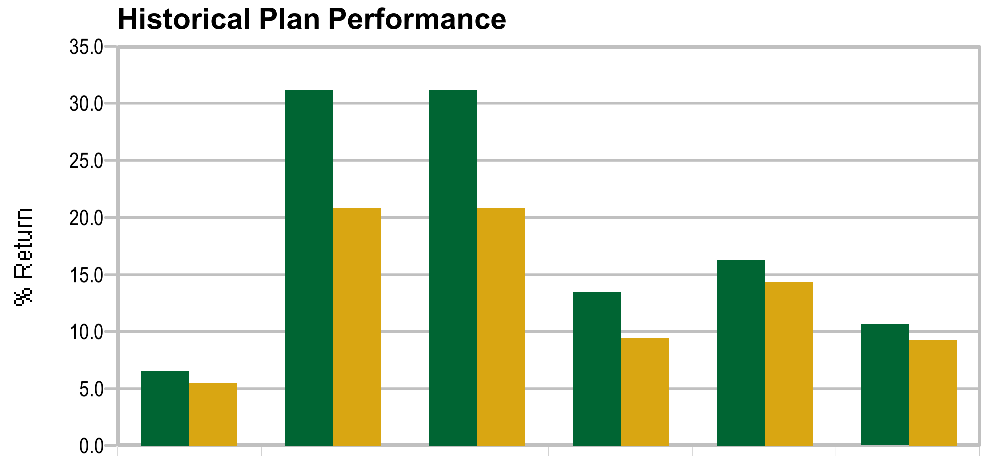
	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA	3.68	3.72	-0.04	-0.05	0.00	-0.04
Equity	4.74	-	4.74	0.01	-0.00	0.01
United Kingdom	5.48	5.46	0.02	0.00	0.01	0.01
Europe ex UK	5.78	5.79	-0.01	-0.01	-0.00	-0.01
North America	7.46	7.48	-0.02	-0.02	-0.00	-0.02
Asia Pacific	-0.52	-0.45	-0.08	0.03	-0.01	0.02
Emerging Markets	-0.61	-0.69	0.08	-0.00	0.00	0.00
Fixed Income	-0.15	-	-0.15	-0.03	0.00	-0.03
Government Bonds	-1.34	-1.35	0.01	-0.01	0.00	-0.01
Corporate Bonds	0.07	0.05	0.02	-0.02	0.00	-0.02
Index Linked Gilts	-0.86	-0.89	0.03	-0.02	0.00	-0.02
Cash	-	-	0.00	0.00	0.00	0.00

Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA	16.29	16.48	-0.16	-0.16	0.00	-0.16
Equity	20.55	-	20.55	-0.04	-0.01	-0.05
United Kingdom	20.89	20.81	0.07	-0.01	0.03	0.02
Europe ex UK	26.11	26.47	-0.29	-0.03	-0.03	-0.06
North America	28.23	28.30	-0.06	-0.01	-0.01	-0.01
Asia Pacific	13.63	13.59	0.04	0.01	0.01	0.02
Emerging Markets	-5.45	-5.29	-0.17	-0.00	-0.00	-0.01
Fixed Income	0.12	-	0.12	-0.06	0.00	-0.05
Government Bonds	-3.92	-3.94	0.03	-0.01	0.00	-0.01
Corporate Bonds	0.84	0.79	0.05	-0.04	0.00	-0.04
Index Linked Gilts	0.60	0.54	0.06	-0.06	0.01	-0.06
Cash	-	-	0.00	0.00	0.00	0.00

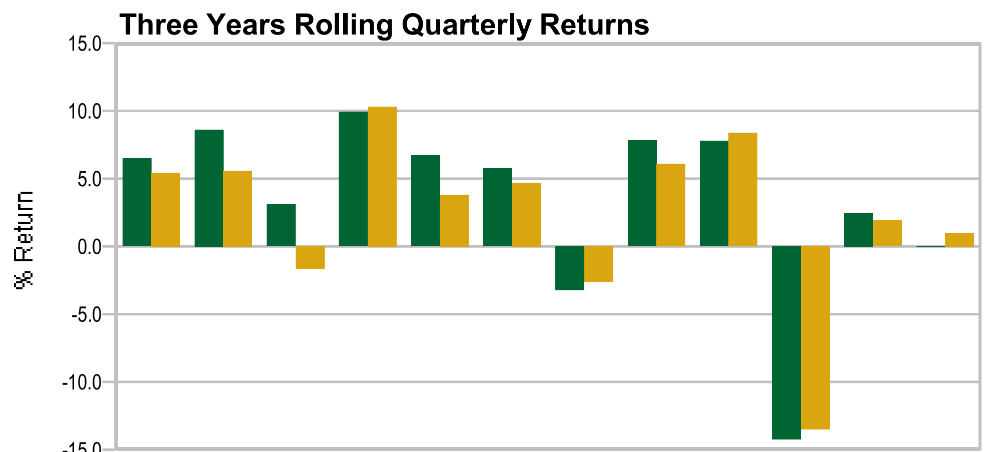
UBS



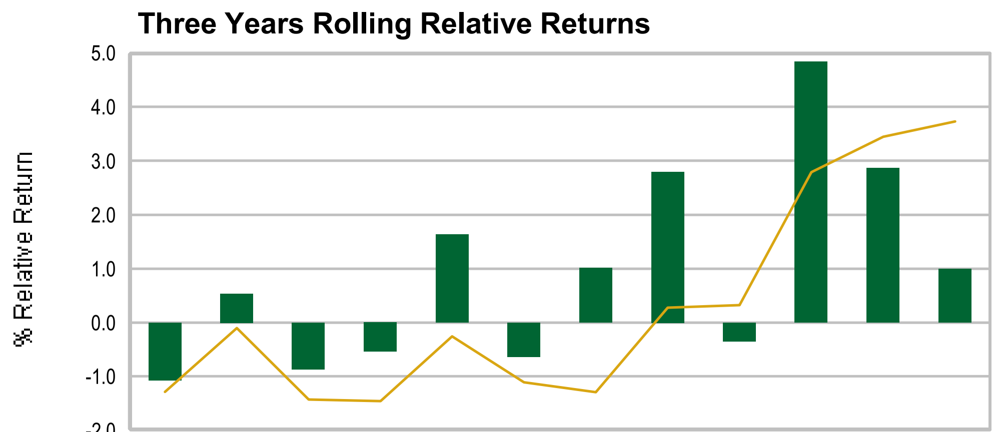
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.51	31.12	31.12	13.49	16.27	10.61
Benchmark	5.46	20.81	20.81	9.41	14.31	9.21

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	13.49	9.41
Standard Deviation	12.72	11.53
Relative Return	3.73	
Tracking Error	3.52	
Information Ratio	1.16	
Beta	1.06	
Alpha	3.35	
R Squared	0.93	
Sharpe Ratio	0.98	0.73
Percentage of Total Fund	20.2	
Inception Date	Dec-1988	
Opening Market Value (£000)	136,435	
Net Investment £(000)	0	
Income Received £(000)	970	
Appreciation £(000)	7,906	
Closing Market Value (£000)	145,311	

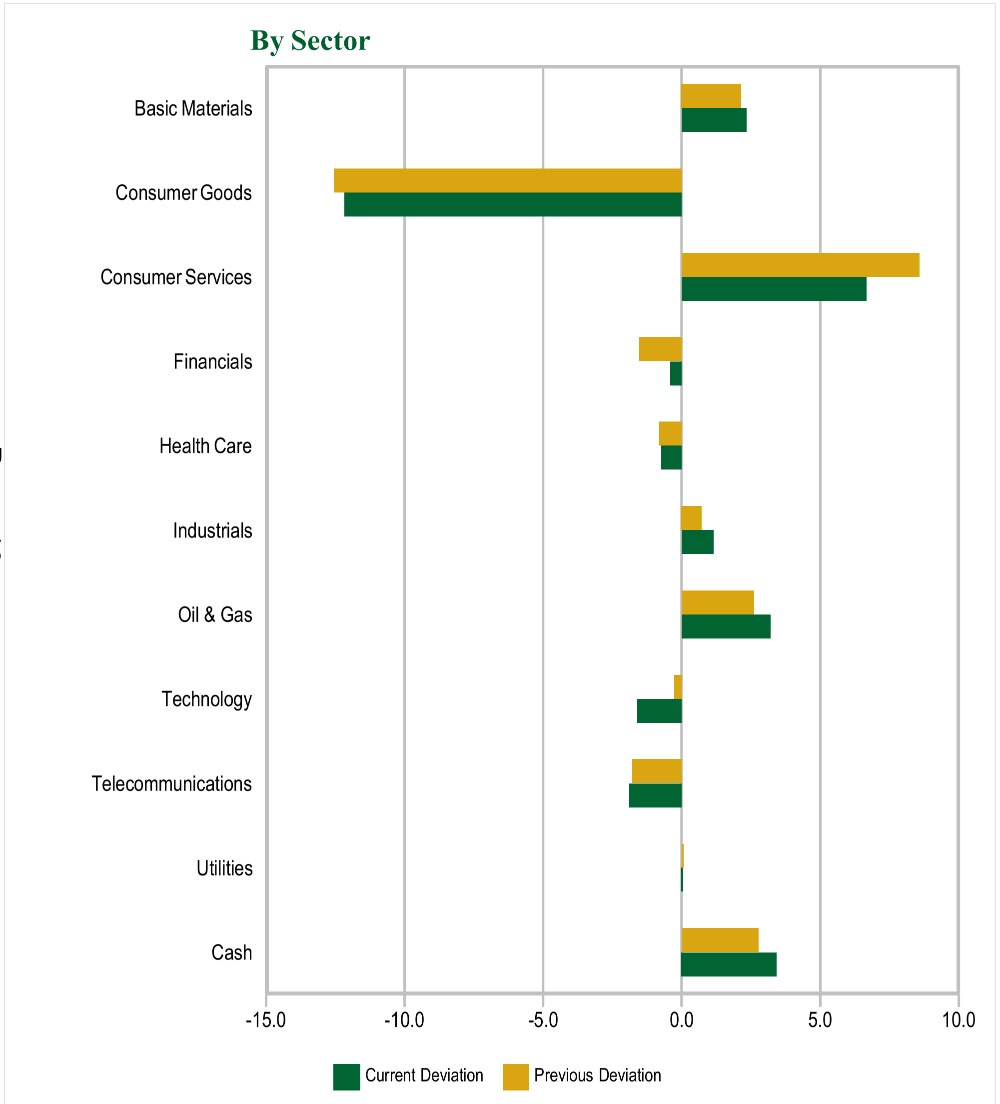


	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	6.51	8.61	3.10	9.94	6.73	5.75	-3.25	7.84	7.80	-14.25	2.46	-0.05
Benchmark	5.46	5.58	-1.66	10.32	3.82	4.70	-2.63	6.10	8.39	-13.50	1.91	1.03



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-1.07	0.54	-0.87	-0.54	1.63	-0.64	1.01	2.80	-0.35	4.84	2.87	0.99
3Y Relative	-1.29	-0.11	-1.43	-1.46	-0.26	-1.11	-1.29	0.28	0.32	2.79	3.44	3.73

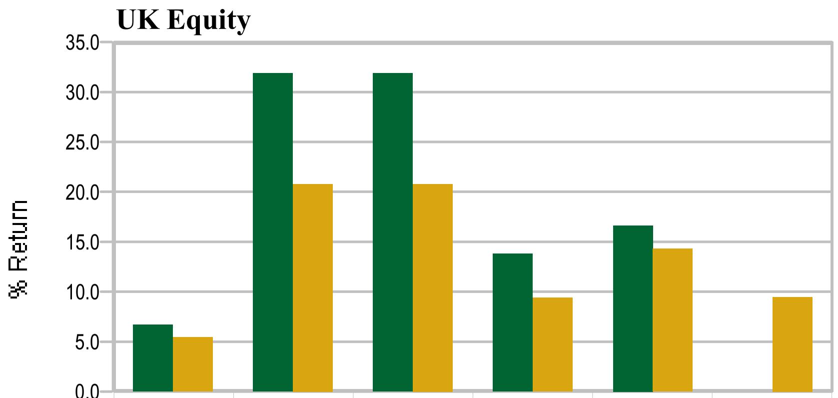
UBS



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	10.12	10.34	7.78	2.34	8.19	2.15
Consumer Goods	1.10	1.06	13.27	-12.17	13.61	-12.54
Consumer Services	17.35	19.22	10.69	6.66	10.64	8.57
Financials	23.50	22.49	23.92	-0.43	24.02	-1.54
Health Care	6.53	6.34	7.27	-0.74	7.15	-0.81
Industrials	11.41	10.74	10.26	1.15	10.02	0.72
Oil & Gas	17.59	16.76	14.40	3.19	14.15	2.61
Technology		1.32	1.61	-1.61	1.59	-0.26
Telecommunications	5.37	5.14	7.26	-1.88	6.92	-1.78
Utilities	3.58	3.78	3.53	0.05	3.71	0.07
Cash	3.42	2.78		3.42		2.78

UBS

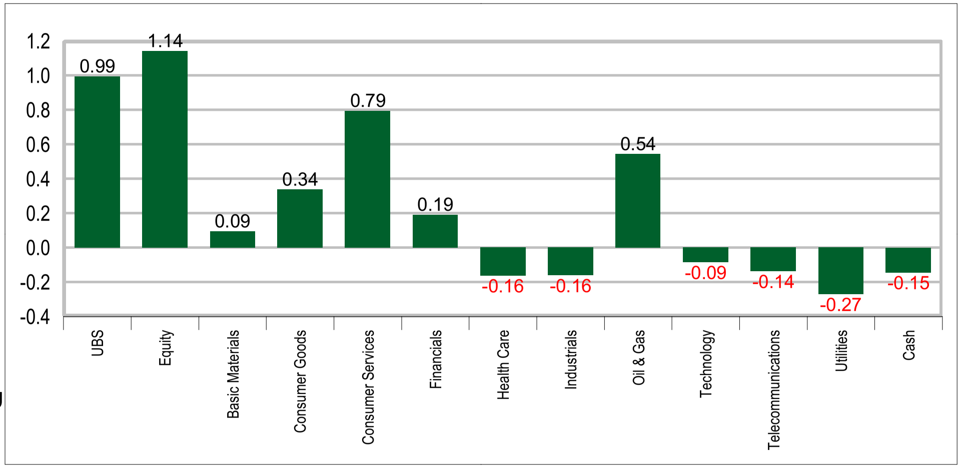
UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	6.69	31.89	31.89	13.80	16.64	-
B'Mark	5.46	20.81	20.81	9.41	14.31	9.48

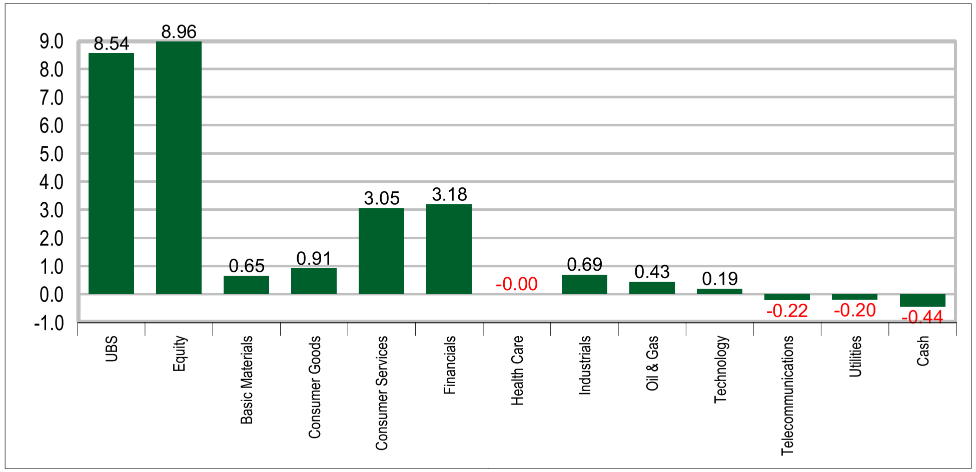
UBS

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	6.51	5.46	0.99	-0.06	1.05	0.99
Equity	6.69	5.46	1.17	0.09	1.05	1.14
Basic Materials	2.40	0.37	2.02	-0.10	0.20	0.09
Consumer Goods	9.66	3.19	6.27	0.27	0.07	0.34
Consumer Services	10.11	5.32	4.55	-0.00	0.80	0.79
Financials	5.24	4.40	0.80	0.00	0.19	0.19
Health Care	6.14	8.48	-2.16	-0.02	-0.15	-0.16
Industrials	4.50	6.18	-1.58	0.01	-0.17	-0.16
Oil & Gas	11.17	8.20	2.74	0.08	0.47	0.54
Technology	0.26	7.53	-6.76	-0.03	-0.06	-0.09
Telecommunications	11.36	11.94	-0.53	-0.11	-0.03	-0.14
Utilities	-6.26	1.07	-7.25	-0.00	-0.27	-0.27
Cash	0.06	-	0.06	-0.15	0.00	-0.15

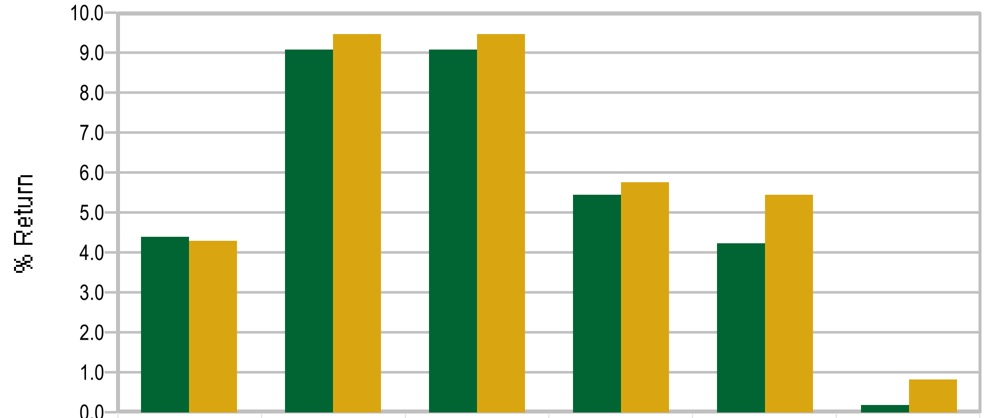
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	31.12	20.81	8.54	0.89	7.52	8.54
Equity	31.89	20.81	9.18	1.33	7.52	8.96
Basic Materials	-7.68	-10.45	3.09	0.27	0.38	0.65
Consumer Goods	73.74	17.16	48.29	0.38	0.53	0.91
Consumer Services	48.75	33.49	11.43	0.95	2.08	3.05
Financials	40.33	20.92	16.05	-0.05	3.23	3.18
Health Care	27.86	30.69	-2.17	0.09	-0.09	-0.00
Industrials	40.12	33.65	4.84	0.16	0.53	0.69
Oil & Gas	15.95	11.88	3.64	-0.21	0.64	0.43
Technology	52.68	31.92	15.74	-0.04	0.23	0.19
Telecommunications	62.63	62.06	0.35	-0.23	0.01	-0.22
Utilities	6.69	12.51	-5.17	0.01	-0.20	-0.20
Cash	0.57	-	0.57	-0.44	0.00	-0.44

UBS Property

Historical Plan Performance



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.39	9.07	9.07	5.44	4.23	0.19
Benchmark	4.30	9.46	9.46	5.75	5.44	0.83

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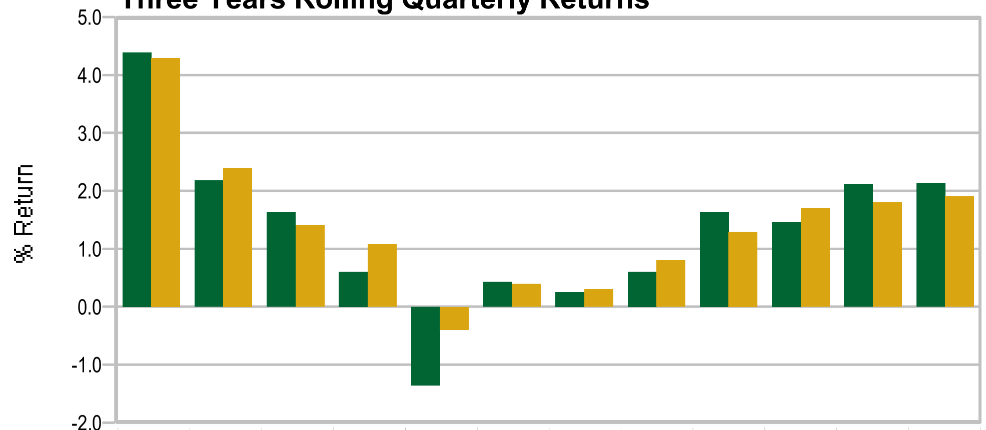
Risk Statistics - 3 years

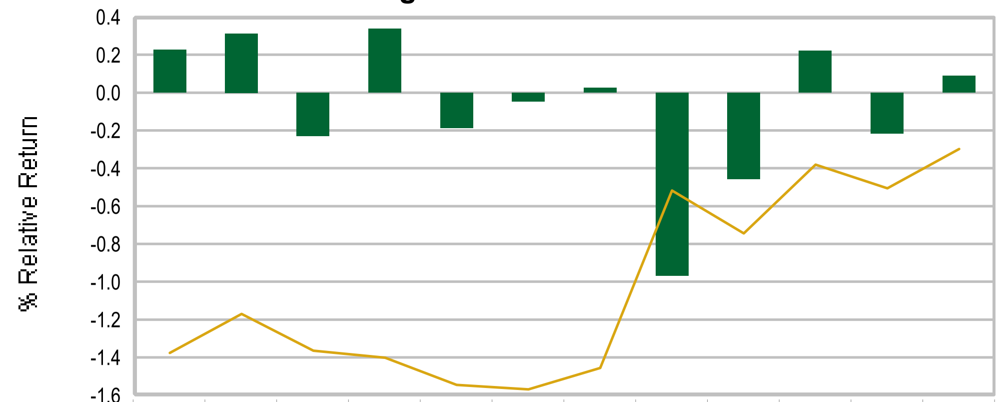
Risk Statistics - 3 years	Fund	B'mark
Performance Return	5.44	5.75
Standard Deviation	2.26	1.42
Relative Return	-0.30	
Tracking Error	1.48	
Information Ratio	-0.21	
Beta	1.19	
Alpha	-1.16	
R Squared	0.59	
Sharpe Ratio	1.94	3.31
Percentage of Total Fund	7.4	
Inception Date	Mar-2006	
Opening Market Value (£000)	51,141	
Net Investment £(000)	0	
Income Received £(000)	548	
Appreciation £(000)	1,699	
Closing Market Value (£000)	53,388	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	4.39	2.18	1.63	0.61	-1.36	0.43	0.25	0.61	1.64	1.47	2.12	2.13
Benchmark	4.30	2.40	1.40	1.07	-0.40	0.40	0.30	0.80	1.30	1.70	1.80	1.90

Three Years Rolling Relative Returns



	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	0.23	0.31	-0.23	0.34	-0.19	-0.05	0.03	-0.97	-0.46	0.22	-0.22	0.09
3Y Relative	-1.38	-1.17	-1.36	-1.40	-1.55	-1.57	-1.46	-0.52	-0.74	-0.38	-0.51	-0.30

UBS Tactical

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.93	-	-	-	-	-15.25
Benchmark	-4.34	-	-	-	-	-9.83

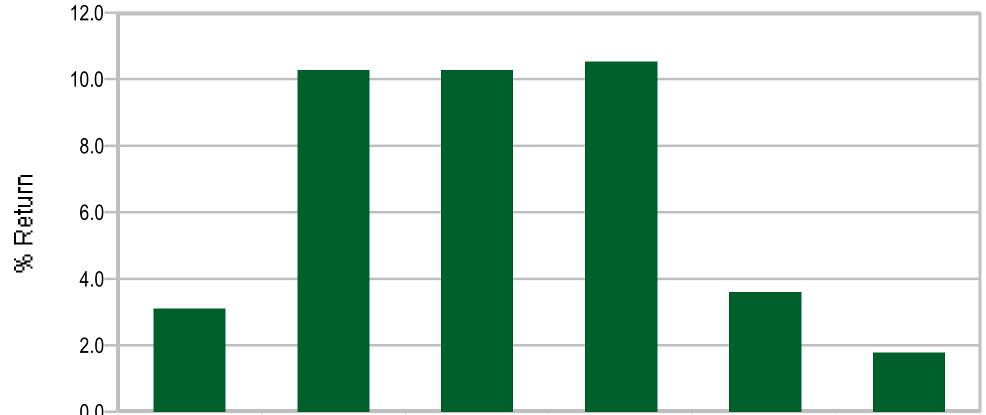
Risk Statistics - 3 years	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	1.7	
Inception Date	Jun-2013	
Opening Market Value (£000)	12,966	
Net Investment £(000)	-20	
Income Received £(000)	27	
Appreciation £(000)	-1,054	
Closing Market Value (£000)	11,919	

	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	-7.93	-7.94	-	-	-	-	-	-	-	-	-	-
Benchmark	-4.34	-5.74	-	-	-	-	-	-	-	-	-	-

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
3M Relative	-	-	-	-	-	-	-	-	-	-	-2.33	-3.76
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Adam Street

Historical Plan Performance

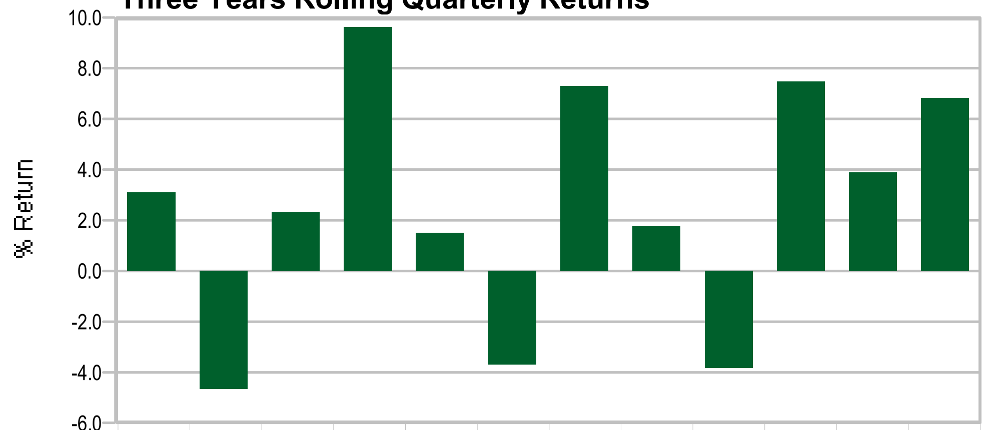


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.11	10.27	10.27	10.53	3.60	1.78

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	10.53	
Standard Deviation	11.36	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	0.93	
Percentage of Total Fund	2.9	
Inception Date	Jan-2005	
Opening Market Value (£000)	20,805	
Net Investment £(000)	-600	
Income Received £(000)	4	
Appreciation £(000)	625	
Closing Market Value (£000)	20,834	

Three Years Rolling Quarterly Returns

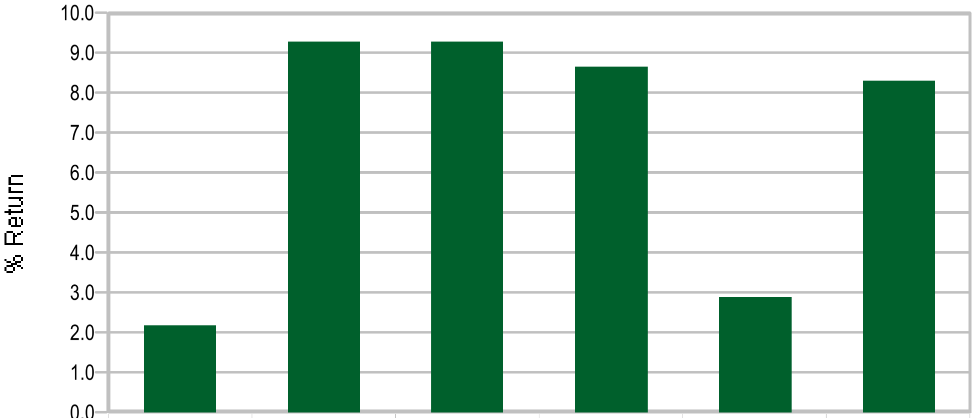


	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	3.11	-4.65	2.32	9.62	1.51	-3.70	7.29	1.76	-3.83	7.48	3.89	6.83

Three Years Rolling Relative Returns

LGT

Historical Plan Performance

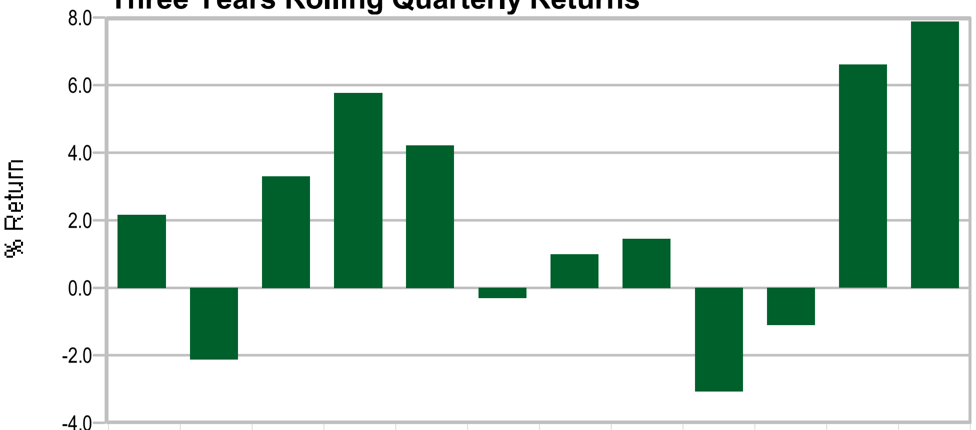


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.17	9.27	9.27	8.65	2.89	8.30

Risk Statistics - 3 years

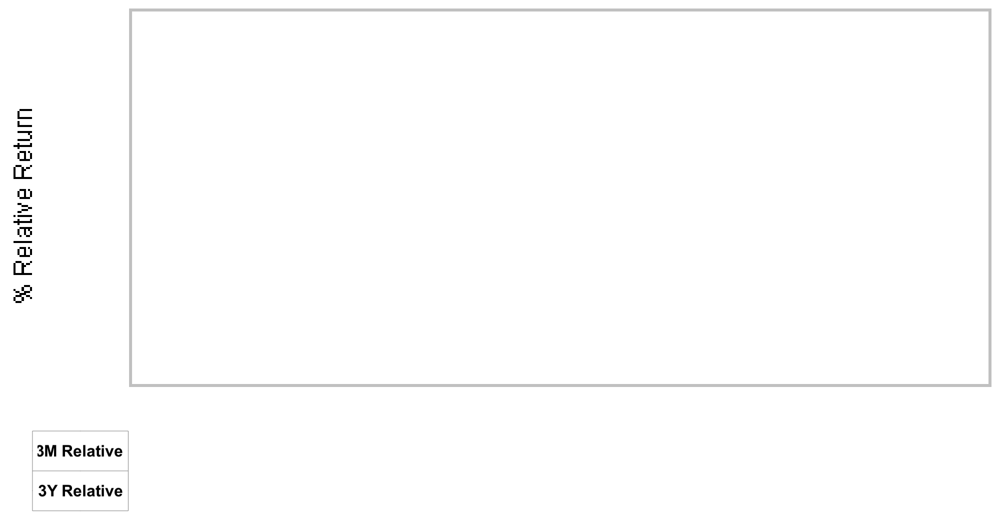
	Fund	B'mark
Performance Return	8.65	
Standard Deviation	7.47	
Relative Return	0.34	
Tracking Error	10.55	
Information Ratio	0.04	
Beta	0.26	
Alpha	5.72	
R Squared	0.14	
Sharpe Ratio	1.02	
Percentage of Total Fund	2.2	
Inception Date	May-2004	
Opening Market Value (£000)	16,313	
Net Investment £(000)	-621	
Income Received £(000)	0	
Appreciation £(000)	354	
Closing Market Value (£000)	16,046	

Three Years Rolling Quarterly Returns



	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Fund	2.17	-2.13	3.30	5.78	4.22	-0.30	0.99	1.45	-3.07	-1.10	6.61	7.88

Three Years Rolling Relative Returns



Total Plan Benchmark

26.8 FTSE All Share
2.2 FTSE AW North America
2.2 FTSE AW Developed Europe ex UK
2.2 FTSE AW Developed Asia Pacific
0.6 FTSE All World All Emerging
2.3 FTSE Index Linked Gilts
4.7 BC Sterling Aggregate 100mm Non Gilts
7.2 IPD UK PPFI All Balanced Funds Index
3.4 FTSE World Index +2%
6.0 MSCI All Countries World Index
24.6 LIBOR 3 Month + 3%
1.9 FT 7 Day LIBID
9.0 LIBOR 3 Month + 4%
6.9 MSCI World Index +2%

Barings

100.0 LIBOR 3 Month + 4%

JP Morgan

100.0 LIBOR 3 Month + 3%

Kempen

100.0 MSCI All World Index +2%

Macquarie

100.0 LIBOR 3 Month + 3%

M&G Investments

100.0 LIBOR 3 Month + 4%

Newton

100.0 FTSE World Index +2%

Ruffer

100.0 3 Month Sterling LIBOR

SSGA

44.0 FTSE All Share
11.0 FTSE World North America
11.0 FTSE World Europe ex UK
11.0 FTSE Pacific Basin ex Japan
3.0 FTSE All World All Emerging
1.5 FTSE Gilts All Stocks
10.0 FTSE Index Linked Gilts
8.5 ML Sterling Non-Gilts

SSGA Drawdown

50.0 ML Sterling Non-Gilts
50.0 FT 7 Day LIBID

UBS

100.0 FTSE All Share

UBS Property

100.0 IPD UK PPFI All Balanced Funds Index

Tracking Error

$$\sigma_{ER} = \sqrt{\frac{\sum (ER_t - \overline{ER})^2}{T}} \quad \text{for t=1 to T}$$

Annualised tracking error $= \sigma_{ER} \times \sqrt{p}$

Where	**Equals**
ER	Excess return (Portfolio Return minus Benchmark Return)
$\overline{ER}$	Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)
T	Number of observations
p	Periodicity (number of observations per year)

The tracking error measures the extent to which a portfolio tracks its benchmark. The higher the tracking error, the higher the variability of the portfolio returns around the benchmark. The tracking error will always be greater than zero, unless the portfolio is exactly tracking the benchmark.

Information Ratio

Information Ratio $= \dfrac{\overline{ER}}{\sigma_{ER}}$

Annualised Information Ratio = Information Ratio $\times \sqrt{p}$

Where	**Equals**
$\overline{ER}$	Arithmetic average of excess returns (Portfolio Return minus Benchmark Return)
T	Number of observations
p	Periodicity (number of observations per year)

The information ratio is a measure of risk adjusted return. The higher the information ratio, the higher the risk adjusted return.

Alpha

$$\alpha = \frac{\sum R_{yi}}{n} - \beta \frac{\sum R_{xi}}{n}$$

Where	**Equals**
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
β	Beta – measure of the sensitivity of a portfolio's rate of return against those of the market
n	Number of observations

The alpha is the value added to the portfolio by the manager – the higher the alpha, the better the manager has done in achieving excess returns.

Beta

$$\beta = \frac{n\sum R_{xi}R_{yi} - \sum R_{xi} \sum R_{yi}}{n\sum (R_{xi})^2 - (\sum R_{xi})^2}$$

Where	**Equals**
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
β	Beta – measure of the sensitivity of a portfolio's rate of return against those of the market
n	Number of observations

The portfolio's beta is calculated by comparing the portfolio's volatility to the benchmark's volatility over time. The more sensitive a portfolio's returns are to movements in the benchmark, the higher the portfolio's beta will be. A beta greater than one implies the portfolio is more volatile than the benchmark, whilst a beta less than one implies the portfolio is less volatile than the benchmark.

R-Squared

$$r^2 = \frac{(n\sum R_{xi}R_{yi} - \sum R_{xi}\sum R_{yi})}{[n\sum (R_{xi})^2 - (\sum R_{xi})^2][n\sum (R_{yi})^2 - (\sum R_{yi})^2]}$$

Where	Equals
R_{xi}	Market / Benchmark excess return (Benchmark return minus Risk Free Proxy return)
R_{yi}	Portfolio excess return (Portfolio return minus Risk Free Proxy return)
n	Number of observations

The R^2 is the square of the correlation co-efficient between the portfolio return and the benchmark return in the above equation and is a measure of the fund's sensitivity to the benchmark, i.e. the percentage of the portfolio's movement that can be explained by movement in the benchmark. The R^2 statistic ranges from 0 to 1 (or 0 to 100%) with a score of 1 indicating that all the portfolio's movement can be explained by the benchmark.

Sharpe Ratio

$$\frac{(R_{ap} - R_{af})}{\sigma_{ap}}$$

Where	Equals
R_{ap}	Annualised (portfolio) rate of return
R_{af}	Annualised risk-free rate of return
σ_{ap}	Annualised portfolio standard deviation

The Sharpe ratio measures the excess return over the risk-free rate per unit of volatility. For a given return, the lower the volatility of the portfolio, the higher the Sharpe ratio.

Price/Earnings Ratio (P/E)
Security Level Calculation:
Current price/Trailing 12 months earning per share
Description:
The price/earnings ratio is a traditional indicator of how much an investor is paying for a company's earning power. Stocks have a p/e greater than the market are usually considered to be growth stocks.

5 Year Earnings Per Share Growth Rate
Security Level Calculation:
None
Description:
This is the percentage change in the annual earning per share growth rate over the last five years of all stock in the portfolio. This measure is usually viewed as agrowth factor. A stock must have been public for at least five years to have this characteristic.

Price to Book Ratio
Security Level Calculation:
Current price/Most recent book value per share
Description:
This is usually considered to be a measure of "value", with stocks having high price to book ratios considered to be undervalued.

Dividend Yield
Security Level Calculation:
Dividend for current fiscal year/Period end closing price
Description:
This measures the annual rate that dividends are being paid by a company, including any extra dividends. High dividend yields can also be an attribute of value stocks.

Debt to Capital
Security Level Calculation:
Long term liabilties, deferred taxes, tax credits, minority interest/Sum of debt, total common equity and total preferred stock
Description:
This measure indicates the amount of leverage (debt) being used. A large debt to capital ratio is usually indicative of a highly leveraged company. Stocks having a zero value are still included in the total portfolio calculation.

Price to Sales Ratio
Security Level Calculation:
Current price/Annual sales per share
Description:
This is used primarily by value managers to identify companies having low profit margins. Value managers use this as another indicator in finding undervalued stocks with the potential for improved profitability.This measure varies in informational value by industry, as different industries have different price to sales ratio expectations.

Return on Equity
Security Level Calculation:
Net profits after taxes/Book value
Description:
This relates a company's profitabaility to it's shareholders equity. A high ROE indicates that the portfolio is invested in companies that have been profitable. This measure is also impacted by financial leverage.

Coupon Rate
Description:
The stated interest rate of a bond. It is a money weighted average for the portfolio.

Years to Maturity
Description:
The average number of years to the maturity date of all bonds held in a portfolio. Often, managers will use the weighted average life for mortgages and mortgage backed securities since most mortgages are prepaid and never reach maturity.

Macaulay Duration
Description:
The mathematical estimate of a fixed income portfolio's sensitivity to a change in interest rates, computed as the weighted average time to receipt of the portfolio's cash flows. The Macaulay duration does not take the impact of embedded options into consideration and this usually results in a higher value than the effective duration.

Yield to Maturity
Description:
This is the rate of return that is expected if a fixed income security is held to maturity. It is essentially an internal rate of return that uses the current market value and all expected interest and principal cash flows.

Moody Quality Rating
Description:
This is a measure of the quality, safety and potentail performance of a bond issue. Also indicates the creditworthiness of a security's issuer. Moody's evalutes the bond issues and assigns a code with Aaa as the highest and C as the lowest.

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Portfolio overview – Q4 2013

- Since the last report, net invested capital has decreased as the underlying managers have distributed more capital than they have invested
- Distributions as a proportion of paid-in capital have increased slightly from 0.60x to 0.63x
- Total portfolio gains now amount to Euro 8.2million, being Euro 19.3 million of NAV less Euro 11.0 million of net invested capital
- The USD weakened by 1.81% against the Euro in the period which had a negative effect on portfolio performance

Q4 2013	Net Performance (in millions of Euros)						Cash Multiple		Drawn	
	LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure	32.7	24.7	-15.5	9.1	15.8	6.7	0.63	1.27	76%	28%
Euro equivalent Dollar Exposure @ 1.3780 USD / Euro	6.0	5.0	-3.1	1.9	3.5	1.5	0.62	1.31	84%	32%
Total Exposure (in Euro millions)	**38.6**	**29.7**	**-18.6**	**11.0**	**19.3**	**8.2**	**0.63**	**1.28**	**77%**	**29%**

Q3 2013	1.3535	38.7	29.3	-17.4	11.8	19.7	7.9	0.60	1.27	76%	31%
Q2 2013	1.3001	39.0	28.8	-16.2	12.6	20.1	7.5	0.56	1.26	74%	32%
Q1 2013	1.2814	39.1	28.5	-15.2	13.3	20.7	7.4	0.53	1.26	73%	34%
Q4 2012	1.3193	38.9	28.2	-14.1	14.1	21.1	7.0	0.50	1.25	73%	36%
Q3 2012	1.2863	39.0	27.6	-13.1	14.5	21.0	6.5	0.47	1.24	71%	37%
Q2 2012	1.2686	39.1	27.4	-12.2	15.2	21.2	6.0	0.45	1.22	70%	39%
Q1 2012	1.3329	38.8	26.4	-11.9	14.5	19.9	5.3	0.45	1.20	68%	37%
Q4 2011	1.2949	39.0	25.7	-11.2	14.5	19.6	5.1	0.44	1.20	66%	37%
Q3 2011	1.3387	38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	0%	38%
Q2 2011	1.4510	38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158	38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%
Q4 2010	1.3384	38.8	22.0	-7.3	14.6	17.5	2.9	0.33	1.13	57%	38%
Q3 2010	1.3633	38.7	20.9	-7.0	13.9	16.2	2.3	0.33	1.11	54%	36%
Q2 2010	1.2257	39.4	19.7	-5.9	13.8	15.5	1.7	0.30	1.08	50%	35%
Q1 2010	1.3509	38.7	18.7	-5.7	13.0	14.2	1.2	0.31	1.06	48%	34%
Q4 2009	1.4341	38.4	18.4	-5.4	13.0	13.6	0.7	0.29	1.04	48%	34%
Q3 2009	1.4643	38.3	17.3	-5.1	12.2	12.1	0.0	0.30	1.00	45%	32%
Q2 2009	1.4033	38.5	16.9	-4.9	12.0	12.3	0.2	0.30	1.02	44%	31%

Q4 figures as of 31 December 2013

D/PI - distributions per unit of paid-in capital; TV/PI - total value per unit of paid-in capital

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London Borough of Hillingdon Pension Fund
Adams Street Partners Update: Third Quarter 2013

Market Update

The continued accommodative monetary policy stance by the US Federal Reserve and other central banks dominated the financial markets during 2013. The liquidity being pumped into the markets by central banks globally achieved its intended effect.

Public equity markets rose to peak levels over the course of 2013 and into the final months of the year, with US markets reaching record levels. As we have discussed in our preceding quarterly letters, while private equity markets have generated attractive absolute and relative returns, this performance nonetheless trailed the exceptionally strong results of the public markets in recent time periods.

As we reported in October, private equity exit activity levels continued their dramatic rebound during the year, as evidenced by the meaningful increase in distributions being generated within all Adams Street portfolios greater than even a few years old. Distributions during the year were very strong across the board, with 2013 being the fourth year in a row that distributions in our primary portfolio have outpaced capital calls by a wide margin.

Portfolio Statistics as of September 30, 2013

	Inception Date	Committed / Subscription	Drawn / Subscription	Drawn / Committed	Total Value / Drawn	IRR Since Inception*	Public Market	3Q13 Gross IRR
Total Hillingdon Portfolio	**02/2005**	**100%**	**84%**	**84%**	**1.25x**	**7.73%**	**5.28%**	**5.81%**
2005 Subscription	02/2005	100%	90%	90%	1.27x	7.49%	4.89%	5.50%
2006 Subscription	01/2006	100%	87%	87%	1.21x	6.98%	5.37%	5.49%
2007 Subscription	01/2007	100%	79%	79%	1.26x	10.27%	7.47%	5.40%
2009 Subscription	01/2009	94%	47%	50%	1.20x	17.86%	14.03%	6.84%
Direct Co-Investment Fund	09/2006	100%	96%	96%	1.15x	3.95%	2.88%	3.15%
Co-Investment Fund II	01/2009	100%	59%	59%	1.57x	33.85%	13.20%	14.84%

*Gross of client's management fees paid to Adams Street Partners, LLC.
Note: The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

A Period of Record Distributions from the Secondary Program

In private equity secondary markets the impact of these dynamics is that prospective seller portfolios tend to be under-allocated to private equity (we are experiencing the flip side of the denominator effect that the secondary buying community operated in during the previous few years post global financial crisis). In general the private equity programs of many institutions are now self-funding, with distributions exceeding contributions. Furthermore, many institutional investors still have the 2008-2009 time period fresh in their minds and have upwardly adjusted the liquidity profile of their portfolios.

Our secondary program received record distributions from underlying general partners in 2013. We have observed that over many economic cycles the secondary market transaction volume tends to be inversely correlated with levels of distribution activity. 2013 was no exception to this pattern. There was an estimated $7B that transacted market-wide in the first half of the year, and we anticipate that the overall total will be between $15-20B by the end of the year - depending upon how many of the transactions launched in the past couple months actually closed by year end. Encouragingly, we have seen a substantial increase in deal activity over the past couple months and, based upon our own pipeline and conversations with prospective secondary sellers and brokers, expect this activity to continue.

Our Secondary Team has identified a number of funds we find attractive in current market conditions, our hunting lists are robust, and we have had a record level of interaction with the prospective seller community. We are confident that those relationships and research efforts have established a strong foundation for 2014 and beyond.

Co-Investment II Fund Update

During the fourth quarter, the Adams Street Co-Investment II Fund (" Fund II") invested $6.0 million in a provider of banking services to retail, small, and medium-sized customers. We anticipate follow-ons of $4.7 million. There are now twenty investments in Fund II and the Fund is 72% committed.

Final Thoughts

We know from regular conversations with our clients, that many of you have private equity allocations that have fallen below strategic targets for the first time in several years - both as a result of rising public market equity returns and increased distribution levels from your private equity investments. Forty years of experience reinforces that time diversification is a very important component of building and maintaining a successful private equity program. As a reminder, our 2014 Fund Program will be making commitments to private equity investments over the next 3 to 4 years. We held our first close in mid-December, and will be having several more during the first half of 2014. Additionally, this year we have standalone offerings focused on co-investments (Co-Invest Fund III) and energy (Energy & Natural Resources Fund).

Organizationally, a notable highlight for our firm in 2013 was an honor received in late November at the Private Equity Exchange & Awards Summit in Paris. Adams Street Partners was presented with the " Gold" award for Best LP with Assets Exceeding $10 Billion. The competition for this category was a highly experienced group of investors - among the best in the business. We are proud of this accomplishment, as the award represents recognition from a jury of our industry peers.

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 31 Dec 2013

LBH PRIVATE EQUITY FUNDS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
LGT CAPITAL PARTNERS									
	£	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
	000		**000**		**000**		**000**		Dec 13
Crown Private Equity European Buyout Opport.	11,403	1.59	9,584	1.33	8,659	1.21	925	0.13	7.77
Crown Global Secondaries Plc (US$)	1,819	0.25	1,588	0.22	1,373	0.19	215	0.03	5.23
Crown Private Equity European Fund	4,174	0.58	3,654	0.51	1,893	0.26	1,761	0.25	7.36
Crown Private Equity European Buyout Opport. II	8,349	1.16	5,601	0.78	1,828	0.25	3,773	0.53	3.64
Crown Asia-Pacific Private Equity Plc (US$)	1,819	0.25	1,575	0.22	602	0.08	973	0.14	6.17
Crown European Middle Market II plc	3,339	0.46	1,751	0.24	586	0.08	1,165	0.16	9.81
Crown Global Secondaries II Plc (US$)	1,334	0.19	1,006	0.14	595	0.08	411	0.06	22.18
TOTAL(S) LGT CAPITAL PARTNERS	**32,237**	**4.49**	**24,759**	**3.45**	**15,536**	**2.16**	**9,223**	**1.28**	
									Sep 13
ADAMS STREET PARTNERS	**£**	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
Adam Street Partnership Fund - 2005 US Fund	8,489	1.18	7,696	1.07	3,890	0.54	3,806	0.53	5.52
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,638	0.51	3,313	0.46	1,512	0.21	1,801	0.25	5.00
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,729	0.38	2,375	0.33	779	0.11	1,596	0.22	4.48
Adam Street Partnership 2006 Direct Fund	910	0.13	871	0.12	177	0.02	694	0.10	0.53
Adam Street Partnership Fund - 2006 US Fund, L.P	5,457	0.76	4,740	0.66	2,091	0.29	2,649	0.37	5.75
Adams Street Direct Co-Investment Fund, L.P.	1,819	0.25	1,737	0.24	498	0.07	1,239	0.17	2.50
Adams Street Partnership 2007 Direct Fund LP	303	0.04	280	0.04	99	0.01	181	0.03	3.93
Adams Street Partnership - 2007 Non -US Fund	1,061	0.15	786	0.11	157	0.02	629	0.09	4.57
Adams Street Partnership - 2007 US Fund	1,668	0.23	1,379	0.19	640	0.09	739	0.10	9.31
Adams Street Partnership - 2009 US Fund	910	0.13	466	0.06	104	0.01	362	0.05	11.73
Adams Street Partnership - 2009 Direct Fund	182	0.03	151	0.02	35	0.00	116	0.02	14.99
Adams Street Direct Co-Investment Fund II.	1,516	0.21	951	0.13	415	0.06	536	0.07	26.51
Adams Street 2009 Non-US Emerging Mkt Fund	182	0.03	90	0.01	0	0.00	90	0.01	-7.49
Adams Street Partnership 2009 Non-US Developed Market	546	0.08	215	0.03	18	0.00	197	0.03	5.08
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**29,410**	**4.09**	**25,050**	**3.49**	**10,415**	**1.45**	**14,635**	**2.04**	

FUND VALUE	**718,255**	
COMMITMENT STRATEGY	62,847	8.75%
TO ACHIVE INVESTMENT	35,913	5.00%
CURRENT INVESTMENT BOOK COST	23,858	3.32%
CURRENT INVESTMENT MARKET VALUE	39,071	5.44%

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WM LOCAL AUTHORITY

QUARTER 4 2013

The following summary is based on 51 funds with a total Market Value of £104,983m.

Update 1 - 05/02/2014

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Quarter		Latest Quarter		Fiscal Year to Date		Last 12 Months	
	IMV (%)	FMV (%)	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	66.5	66.5	5.0	5.0	8.2	6.2	21.9	21.0
GLOBAL POOLED INC UK	5.3	5.0	5.6	5.0	8.3	6.2	23.7	21.0
UK EQUITIES	27.3	28.1	6.0	5.5	11.9	9.5	24.0	20.8
OVERSEAS EQUITIES	33.9	33.4	4.0	5.0	5.6	6.0	20.1	21.2
North America	10.8	11.2	7.3	7.5	10.1	9.0	29.6	28.3
Europe	8.6	8.6	5.2	5.5	12.2	13.8	25.5	25.2
Japan	3.7	3.7	1.0	0.1	7.0	4.7	28.0	25.0
Pacific (ex Japan)	3.8	3.7	-0.9	-0.9	-7.4	-6.7	2.1	2.7
Emerging Markets	5.4	4.8	0.0	-0.7	-5.5	-10.1	1.5	-5.3
Global ex UK	1.5	1.5	6.4	5.0	10.1	6.0	27.3	21.2
TOTAL BONDS	15.8	15.2	-0.4	-	-3.9	-	-0.2	-
U.K. BONDS	9.2	8.8	-0.1	-1.4	-1.9	-4.6	0.1	-4.0
OVERSEAS BONDS	2.1	2.1	-1.4	0.2	-7.8	-0.6	-3.1	0.1
INDEX LINKED	3.3	3.2	-1.1	-0.9	-7.6	-6.8	0.1	0.5
POOLED BONDS	1.2	1.1	1.1	-	-1.0	-	1.3	-
TOTAL CASH	3.0	3.1	0.2	0.1	0.9	0.3	1.6	0.4
ALTERNATIVES	6.5	6.4	1.4	-	1.7	-	7.6	-
Total Private Equity	3.8	3.7	1.6	-	2.5	-	9.3	-
Total Hedge Funds	1.9	1.8	1.7	-	1.7	-	6.7	-
Other Alternatives	0.9	0.9	0.4	-	-0.9	-	3.0	-
TOTAL POOLED MULTI ASSET	1.5	1.9	2.1	-	2.2	-	8.5	-
TOTAL EX-PROPERTY	93.3	93.1	3.6	3.4	5.3	4.7	15.4	14.0
TOTAL PROPERTY	6.7	6.9	4.2	4.7	8.1	9.7	9.5	10.9
TOTAL ASSETS	100.0	100.0	3.7	3.5	5.5	4.9	15.0	13.7

WM PERFORMANCE SERVICES
A State Street Business

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Retirement Performance Statistics and Cost of Early Retirements Monitor

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	nil

SUMMARY

This report summarises the number of Early Retirements in the third quarter of 2013/14. Additionally it gives an update on the current situation on the cost to the fund of early retirements.

RECOMMENDATIONS

That the contents of the report be noted.

EARLY RETIREMENT PERFORMANCE STATISTICS

The table below shows the number of employees, by category, whose LGPS benefits have been put into payment. In the case of redundancy and efficiency this relates to employees over 55 years of age.

	Redundancy	**Efficiency**	**Ill Health**	**Voluntary over 60**
2010/2011	**20**	**0**	**11**	**34**
2011/2012	**65**	**0**	**12**	**24**
2012/2013	**23**	**0**	**6**	**14**
2013/2014 - 1st qtr	3	0	0	11
2013/2014 - 2nd qtr	8	0	2	14
2013/2014 - 3rd qtr	30	0	0	8
2013/14 - total	**41**	**0**	**2**	**33**

The large number of redundancies for the 3rd quarter is a result of the redundancies arising from reorganisation of the housing repairs team and the outsourcing of Occupational Health.

EARLY RETIREMENT COSTS MONITOR

As a result of a key recommendation by the Audit and Accounts Commission, local authorities were advised to calculate and monitor early retirement costs as they occurred within the LGPS between formal triennial valuations. This authority took the decision, in agreement with the fund actuary, to increase the employer's contribution rates as prescribed in the last valuation by 1%, effective from 1 April 2011, to meet anticipated early retirement costs. This 1% employer's contribution is locked in to the rate until March 2014.

This report is compares actual costs of early retirements against the additional 1% contributions paid into the Fund 3 year valuation period.

Detail for Valuation Period 01.04.2011 to 31.03.2014

	Capital Cost of early retirement to the fund £000s	**Payroll Total £000s**	**Cost as a % of payroll**
2011/12	£1,108	£102,450	1.08
2012/13	£983	£95,114	1.03
To 31 December 2013	£657	£95,114	0.69
Average over previous valuation period			0.59

The payroll total figure above is based on the Employers Contributions reported in the Pension Fund Annual Report and Accounts as at 31 March 2013. The figures for 2011/12 have been restated based on this amount following receipt of year end figures.

FINANCIAL IMPLICATIONS

The cost to the pension fund of early retirements on the grounds of ill health, is recorded by the pensions administration system and reported to the scheme Actuary. The cost includes the benefits being paid before the employees normal retirement date and any period of service awarded. Depending on which tier the retirement falls in to, determines the length of service to be awarded. Details of the service to be awarded against each Tier are shown above. All Employers within the fund have a notional budget built in to their Employers Contribution Rate to fund ill health retirements. If the notional figure is exceeded, this will result in an increase to that Employers Contribution Rate, at the next valuation of the fund.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

Pensions Administration Performance

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	

SUMMARY

This report summarises pension administration performance across key areas of work for the period 1 October to 31 December 2013. Performance targets were agreed as part of the service level agreement with Capita and conform to national targets set for England and Wales. Whilst performance by indicator showed an improvement for the year 2012/13 against 2011/12, since September 2013 significant issues in terms of data quality have come to light, and there are several performance issues. Work is ongoing with CAPITA to address these concerns.

RECOMMENDATION

That the contents of the report be noted

INFORMATION

On 1 April 2012, Pensions Administration was outsourced to Capita Employee Benefits (CEB), as part of a pan London Framework Agreement, delivering potential annual savings in administration costs of 27% to the pension Fund. Performance is reported monthly and monitored against the service level agreement contained within the Framework Agreement. Targets are measured in working days for each function performed as part of the administration contract, against a target of 100%.

The 3rd quarter performance reports for 2013/14 indicated an overall average performance of 61.44**%** per month over the quarter, which is a drop of 15.03% over the previous quarter. Actual performance for each month was:

- October - 51.05%
- November - 45.03%
- December - 88.33%

Details of performance by area are shown in the table attached. There were 4 instances over the quarter where a Condolence Letter was not sent out within 3 days, of being notified. This is the 2nd consecutive quarter where performance on this indicator has not been 100%. Capita have been informed that this is not acceptable. Their performance in the processing of retirement and dependents benefits is also causing significant concern.

In is now 3 months since 2 experienced LGPS Managers have been added to the Capital team, and although December performance did show an improvement, there are still concerns regarding the quality of the data held on their system. Our Actuary has brought this to our attention as a result of both the Valuation process and Annual Reporting. Further investigations will be made as to why the quality of data held appears to have deteriorated, and see what steps Capita are making to ensure the quality of the data held. A meeting with senior officer and procurement has been arranged for early April to discuss a plan for imporvement.

Additional charges have been applied to Capita as well as an underperformance recharge.

PENSIONS ADMINISTRATION PEFORMANCE
OCTOBER TO DECEMBER 2013

WORK TASK	ACTION REQUIREMENTS	OCT 2013		NOVEMBER 2013		DECEMBER 2013	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	2	50.00	7	85.71	10	80.00
Actual Retirement Benefits	3 Days	32	31.25	63	31.25	24	58.33
Letter notifying Dependants Benefits	5 Days	7	14.29	1	0.00	9	88.89
Process Refund	10 Days	6	66.67	66	53.03	21	76.19
Transfers in Actual	10 Days	n/a	n/a	n/a	n/a	1	0.00
Transfers in quote	10 Days	n/a	n/a	n/a	n/a	4	100.00
Answer General Letter	5 Days	122	75.41	194	49.48	112	87.50
Calc/Notify Deferred	15 Days	35	28.57	66	53.03	34	88.24
Estimate of Retirement Benefits	5 Days	8	37.50	13	53.85	16	87.50
Transfers Out Quote	5 Days	9	55.56	14	64.29	13	100.00
Transfers Out Actual	9 Days	1	100	n/a	n/a	5	60.00
New Entrants	20 Days	106	39.62	99	30.30	168	98.81
Added Years	10 Days	5	20.00	10	20.00	37	72.97

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2013 ACTUARIAL VALUATION RESULTS	

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	*2013 Actuarial Valuation Report*

INFORMATION

The triennial revaluation of the pension fund has now been completed and Catherine McFadyen, the fund actuary, will attend Committee to present the results of the 2013 valuation, incorporating a discussion on the results.

Summary of the Valuation Results

- The results of the 2013 valuation indicate the funding level is now 72%, a decrease from 77.6% at the 2010 valuation. This has resulted in the deficit increasing from £163m as at 31 March 2010 to £266m as at 31 March 2013. The deterioration of the funding position is largely due to the fall in gilt yields. Investment returns have been slightly higher than assumed.

- The common employer contribution rate is made up of two components, the future service cost and an adjustment for the past service position. The results indicate a future service rate of 18.9% and a past service cost of 8.7% giving a common contribution rate at the whole fund level of 27.6%. However, this rate is theoretical, and in practice each participating employer has its own underlying funding position and circumstance.

- As an employer, London Borough of Hillingdon agreed a long term approach to Employer contribution rates at the 2010 valuation to try to stabilise contribution rates. At the last valuation an annual increase to the London Borough of Hillingdon Employer's contribution of 1% was agreed and this will continue over the next three year period. However, Hillingdon has also paid an additional 1% contribution to fund the cost of early retirements, particularly on the grounds of redundancy, over the last 3 valuation periods. It is recommended that this now ceases as the expectation of further redundancy retirements is now significantly lower. As a result, there will be no increase in Hillingdon's Employer rate for 2014/15, and this has been built into the draft general Fund budget for 2014/15.

Note: It should be noted that the valuation is just a picture at a single date in time. The illustration on page 33 of the Valuation Report provides comparative figures had the valuation been undertaken at 31 January 2014. By then the funding level had increased to 77% and the deficit reduced to £217m. Initial indications of results of other London Boroughs are showing a wide range of funding levels, however, the levels are comparable with funds using the same actuary. For example, Hillingdon's results are similar to other London Boroughs who have Hymans Robertson as an actuary. Other actuarial firms use very much less prudent assumptions, taking funding levels to around 95%. It is hoped that once the new 2014 scheme comes in to effect and contribution stabilisation methods are enforced that standardised assumptions will be used across the whole Scheme.

Funding Strategy Statement

- Following agreement of the results the valuation the Funding Strategy Statement (FSS) of the fund has been revised and is included with this report for Committee approval prior to publication.

- The FSS sets out how the Council, in its role as Administering Authority, has balanced the conflicting aims of affordability, stability and prudence in the approach to funding the scheme's liabilities.

London Borough of Hillingdon
Draft 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@hillingdon.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	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis.

payable	cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	to the circumstances of cessation – see Note (j).	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	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: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). 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.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional

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.	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: Seeking a funding guarantee from another scheme employer, or external body, where-ever 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 employer[2]. 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.

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Hymans Robertson LLP has carried out an actuarial valuation of the London Borough of Hillingdon Pension Fund (“the Fund”) as at 31 March 2013, details of which are set out in the report dated 21 February 2014 (“the Report”), addressed to London Borough of Hillingdon (“the Client”). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2013 and employer contribution rates from April 2014, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

London Borough of Hillingdon Pension Fund
2013 Actuarial Valuation
Valuation Report

HYMANS ROBERTSON

March 2014

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1 Executive summary

We have carried out an actuarial valuation of the London Borough of Hillingdon Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	728	949
Market Value of Assets	564	683
Surplus / (Deficit)	(163)	(266)
Funding Level	**77.6%**	**72.0%**

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	15.9%	18.9%
Past Service Adjustment (25 year spread)	6.6%	9.8%
Total employer contribution rate (incl. expenses)	22.4%	28.7%
Employee contribution rate	6.7%	6.4%
Expenses	0.6%	0.6%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

We have carried out an actuarial valuation of the London Borough of Hillingdon Pension Fund as at 31 March 2013.

Purpose

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at 31 March 2013;
- to identify the future contributions payable by the employers that participate in the Fund in order to meet the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with all relevant regulations;
- to comment on the main risks to the Fund that may result in future volatility in the funding position or to employers' contributions.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report (mentioned in **section 7**);
- The Discussion Document (dated 14 November 2013 which outlined the preliminary assumption proposals and whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, from discussions on 12 November 2013;
- The stabilisation modelling carried out for certain employers, as detailed in our report and presentation to the Administering Authority of 23 April 2013;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

	31 March 2010		31 March 2013	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	6.1%	2.8%	4.6%	2.1%
Salary Increases*	5.3%**	2.0%	3.3%	0.8%
Price Inflation / Pension Increases	3.3%	-	2.5%	-

** Plus an allowance for promotional pay increases.*

***1% p.a. nominal for 2010/11, 2011/12 and 2012/13, reverting to 5.3% p.a. thereafter.*

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a.

Price inflation / pension increases

Due to further analysis of the CPI index since 2010, we expect the average long term difference between RPI and CPI to be 0.8% p.a. compared with 0.5% p.a. at the 2010 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we have adopted a similar approach.

Salary increases

The long term assumption for salary increases is set equal to RPI. This translates to CPI plus 0.8% p.a. This is a change in approach from 2010 where we assumed 1% p.a. for 3 years and RPI plus 1.5% p.a. thereafter.

We have set a lower long term rate of salary growth to reflect both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2010 valuation - baseline	19.4	21.6	19.1	21.0
2010 valuation - improvements	23.5	25.6	21.2	23.2
2013 valuation - baseline	20.0	22.8	20.4	22.7
2013 valuation - improvements	24.3	26.9	22.7	24.7

Further details of the mortality assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2013. We have also included an allowance for the expected future payments in respect of early retirement strain and augmentation costs granted prior to the valuation date in the value of assets, for consistency with the liabilities and with the previous valuation.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailor our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in **Appendix E**. Further commentary on these was included in the Discussion Document.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 20% lower than the figures shown here.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main 'past service' objective is to hold sufficient assets in the Fund to meet the assessed cost of members' past service benefits and the main 'future service' objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2013. The 31 March 2010 results are also shown for reference.

The results are presented in the form of a "funding level", this is the ratio of the market value of assets to the assessed cost of members' past service benefits ("liabilities").

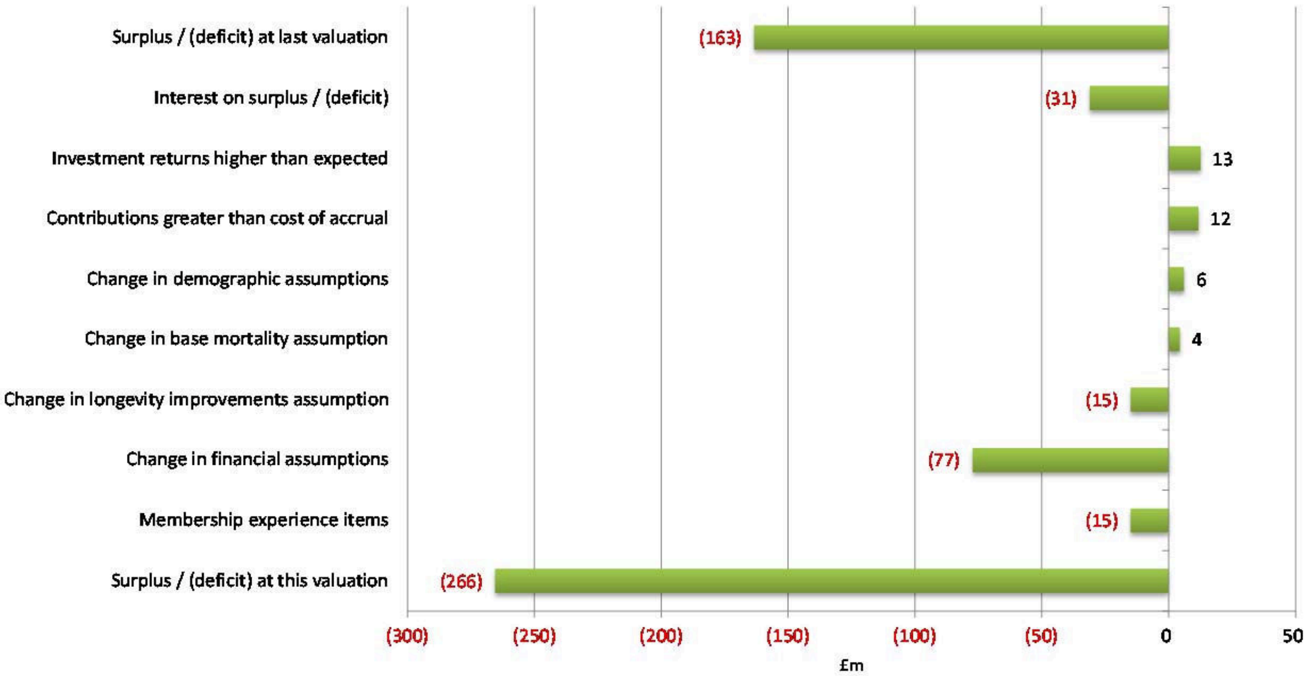
A funding level of 100% would correspond to the funding objective being met at the valuation date.

Valuation Date	31 March 2010	31 March 2013
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	270	324
Deferred Pensioners	137	196
Pensioners	321	428
Total Liabilities	728	949
Market Value of Assets	564	683
Surplus / (Deficit)	**(163)**	**(266)**
Funding Level	**77.6%**	**72.0%**

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members' benefits of £266m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to deteriorate between 31 March 2010 and 31 March 2013:



Further comments on some of the items in this chart:

- There is an interest cost of £31m. This is broadly three years of compound interest at 6.1% p.a. applied to the previous valuation deficit of £163m.
- Investment returns being greater than expected since 2010 led to a gain of £13m. This is roughly the difference between the actual and expected three-year return (roughly 2.3%) applied to the whole fund assets from the previous valuation of £564m, with a further allowance made for cashflows during the period.
- The change in mortality assumptions (baseline and improvements) has given rise to a loss of £11m. This is mainly due to the change in assumed longevity improvements.
- The change in financial conditions between the previous valuation has led to a loss of £77m. This is due to a decrease in the real discount rate between 2010 and 2013. This has partially been offset by the 0.3% p.a. increase in our assumption of the gap between RPI and CPI.
- The combined impact of demographic experience and changes in membership data results in a loss of around £15m.

Future service

We have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2013 (the 'future service contribution rate'). Again, we have used the assumptions set out in the previous section of this report and the method set out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2013 and shows the 31 March 2010 for comparison.

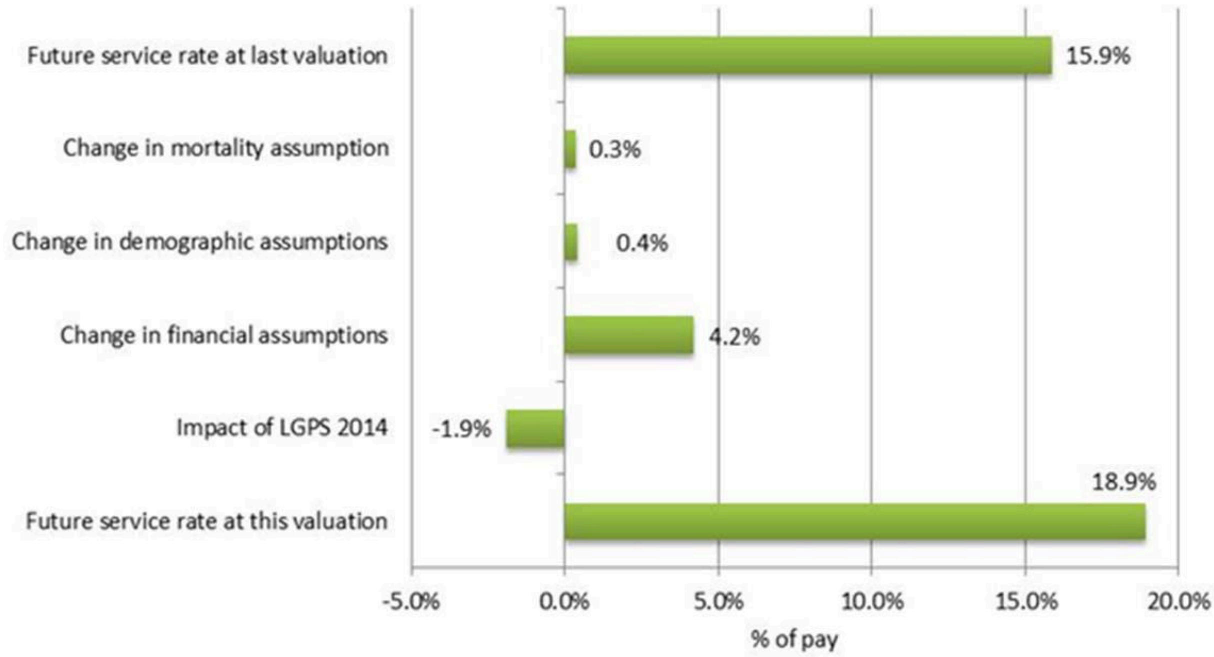
Valuation Date	31 March 2010	31 March 2013
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	15.3%	18.3%
Expenses	0.6%	0.6%
Total employer future service rate (incl. expenses)	**15.9%**	**18.9%**
Employee contribution rate	6.7%	6.4%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2013 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The average future service rate for Fund employers is 18.9% of pay. This rate is calculated as at 31 March 2013 and therefore forms part of the total contribution rate payable by employers from 1 April 2014. Note this rate makes an allowance for changes to the benefit structure that take effect from 1 April 2014. In practice, a future service rate for each employer has been calculated which is based on their particular circumstances and membership profile. The rate above is an average future service rate for the Fund as a whole.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2010 and 31 March 2013:



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2010 and 2013 are broadly similar to those discussed for the past service position.

In addition to this, the impact of the LGPS 2014 scheme has resulted in a reduction in contribution rate of 1.9% of payroll.

Total common contribution rate payable

The total (or "common") contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 25 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

The common contribution rate based on the funding position as at 31 March 2013 is detailed below along with the results for 31 March 2010:

Valuation Date	31 March 2010	31 March 2013
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	15.9%	18.9%
Past service adjustment (25 year spread)	6.6%	9.8%
Total employer contribution rate	**22.4%**	**28.7%**

This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates. The actual employer contributions payable from 1 April 2014 are given in **Appendix G**, and these have been devised in line with the Funding Strategy Statement: see **section 6.**

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2013.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Deficit (£m)**	**Future service rate (% of pay)**
Discount rate	Increases by 0.5%	Falls by £80m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £22m	-
Price inflation / pension increases	Increases by 0.5%	Rises by £65m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £28m	Rises by 1%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the biggest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex.

Investment risk

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.6% p.a.

The table below shows how the funding level (top), deficit (middle, in £m) and total contribution rate (bottom, as % of pay) would vary if investment conditions at 31 March 2013 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield	FTSE 100 Price Index: 5912	6412	6912
-0.10%	71% (269) 27.8%	75% (233) 26.4%	79% (196) 25.1%
-0.30%	68% (302) 30.0%	72% (266) 28.7%	76% (229) 27.3%
-0.50%	66% (337) 32.3%	69% (300) 31.0%	73% (263) 29.6%

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc.) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2013 are affected by adopting different longevity assumptions.

	Impact	
Longevity assumption	**Deficit (£m)**	**Future service rate**
2010 valuation	(163)	15.9%
2013 valuation (with improvements)	(266)	18.9%
2013 valuation (further improvements)	(306)	19.9%
1 year extra	(329)	20.7%

The shaded box contains the results for this valuation.

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E**.

The "further improvements" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

The "1 year extra" figures relative to a further year of life expectancies beyond those assumed in "further improvements".

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Factor	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Marginal
Reduced level of withdrawals	Decreases	Marginal
Rise in average age of employee members	Marginal effect	Increases
Lower take up of 50:50 option	No impact	Increases

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI-based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.

We would be delighted to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy); and
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2016. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 38 of the Administration Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to London Borough of Hillingdon in its capacity as Administering Authority to the London Borough of Hillingdon Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of March 2014.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Catherine McFadyen

Catherine McFadyen

Fellow of the Institute and Faculty of Actuaries

12 March 2014

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary and pensionable service according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2014.

Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This shouldn't be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		N/A

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.	Scheme membership from 1 April 2008: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership. Lump Sum Retirement Grant - none except by commutation of pension.
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 55 with employer's consent. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age NRA where no likelihood of undertaking any gainful employment prior to age NRA; 25% of prospective membership to age NRA where likelihood of obtaining gainful employment after 3 years of leaving, but before age NRA; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2014.

Appendix C: About the valuation

For more details please refer the Fund's Funding Strategy Statement.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is currently unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The core purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a strategy to meet it.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to determine an anticipated cost which is as sensible and realistic as possible. A decision can then be made as to how much is set aside now to meet this anticipated cost. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison at the valuation date of the assets (taken at market value) and the value placed on the Fund's liabilities (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

The funding target is to eliminate any deficit (or surplus) over a specified period and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund, either via lump sums or by increasing the employer's contribution rate. These additional contributions are known as the past service adjustment.

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the future service contribution rate.

For the valuation results for the Fund as a whole, we have calculated the future service rate as the cost of benefits being earned by members over the year following the valuation, taking account of expected future salary increases until retirement. If new entrants are admitted to the Fund to the extent that the overall membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service rate should be reasonably stable.

This funding method we have used is known as the Projected Unit Method. As well as the whole fund, it is appropriate for individual employers that continue to admit new entrants to the Fund.

However, some participating employers may have a policy of not admitting new entrants. In this case, the membership profile will inevitably begin to age. Under these circumstances, the Projected Unit Method is arguably no longer appropriate and will not promote sufficient stability in the future service rate. For these employers, we will adopt a funding method known as the Attained Age Method, which effectively looks at the cost of benefits that members will earn over the entirety of their remaining working lifetime (rather than just the year following the valuation).

Combining this future service rate with any past service adjustment required to repay a deficit (or reduce a surplus) gives us the total contribution rate. The total rate for the Fund as a whole is known as the common contribution rate. This is really just a notional figure. In practice, each individual employer will have a contribution rate which reflects their own particular circumstances.

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns). Please refer to **section 5** for details of the sensitivity analysis.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate report.

Membership data – whole fund

Employee members

	31 March 2010		31 March 2013	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Total employee membership	5,990	122,917	6,731	126,783

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2010		31 March 2013	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	5,146	8,465	6,119	11,055

The deferred pension shown includes revaluation up to and including the 2013 Pension Increase Order. The figures above also include any undecided leavers and frozen refunds at the valuation date.

Current pensioners, spouses and children

	31 March 2010		31 March 2013	
	Number	Pension (£000)	Number	Pension (£000)
Members	4,251	20,891	4,662	25,016
Dependants	698	1,736	722	1,936
Children	48	61	51	80
Total pensioner members	**4,997**	**22,689**	**5,435**	**27,033**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2010	2013	2010	2013
Employees	51.3	51.9	7.7	8.9
Deferred Pensioners	50.6	51.3	-	-
Pensioners	66.6	67.3	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Membership data – individual employers

Employer Name	Employees		Deferreds		Pensioners	
	No	Actual Pay (£000)	No	Pension (£000)	No	Pension (£000)
London Borough Of Hillingdon Pool	5,296	103,394	5,666	10,531	5,300	26,694
Heathrow Travel Care	4	100	3	2	1	6
Hillingdon & Ealing Citizens Advice	7	195	19	41	6	17
Uxbridge College	194	4,475	268	318	77	202
Stockley Academy	42	978	26	31	2	2
Harefield Academy	68	1,230	58	35	5	11
Mitie (Ex-Dalkia Services)	15	350	5	11	7	19
Mitie (Ex-Ict)	16	205	6	12	9	14
Yes Dining	17	141	6	12	7	11
Greenwich Leisure Limited	22	487	7	9	4	14
Sevest Group	1	5	0	0	0	0
Cranford Park Academy	61	545	1	1	0	0
Eden Academy	117	1,619	1	2	2	6
Wood End Academy	71	796	1	0	0	0
Guru Nanak Sikh Academy	96	1,275	1	0	1	1
Barnhill Academy	59	1,062	2	2	1	5
Northwood Academy	28	301	2	2	0	0
Queensmead Academy	50	660	1	0	4	18
Vyners Academy	41	623	4	2	0	0
Rosedale Hewens Academy	40	714	6	13	1	1
Haydon Academy	98	1,667	13	12	1	3
Swakeleys Academy	52	769	1	0	2	4
Uxbridge Academy	38	804	4	10	1	1
Douay Martyrs Academy	28	575	5	4	0	0
Bishopshalt Academy	46	824	5	2	1	1
Bishop Ramsey Academy	50	768	7	3	1	1
Willows Academy	15	241	1	2	0	0
Coteford Academy	33	312	0	0	0	0
Belmore Academy	55	753	0	0	2	2
LDBS Frays Academy Trust	71	915	0	0	0	0

Assets at 31 March 2013

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2013 and 31 March 2010 is as follows:

Asset class	Market Value at 31 March 2010 (£000)	Allocation %	Market Value at 31 March 2013 (£000)	Allocation %
UK equities	232,080	41%	208,666	31%
UK fixed interest gilts	1,611	0%	2,042	0%
UK corporate bonds	20,579	4%	37,993	6%
UK index-linked gilts	29,175	5%	35,134	5%
Overseas equities	176,382	31%	217,303	32%
Overseas bonds	44,343	8%	88,979	13%
Property	41,612	7%	46,488	7%
Cash and net current assets	18,508	3%	46,447	7%
Total	**564,290**	100%	**683,052**	100%

Accounting data – revenue account for the three years to 31 March 2013

Consolidated accounts (£000)	Year to			Total
	31 March 2011	31 March 2012	31 March 2013	
Income				
Employer - normal contributions	22,270	21,614	23,010	66,894
Employer - additional contributions	417	906	717	2,040
Employer - early retirement and augmentation strain contributions	0	0	0	0
Employee - normal contributions	8,229	7,877	7,920	24,026
Employee - additional contributions	129	123	224	476
Transfers In Received (including group and individual)	3,968	3,703	284	7,955
Other Income	0	0	0	0
Total Income	**35,013**	**34,223**	**32,155**	**101,391**
Expenditure				
Gross Retirement Pensions	23,243	24,874	26,818	74,935
Lump Sum Retirement Benefits	5,850	6,440	4,496	16,786
Death in Service Lump sum	991	693	110	1,794
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	10	5	0	15
Transfers out (including bulk and individual)	3,663	3,504	1,957	9,124
Fees and Expenses	738	752	589	2,079
Total Expenditure	**34,495**	**36,268**	**33,970**	**104,733**
Net Cashflow	**518**	**-2,045**	**-1,815**	**-3,342**
Assets at start of year	**564,290**	**594,333**	**612,850**	**564,290**
Net cashflow	518	-2,045	-1,815	-3,342
Change in value	29,525	20,562	72,017	122,104
Assets at end of year	**594,333**	**612,850**	**683,052**	**683,052**
Approximate rate of return on assets	**5.2%**	**3.5%**	**11.8%**	**21.7%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2010 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	6.1%	4.6%
Price inflation	3.8%	3.3%
Pay increases*	5.3%	3.3%
Pension increases:	3.3%	2.5%
pension in excess of GMP	3.3%	2.5%
post-88 GMP	2.8%	2.5%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	3.3%	2.5%
Expenses	0.6%	0.6%

*An allowance is also made for promotional pay increases (see table below). Note that the assumption at 31 March 2010 is actually 1% p.a. nominal for 2010/11, 2011/12 and 2012/13, reverting to 5.3% p.a. thereafter.

Mortality assumptions

Longevity assumptions	31 March 2013
Longevity - baseline	Vita curves
Longevity - improvements	
CMI Model version used	CMI_2010
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at December 2011.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1947 or later declining linearly to 5 years for those born in 1912 or earlier.
Proportion of convergence remaining at mid point	50%

We have suggested a longevity improvement assumption based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank over the period.

In the short term we have assumed that the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as ‘peaked’.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants. Full details of these are available on request.

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation. Full details of these are available on request.

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	65% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 85% for service from 1 April 2008).
50:50 option	10% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in Service tables:

Age	Incidence per 1000 active members per annum			
	Male officers and Post 98	Male Manuals	Female officers and Post 98	Female Manuals
	Death	Death	Death	Death
20	0.26	0.32	0.14	0.17
25	0.26	0.32	0.14	0.17
30	0.31	0.38	0.20	0.26
35	0.36	0.45	0.34	0.43
40	0.61	0.77	0.54	0.68
45	1.02	1.28	0.88	1.11
50	1.63	2.04	1.29	1.62
55	2.55	3.19	1.70	2.13
60	4.59	5.74	2.18	2.72
65	7.65	9.56	2.79	3.49

Ill Health Early Retirements tables

Tier 1

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25.00	0.00	0.00	0.53	0.42	0.13	0.11	0.69	0.55
30.00	0.00	0.00	0.97	0.78	0.18	0.14	1.01	0.81
35.00	0.13	0.11	1.46	1.16	0.35	0.28	1.39	1.11
40.00	0.22	0.18	2.12	1.69	0.53	0.42	2.02	1.61
45.00	0.49	0.39	2.91	2.33	0.71	0.56	2.65	2.12
50.00	1.23	0.99	4.32	3.46	1.32	1.06	3.53	2.82
55.00	4.84	3.87	10.23	8.18	4.91	3.92	9.48	7.58
60.00	8.51	6.81	16.40	13.12	10.41	8.32	16.67	13.33
65.00	16.17	12.94	31.61	25.28	18.70	14.96	31.61	25.28

Tier 2

Age	Incidence for 1000 active members per annum							
	Male Officers & Post		Male Manuals		Female Officers & Post		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25.00	0.00	0.00	0.56	0.45	0.14	0.11	0.74	0.59
30.00	0.00	0.00	1.03	0.82	0.19	0.15	1.07	0.86
35.00	0.14	0.11	1.55	1.24	0.37	0.30	1.47	1.18
40.00	0.23	0.19	2.25	1.80	0.56	0.45	2.14	1.71
45.00	0.52	0.41	3.09	2.47	0.75	0.60	2.81	2.25
50.00	1.66	1.33	5.82	4.65	1.78	1.42	4.75	3.80
55.00	3.74	2.99	7.91	6.32	3.79	3.03	7.33	5.86
60.00	3.20	2.56	6.17	4.94	3.92	3.13	6.27	5.02
65.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Tier 3

Age	Incidence for 1000 active members per annum							
	Male Officers & Post Ill Health		Male Manuals Ill Health		Female Officers & Post Ill Health		Female Manuals Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25.00	0.00	0.00	0.48	0.38	0.09	0.07	0.55	0.44
30.00	0.09	0.07	0.77	0.62	0.15	0.12	0.77	0.61
35.00	0.12	0.10	1.16	0.93	0.30	0.24	1.11	0.88
40.00	0.21	0.17	1.61	1.29	0.39	0.31	1.53	1.22
45.00	0.48	0.38	2.32	1.86	0.62	0.50	1.96	1.56
50.00	0.26	0.21	0.68	0.54	0.24	0.20	0.58	0.46
55.00	0.37	0.30	0.77	0.61	0.45	0.36	0.76	0.61
60.00	0.21	0.17	0.42	0.33	0.25	0.20	0.42	0.33
65.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Withdrawal

Less than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	304.04	506.74	304.04	506.74	288.39	400.55	288.39	400.55	557.41	1000.00	384.52	640.87
25	200.83	334.72	201.20	335.01	194.07	269.50	194.43	269.79	368.19	736.38	258.74	431.17
30	142.53	237.46	143.05	237.91	162.69	225.89	163.17	226.27	261.24	522.40	216.89	361.38
35	111.38	185.51	112.17	186.19	140.45	194.94	141.07	195.43	204.11	408.11	187.19	311.79
40	89.71	149.31	90.77	150.23	116.92	162.22	117.80	162.92	164.33	328.47	155.80	259.40
45	73.64	122.28	75.03	123.55	96.49	133.73	97.50	134.54	134.71	268.98	128.49	213.73
50	56.96	94.68	57.28	95.02	73.34	101.75	73.60	101.96	104.26	208.28	97.73	162.71
55	49.47	82.09	49.77	82.44	56.73	78.59	56.97	78.78	90.46	180.57	75.53	125.58
60	29.97	49.75	30.13	49.94	26.40	36.55	26.52	36.65	54.81	109.43	35.13	58.39

More than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	119.85	199.76	119.85	199.76	113.69	157.90	113.69	157.90	219.73	439.46	151.58	252.63
25	79.17	131.95	79.31	132.06	76.50	106.24	76.64	106.35	145.14	290.28	101.99	169.97
30	56.18	93.60	56.39	93.78	64.13	89.05	64.32	89.20	102.98	205.93	85.50	142.46
35	43.90	73.12	44.22	73.40	55.37	76.84	55.61	77.04	80.46	160.88	73.79	122.91
40	35.36	58.85	35.79	59.22	46.09	63.95	46.44	64.22	64.78	129.48	61.42	102.26
45	29.03	48.18	29.59	48.71	38.04	52.72	38.44	53.04	53.10	106.03	50.65	84.25
50	22.45	37.31	22.58	37.46	28.91	40.11	29.01	40.19	41.10	82.10	38.52	64.14
55	19.50	32.35	19.62	32.50	22.36	30.98	22.46	31.06	35.66	71.18	29.77	49.50
60	11.82	19.60	11.88	19.69	10.41	14.41	10.46	14.45	21.61	43.14	13.85	23.02

Promotional salary scale

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100
65	239	154	100	100	166	122	100	100

Appendix F: Events since valuation date

Post-valuation events

These valuation results are effectively a snapshot of the Fund as at 31 March 2013. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events a short discussion of these "post-valuation events" can still be beneficial in understanding likelihood of meeting the various funding objectives.

Investment conditions since 31 March 2013

In the period since the valuation date, investment markets moved in the following manner:

- equity markets have risen
- bond yields have risen
- price inflation has risen

The table below compares the initial valuation results presented in this report with those that would have applied if our assumptions had been based on current market conditions (i.e. assumptions as at 31 January 2014).

Assumptions as at:	*31 March 2013*	*31 January 2014*
Past Service Position	***(£m)***	**(£m)**
Total Liabilities	*949*	*938*
Market Value of Assets	*683*	*721*
Surplus / (Deficit)	***(266)***	***(217)***
Funding Level	*72.0%*	*76.9%*
Contribution rates	***% of pay***	***% of pay***
Future service rate	*18.9%*	*17.2%*
Past Service Adjustment (25 year spread)	*9.8%*	*8.0%*
Total contribution rate	*28.7%*	*25.2%*

Other events

Other than investment conditions changes above, I am not aware of any material changes or events occurring since the valuation date.

Appendix G: Rates and adjustments certificate

In accordance with regulation 36(1) of the Administration Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2014 and our report on the actuarial valuation dated 12 March 2014.

The required minimum contribution rates are set out in the table below.

Signature:	Catherine McFadyen
Date:	12 March 2014
Name:	Catherine McFadyen
Qualification:	Fellow of the Institute and Faculty of Actuaries
Firm:	Hymans Robertson LLP
	20 Waterloo Street
	Glasgow
	G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2014 to 31 March 2017 is 28.7% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2014 to 31 March 2017 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

	Contributions currently being paid in 2013/14	Minimum Contributions for the Year Ending		
Employer name		**31 March 2015**	**31 March 2016**	**31 March 2017**
London Borough of Hillingdon Pool	21.1%	21.1%	22.1%	23.1%
Heathrow Travel Care	20.1%	18.9%	18.9%	18.9%
Hillingdon & Ealing Citizens Advice	17.6%	19.1% plus £12,000	20.1%	21.1%
Uxbridge College	16.8%	17.8%	18.8%	19.8%
Stockley Academy	18.5%	19.4%	19.4%	19.4%
Harefield Academy	14.0%	19.0%	19.0%	19.0%
Mitie (Ex-Dalkia Services)	21.0%	21.0%	21.0%	21.0%
Mitie (Ex-Ict)	21.0%	21.0%	21.0%	21.0%
Yes Dining	21.0%	21.0%	21.0%	21.0%
Greenwich Leisure Limited	16.8%	16.8%	16.8%	16.8%
Servest Group	-	20.6%	20.6%	20.6%
Cranford Park Academy	-	28.0%	28.0%	28.0%
Eden Academy	-	25.1%	25.1%	25.1%
Wood End Academy	-	24.5%	24.5%	24.5%
Guru Nanak Sikh Academy	-	21.2%	21.2%	21.2%
Barnhill Academy	-	23.4%	23.4%	23.4%
Northwood Academy	-	21.7%	21.7%	21.7%
Queensmead Academy	-	24.3%	24.3%	24.3%
Vyners Academy	-	28.7%	28.7%	28.7%
Rosedale Hewens Academy	-	24.5%	24.5%	24.5%
Haydon Academy	-	22.2%	22.2%	22.2%
Swakeleys Academy	-	24.0%	24.0%	24.0%
Uxbridge Academy	-	21.5%	21.5%	21.5%
Douay Martyrs Academy	-	30.3%	30.3%	30.3%
Bishopshalt Academy	-	29.6%	29.6%	29.6%
Bishop Ramsey Academy	-	26.3%	26.3%	26.3%
Willows Academy	-	27.2%	27.2%	27.2%
Coteford Academy	-	27.4%	27.4%	27.4%
Belmore Academy	-	22.8%	22.8%	22.8%
LDBS Frays Academy Trust	-	24.8%	24.8%	24.8%

New Employers from 1 April 2013

	Minimum Contributions for the Year Ending		
Employer name	**31 March 2015**	**31 March 2016**	**31 March 2017**
Charville Academy	34.5%	34.5%	34.5%
Nanaksar	15.3%	15.3%	15.3%

DELOITTE – 2013/14 ANNUAL AUDIT PLAN

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	*Deloitte Plan for the Audit of the Pension Fund Accounts*

SUMMARY

The attached document sets out the initial plans for the audit of the Pension Fund Accounts 2013/14 by Deloitte. The format of the plan follows that prescribed by the Audit Commission for external audit work. The plan sets out the approach to the audit and a broad timetable which should enable the whole process to be completed by early September.

RECOMMENDATIONS

The committee is asked to note the report.

REASONS FOR OFFICER RECOMMENDATIONS

The Committee needs to be made aware of the plans for the audit of the 2012/13 accounts.

COMMENT ON THE CONTENT OF THE PENSION FUND AUDIT PLAN

Materiality: Materiality is calculated on the basis of 1% of the net assets of the fund which for 2014 is £7.0m (2013 £7.5m). Based on this amount, Deloitte would expect to report on all unadjusted misstatements greater than £0.35m (2013 £0.35m).

Key Audit Risks: The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. They are as follows:

- Contributions
- Benefits
- Investments
- Management override of key controls

TIMETABLE

The main timetable remains unchanged with the deadline for draft accounts being 30 June and the audit opinion due by 30 September 2012.

FEES

The proposed fees for the 2012/13 audit are £21,000, no change from 2012/13.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None

London Borough of Hillingdon Pension Fund

Planning Report to the Pension and Audit Committees

Year ending 31 March 2014

27 February 2014

Contents

I am delighted to present this planning report for the 2013/14 audit of the London Borough of Hillingdon Pension Fund. The report sets out our audit approach and the more significant areas where we will focus our attention this year.

(Heather Bygrave, Engagement Partner, February 2014)

The big picture

The Big Picture

We have set out below an overview of the key developments in the Pension Plan and the more significant matters we have considered in developing this Audit Plan. We consider these matters as part of our audit risk assessment and this determines where we will focus our work. Details of the impact of these matters on our approach are set out in this Audit Plan.

Key developments in your Pension Fund

- Barings Asset Management have been appointed to manage an absolute return portfolio.
- There are plans to transfer additional £29 million from UBS to Kempen International.
- There are no significant changes to the scheme rules or other arrangements.
- There are no significant changes to the financial reporting framework.
- Focus within the sector on administration and investment manager fees.

Key developments in our audit

- No changes to the overall scope of the audit, however our level of materiality has reduced.
- Contributions remain a risk in view of the complexity arising from the participation of different admitted bodies within the fund, together with the fact that members may pay different rates depending on their pensionable pay
- Benefits in retirement and ill health remain risks in view of complexities around their calculation.
- The pension fund in the past has made some use of investments in unquoted investment vehicles and derivatives financial instruments which can give rise to complexities in accounting, disclosure and measurement and therefore this area remains a risk.
- Risk of management override of controls, is presumed by auditing standards to be a risk.

Significant audit risks

- Contributions
- Benefits
- Investments – namely unquoted holdings
- Management override of key controls, as presumed by auditing standards

Scheme net assets	Contributions	Benefits
2013: £683.1m	2013: £31.9m	2013: £31.4m
2012: £612.9m	2012: £30.5m	2012: £32.0m

Materiality
2014: £7.0m (est)
2013: £7.5m

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the accounts

Based on guidance issued by the Audit Commission, auditors are again asked, for audit purposes, to treat the Local Government Pension Fund (LGPS) as a stand-alone body, with separate audit plan and reports to those charged with governance.

LGPS funds administered by administering authorities are not statutory bodies in their own right. Therefore, it is not possible for separate audit appointments to be made for LGPS audits. We are therefore appointed to the audit of the LGPS through the existing Audit Commission appointment arrangements.

Our audit of the pension fund is planned in accordance with the Code of Audit Practice issued by the Audit Commission and in accordance with additional guidance issued by the Commission in relation to the audit of pension funds. However, this only extends to the audit of the accounts and there is no requirement for a value for money conclusion on the pension fund accounts specifically. Aspects of the use of resources framework will inform the value for money conclusion for the Authority and cover issues relating to the pension fund.

The audit opinion we intend to issue as part of our audit report on the Authority's financial statements will reflect the financial reporting framework adopted by the pension fund. This is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the "Code of Practice").

The Audit Commission has also determined that auditors should give an opinion in accordance with auditing standards on the financial statements included in the pension fund annual report. This entails the following additional work over and above giving an opinion on the pension fund accounts included in the statement of accounts:

- comparing the accounts to be included in the pension fund annual report with those included in the statement of accounts;
- reading the other information published within the pension fund annual report for consistency with the pension fund accounts; and
- where the pension fund annual report is not available until after the auditor reports on the financial statements, undertaking appropriate procedures to confirm that there are no material post-balance sheet events arising after giving the opinion on the pension fund accounts included in the financial statements.

The financial statements included in the pension fund annual report are prepared on the basis of the same proper practices - the Code of Practice - as the financial statements included in the statement of accounts.

Scope of work and approach (continued)

Approach to controls testing

As set out in "Briefing on audit matters" previously circulated to you, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”).

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit’s self-assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

The Auditing Standards Board has issued a revised version of ISA (UK and Ireland) 610 “Using the work of internal auditors”. This prohibits use of internal audit to provide direct assistance to the audit. Our approach this year to the use of the work of Internal Audit has been designed to be compatible with the new requirements, and therefore this development in auditing guidance will not change the existing scope of Internal or External Audit’s work. However, this will prevent us from further increasing the extent of our use of Internal Audit’s work in future.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

Scope of work and approach (continued)

Materiality and error reporting threshold

We calculate materiality on the basis of the net assets of the fund, but have restricted this to the materiality established for the audit of the Authority's financial statements as a whole. We estimate materiality for the year to be £7 million (2013: £7.5 million). We will report to the Pension and Audit Committees on all unadjusted misstatements greater than £350,000 (£2013: £380,000) unless they are qualitatively material.

The materiality for the pension fund has historically been calculated using 3% of the Funds net assets and then capped at the level of materiality for the Authority as the figures form part of the authority financial statements. Following research with pensions governance bodies, the market and regulators we will determine materiality for the 2014 financial statements based on 1% of the Fund's net assets, which is lower than the materiality on the Authority.

We will update our assessment during the planning and interim visit based on latest outturn expectations

Further details on the basis used for the calculation of materiality are given in our audit plan for the audit of the Authority's financial statements.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

Significant audit risks
1. Contributions

There are complexities around the calculation of contributions.

Nature of risk

Unlike the position in the private sector, we are not required to issue a statement about contributions in respect of the LGPS.

Contributions for the year ended 31 March 2013 were £31.9 million, showing that this is a material income stream for the pension fund. This is expected to continue in the current period with the continued active membership paying contributions. This coupled with the complexity introduced by the participation of more than one employer in the fund, together with the past introduction of a benefit structure with tiered contribution rates; we have identified this as a specific risk.

The key judgement areas and our planned audit challenge

We will evaluate the design and implementation of the Authority's arrangements and perform substantive audit testing in this area. This will include completing procedures to ascertain whether employer and employee contributions have been calculated and deducted correctly. Further procedures will be completed surrounding the completeness of the scheduled payments held at Capita and the accuracy of the receipts against that schedule.

2. Benefits

There are complexities surrounding the calculation of both benefits in retirement and ill health and death benefits.

Nature of risk

The complexities surrounding the calculation of both benefits in retirement and ill health and death benefits remains a key area of audit risk.

In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement; and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.

In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the same options as discussed above.

The completion of the legislation leading to the change in the revaluation basis to Consumer Price Index adds a further complexity to the above calculations going forward.

In the year ended 31 March 2013, total benefits paid were £31.4 million. The material values of these benefits further indicate that this is an area or key audit risk.

The key judgement areas and our planned audit challenge

We will review the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team at Capita and testing that controls were in force during the year under review. We will also:

- Obtain a schedule of benefits paid and selected a sample of benefits for detailed testing through agreement to supporting documentation, and review of the calculation, by reference to the qualifying service, Fund rules and benefit choices made by the member; and
- Develop an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the pension benefits paid in the year.

3. Investments

There are areas of judgement involved in the valuation of investments private equity, managed funds and derivatives.

Nature of risk

The pension fund makes some use of investments in unquoted investment vehicles, such as private equity funds.

Private equity funds are complex to value and include an element of judgement on the part of the investment manager, as at 31 March 2013 the Fund held £39.6 million in funds of this type. In addition, further amounts are invested in managed funds which are complex to value due to the difficulty in visibility of the underlying investments.

Given that these funds form a material balance within the pension fund accounts, we have identified the valuation of these funds as a specific risk.

The fund also holds a small number of derivative contracts which as at 31 March 2013 were valued as a liability of £81,000.

In addition to the risk of valuation, Barings Asset Management have been appointed to manage an absolute return mandate. Subsequently, £14 million and £47 million were divested from both UBS Asset Management and Ruffer LLP respectively, to fund the new mandate for Barings (£61 million). The transition of assets was managed by Nomura.

Also, completed in February, a further divestment of £29 million from UBS Global Asset Management has been transferred to Kempen International to extend the assets held under this mandate. Nomura again managed the transition of these assets.

The key judgement areas and our planned audit challenge

We will seek to understand the approach adopted in the valuation of such investments and inspect documentation relating to data sources used by the Authority. We will tailor further procedures depending on the outcome of that work and our assessment of the risk of material error taking into account the fund's investment holding at the year end.

Derivatives can be complex in terms of accounting, measurement and disclosure requirements. We will first understand the rationale for the use of the derivatives and then test compliance with the accounting, measurement and disclosure requirements of the Code of Practice.

We will discuss the investments with our internal financial instruments specialist and where necessary we may make use of their expertise in valuing complex instruments.

We will audit the transition of the assets in the two transactions with Barings Asset Management and Kempen International through to supporting documentation from the transition manager and reports from all related investment managers.

4. Management override of controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our audit work will include:

- Reviewing a sample of journal entries that characteristics that may be indicative of potential fraud and management override of controls.
- Reviewing analysis and supporting documentation of key estimates and judgements.
- Performing substantive testing on journal entries to confirm that they have a genuine, supportable rationale.
- Reviewing ledgers for unusual items and on a test basis investigated the rationale of any such postings.
- Reviewing significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable.
- Making enquiries of those charged with governance as part of our planning and detailed audit processes.

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit.
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit and Pension committees.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" previously circulated to you and available on request.
- Our Audit Quality Promise and Insight Plan are included in the planning document of the Authority.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP.

Deloitte LLP
Chartered Accountants

St Albans
27 February 2014

This report has been prepared for the Pension and Audit committees, as separate bodies, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Independence and fees

We confirm we are independent of the London Borough of Hillingdon

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Audit Commission's Code of Audit Practice, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the London Borough of Hillingdon - and will reconfirm our independence and objectivity to the Pension and Audit Committees for the year ending 31 March 2014 in our final report to the Pension and Audit Committees.
Fees	No non-audit services fees relating to the pension fund have been paid to Deloitte in the year.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

We summarise our relationships with the Authority and explain our assessment of threats to auditor independence and safeguards in the Authority audit plan document.

Appendix 1: Independence and fees (continued)

We summarise earned or proposed audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of the London Borough of Hillingdon pension Fund	21	21

There are no non audit services provided or proposed to the London Borough of Hillingdon pension Fund for the period from 1 April 2013 to 31 March 2014.

Professional fees earned or proposed by Deloitte for services in the period from 1 April 2013 to 31 March 2013 in respect of other funds of the Authority and other entities controlled by the Authority are set out in our audit plan for the Authority.

Appendix 2: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics	• Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. • Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.	
Responsibilities	**Your responsibilities** • The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.	**Our responsibilities** • We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. • As set out in Section 2 above we have identified the risk of fraud in management override of controls as a key audit risk for your organisation.

Appendix 2: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments. Managements process for identifying and responding to the risks of fraud in the entity. Managements communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. Managements communication, if any, to employees regarding its views on business practices and ethical behaviour. Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.	How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.

We will require the following to be stated in the representation letter signed on behalf of the Authority:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Operational arrangements
We set out key members of your audit team and other operational information

The work will be led by Heather Bygrave, supported by Gary Wong as audit manager.

Our work will be closely co-ordinated with the work carried out on other parts of main audit of the Authority. Details of our timetable for that work are included in the Authority audit plan.

LONDON PENSIONS COMMON INVESTMENT VEHICLE (CIV) Proposals	

Contact Officers	Nancy Leroux, 01895 250353

Papers with this report	

SUMMARY

London Councils has been working closely with London Boroughs on potential collaboration across London on pension investment and are now moving towards the creation of a Common Investment Vehicle (CIV). This report explains the latest position.

RECOMMENDATION

That Committee notes the progress made to date in relation to the Common Investment Vehicle initiative and will maintain a watching brief over future developments.

INFORMATION

Background

In 2012, PwC were commissioned by London Councils and the Society of London Treasurers to prepare a report which set out options for the reconfiguration of the London LGPS funds, and indicated the possible financial benefits of a Collective Investment Vehicle (CIV). Since then, the matter has been discussed several times at London Councils Leaders' Committee, who agreed that further consideration should be given to creating a CIV, and that the most appropriate structure for the CIV would be an Authorised Contractual Scheme (ACS). A number of London Boroughs agreed to contribute £25-£50k towards exploring the proposal, and those funds are held in a designated fund by London Councils. These contributions were to fund the professional costs associated with development of the proposed ACS and its Operator.

Then during 2013, the Government issued a call for evidence on the future structure of the LGPS and sought professional advice to consider either Collective Investment Vehicles or merger of funds as potential routes forward. As part of this exercise, central government commissioned Hymans Robertson to undertake some detailed work on these options. The results of the call for evidence have not yet been published and so central government have not yet issued any guidance on how they expect to move this issue forward.

Latest Position

It is the opinion of London Councils that when the government publish final information and guidance that it is unlikely that the benefit of CIVs will be fundamentally challenged. As a result, they are now formally proposing the creation of a London Pensions CIV and are asking all London Boroughs to make a decision on whether they now wish to formally sign up to the formation of an ACS in order to operate a London wide CIV.

London Councils' proposal is that a new joint committee, the 'Pensions CIV Joint Committee', will be set up to act as a representative body to act collectively on behalf of the local authorities participating in the ACS. The Pensions CIV Joint Committee will be formed of representatives of those local authorities participating in the ACS. Should all the London local authorities participate, this role would be performed by the Leaders' Committee.

The decision to invest through the ACS in the future, as well as the size of investment and mix of assets, will remain with each Borough Pensions Committee. Any such investments will, of course, need to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which contain certain restrictions on the type of assets that can be invested in and the amount of fund property that can be invested in these assets. However, these are not matters which the local authorities are being asked to agree at this time. The decisions boroughs need to take now relate solely to the establishment of the ACS Operator and the associated Pensions CIV Joint Committee.

London Boroughs are asked to respond by 14 April (or before 22 may 2014) on whether the Council will resolve to:

(i) become a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the ACS Operator);
(ii) contribute £1 to the ACS Operator as initial capital;
(iii) appoint a Member of Pensions Committee and delegate authority to that Member to act for the local authority in exercising its rights as a shareholder of the ACS Operator; and
(iv) agree to join the London Boroughs "Pensions CIV Joint Committee", to be formed under section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proposer functioning of the ACS operator and the appointment of Directors.

The legal advice provided through London Councils' recommends that the decision to participate should be taken by Cabinet. The Pensions Committee does not have the power to agree to the Council's participation in the Common Investment Vehicle.

This report to Pensions Committee is recommending that London Borough of Hillingdon keep a watching brief on progress for the reasons explained below.

Firstly, as central government have yet to publish the results of their call for evidence there is a possibility that they may legislate either for collaboration between funds or indeed they may prefer to formally merge funds. Until their view is clarified it would appear untimely to commit the Pension Fund to expense.

A further concern is around the business case for the CIV and the potential savings it could deliver to London Pension Funds. The potential savings have been costed to come from reduced management fees and improved performance. The minimum investment required to make the CIV feasible is around £5bn. However, as the total value of all London Borough Pension Funds (as at 31 March 2013) is £23bn, this equates to 20% of the cumulative value of all funds. Whilst many authorities have expressed interest in taking this proposal forward, there is as yet no clear indication of how much funds would be willing to invest. 20% of Hillingdon's assets is just under around £150m. Initially, it is proposed that investment mandates would be passive. But passive mandates already have lower management fees and performance is tracked against the index. Therefore any benefit on these types of mandate would be lower.

The option to join will remain open to London Boroughs and so not committing at this stage will not preclude the Fund from joining at a later date. Once the CIV is established and the level of commitment is known, the Fund will be in a better position to evaluate the merits of joining.

FINANCIAL IMPLICATIONS

There are no financial implications contained within the report

LEGAL IMPLICATIONS

As the Council is not participating in the Common Investment Vehicle at this stage, the Borough Solicitor is not providing detailed legal comments in this report.

The external legal advice commissioned by London Councils states that the decision as to whether the Council should participate in the Pensions Common Investment Vehicle Joint Committee is one for the Cabinet to take. However, the matter should also be reported to full Council and the Pensions Committee for information purposes.

Should a decision be made in the future to the effect that the Council should participate in the Joint Committee, full legal implications will be provided by the Borough Solicitor.

BACKGROUND DOCUMENTS

None.

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Local Government Pension Scheme April 2014

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	

SUMMARY

The Local Government Pension Scheme has been revised and a new scheme will be introduced from 1 April 2014. This report details the main changes to the scheme and the communications undertaken with Scheme Members to inform them of these changes. In addition, a number of policies and discretionary policies have had to be updated as part of the scheme changes and these are listed and attached for reference.

RECOMMENDATIONS

That the contents of the report be noted

INFORMATION

From 1 April 2014 the LGPS will become a Career Average Revalued Earnings (CARE) Scheme. Members of the scheme will earn a pension based on their earnings each year. The annual pension earned is added to the individual's pension account, which increases each year in line with the cost of living.

Retirement Age - Scheme members will have the option of retiring and receiving immediate payment of reduced benefits from age 55, previously the earliest an employee could retire voluntarily was age 60. However, the date an employee may receive their unreduced scheme benefits has also changed, and will in future be linked to an individual's State Retirement Age. Therefore, if the State Retirement Age is amended at any time in the future, the earliest date that a LGPS pension may be taken unreduced will move automatically in line with any change.

Contributions - An employee's pension contribution rate is dependent on their annual pay. Each Employer will decide on which contribution banding to apply to each scheme member. The bandings indicate a lower and upper pensionable pay limit within each band, and the relevant contribution rate is applied. The bandings will be increased each year in line with cost of living increases. The number of bands is moving from 7 to 9, with contribution rates ranging from 5.5% to 12.5%. Under the current scheme pension contributions are paid on "Contractual Pay", but in the new scheme all salary payments, with the exception of expenses, will be subject to pension contributions. Part time scheme members will pay a contribution rate based on actual pay, rather than full time equivalent, which could potentially move employees into a lower contribution band.

50:50 Scheme - A 50:50 option is being introduced, where a scheme member can elect to pay contributions at 50% of the main scheme rate, for a 50% accrual of benefits. Any scheme member who elects for the 50:50 scheme will remain eligible for full benefits in the event of death or retirement on the grounds of permanent ill health.

Vesting Period - the length of service required to qualify for a pension has been increased from the current period of 3 months to 2 years.

Councillor members - With effect from 1 April 2014 Councillors will no longer be eligible to join the LGPS. Those Councillors who are already Members of the scheme will be able to remain as scheme members until the end of their current term of office. For London Boroughs that date will be 22 May 2014. Protections have been put in place to retain the normal pension age for Councillor Members at age 65. Those Councillor Members aged 65 or over at 23 May will be entitled to claim immediate payment of their benefits without reduction. All other members will be awarded a deferred benefit which will be payable without reduction from the age of 65. However, once a member attains the age of 60 the member may elect to receive their benefits, but these will be subject to an actuarial reduction based on the period between his current age and age 65.

The other main features of the scheme have remained unchanged, such as ill health enhancements and the payment of unreduced benefits from age 55 if an employee's service is terminated due to Redundancy of Business Efficiency. No changes have been made regarding payments due for death in service, or payments to Spouses or Dependants.

COMMUNICATING CHANGES

An intensive programme of employee communications has been undertaken over the last few weeks to educate members on the changes to pension arrangements. Information has been circulated via all staff emails, articles in Team Hillingdon and updates posted on Horizon. In addition 12 bitesize pensions seminars were held in the Civic Centre, during the lunch period and 2 early evening sessions. Sessions have also been held at Uxbridge College, London Housing Consortiums Offices and Harlington Road Depot. Specific sessions were held for HR Staff and for Finance Managers. Further presentations are being planned to ensure that all scheme members have to opportunity to attend a presentation.

Communication will continue to ensure that details of the changes reach as many employees as possible. A separate communication has been sent to Elected Members.

POLICIES

A number of policies and discretionary policies relating to the scheme have been updated and these are attached as appendices to this report for information:

- The Communications Policy
- Power of Authority to Pay Additional Pension Contributions to an Active Member's Pension Account
- Flexible Retirement
- Power to Award Additional Pension
- Power to waive Actuarial Reduction

Appendix A

Communication Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

Issued by: Corporate Pension Section, Finance Directorate

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**	• 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	• 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	• 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	• 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	• solvency of scheme • ability to pay pensions at distant future date
Pensioners	• ability to pay pensions now • security of pensions liability
Prospective Members	• benefits • solvency of scheme ability to pay pensions at distant future date
Local Taxpayers	• rising impact on Council Tax and services • returns on scheme [as a cost mitigating factor] • funding level (i.e. unfunded liabilities)
Government	• 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.mylgpspension.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

This 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.

Power of Authority to Pay Additional Pension Contributions to an Active Members Pension Account

Contents

Human Resources

Authorised by:
Effective date: 1st April 2014

1. Scope

This Policy applies to all employees of the Council.

2. Purpose

The purpose of this policy is to allow the Council as an employer to exercise its discretion under Regulation 16 of The Local Government Pension Scheme Regulations 2013.

3. Policy

- Under the above regulations the council must publish a statement of policy, which is to be applied in the exercise of the "discretionary powers", detailed within those regulations. Regulation 16(2)(e) and (4)(d) of The Local Government Pension Scheme Regulations 2013 allows the Council to resolve to pay additional pension contributions into an active members Pension Account.

- The authority may pay extra contributions on a regular basis or make a lump sum payment to increase a members pension.

- Operation of the scheme must be consistent to avoid successful challenge on the grounds of discrimination.

- The Authority has resolved not to consider use of this provision but instead continue to apply compensation payments in accordance with the Council's Redundancy and Compensation Policy.

Flexible Retirement Policy

Contents

1. Scope

This Policy applies to all employees of the Council.

2. Purpose

The purpose of this policy is to allow the Council to exercise its discretion under Regulation 30 of The Local Government Pension Scheme Regulations 2013 to enable flexible retirement in circumstances where it is advantageous for the Council.

3. Policy

- Flexible retirement is where an employee aged over 55 is permitted by the employer to reduce their hours or grade and may elect for payment of Local Government Pension Scheme benefits, notwithstanding that they have not retired.

- In agreeing flexible retirement the guiding principle should be that it will enhance or protect service delivery.

- Regulation 30(8) allows the Council to waive any actuarial reduction applicable, this discretion will not be exercised due to the financial impact on the Council.

- Operation of the scheme must be consistent to avoid successful challenge on the grounds of discrimination.

4. Procedure

The manager must detail the business case for granting flexible retirement on the attached form.

This form must be approved by the Director and Head of HR.

The Pensions administrator will supply an estimate of the level of pension benefits payable to the employee on request. Benefits may be actuarially reduced and the employee must have the long-term effects of such a reduction explained to them.

5. Management Guidance

- This arrangement is applicable where an employee has stated or is considering their intention to retire.

- It is intended that this policy will result in savings, be cost neutral or cost effective. It should not result in increased costs to the Council.

- The policy is intended to protect or enhance service delivery. Whilst it is difficult to provide an exhaustive list of examples, three are set out below:

  I. Loss of scarce skills. Where an employee in a skill shortage area decides to resign and would be difficult to replace, but was prepared to draw their pension and work part time. If this would protect or enhance service delivery, then flexible retirement could be agreed.

  II. To complete a piece of project work and it is cheaper or more cost effective to have it done by the retiree on reduced hours.

  III. The retiree could continue on a reduced hours basis to provide cover whilst recruitment is in progress, where this would be more cost effective than using interim arrangements.

Appendix D

Power of Authority to Award Additional Pension

1. Purpose

The purpose of this policy is to allow the Council to exercise its discretion under Regulation 31 of The Local Government Pension Scheme Regulations 2013.

2. Policy

- Under the above regulations the council must publish a statement of policy, which is to be applied in the exercise of the “discretionary powers”, detailed within those regulations. Regulation 31 of The Local Government Pension Scheme Regulations 2013 allows the Council to resolve to award an increase to a members' annual pension.

- Any increase to a members' pension will only be considered in exceptional cases, where the employee has demonstrated an outstanding contribution to the Council’s plans.

- The member is eligible to retire at no cost to the Council.

- Cases will only be considered where the employee has completed at least 15 years service with the London Borough of Hillingdon.

- The maximum increase to a members' pension is £6,500 (as at 1 April 2014, this figure will increase each year from April 2015 in line with the Consumer Prices Index (CPI)).

- Operation of the scheme must be consistent to avoid successful challenge on the grounds of discrimination.

- Only cases submitted by both the Chief Executive and Leader of the Council will be considered.

Human Resources

Authorised by: Chief Executive

Effective date: 1st April 2014

Appendix E

Power of Authority to Waive Any Actuarial Reduction for Employees Leaving Before Age 60, Under the "Rule of 85"

Contents

Human Resources

Authorised by: Chief Executive
Effective date: 1st April 2014

1. Scope

This Policy applies to all employees of the Council.

2. Purpose

The purpose of this policy is to allow the Council as an employer to exercise its discretion under The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014.

3. Policy

- Under the above regulations the council must publish a statement of policy, which is to be applied in the exercise of the “discretionary powers”, detailed within those regulations. The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 allows the Council to resolve to waive any actuarial reduction applicable to a members benefits coming in to payment as a result of their voluntary retirement before age 65, and satisfying the "Rule of 85".

- The authority may waive any actuarial reduction, and as a result pay the strain cost associated with waiving the reduction in to the pension fund.

- Operation of the scheme must be consistent to avoid successful challenge on the grounds of discrimination.

- The Authority has resolved not to consider use of this provision.

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REVISED STATEMENT OF INVESTMENT PRINCIPLES

Contact Officers	Tunde Adekoya, 01895 556350
Papers with this report	

SUMMARY

As a result of continuing asset allocation review by the fund, the Pension Fund Committee ratified the Investment Sub Committee suggestion to invest approximately 2% of the fund's assets is US Treasury Inflation Protected Securities (TIPS) as part of the Tactical Asset Allocation strategy.

In addition, it was agreed that the investment limits in partnerships would be increased from 5% to 15% of fund assets to accommodate increased investments in partnerships (Private Equity, M&G and Macquarie) for an initial period of one year.

These have necessitated amendments to the Statement of Investment Principles as required by the LGPS Regulations (Revised) 2009. In addition, following the withdrawal of membership from LAPFF, sections of the SoIP have been updated.

RECOMMENDATIONS

That Committee agree under Regulations 12 (5) and 14 (1) of the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009:

1. **To approve the Revised Statement of Investment Principles (March 2014) reflecting changes in the funds asset allocation and Investment mix and extend period of increase percentage (15%) of all partnership investments by five years till December 2018, as attached.**

Information

1. Based on the recommendation of the fund's independent investment advisor, Scott Jameison, Committee ratified an allocation of 2% of fund's assets to investments in US TIPS in June 2013.

2. The tactical allocation was executed in June 2013 by UBS Global Asset Management for the fund, free of charge in accordance with a standing agreement between both parties on investments in futures.

3. Due to increased drawdown of commitments to investments in both M&G funds, partnership investments as a percentage of the fund's assets have increased to about 10% and in order operate within the guidelines of the Local Government Pension Scheme (Management and Investments Funds) Regulations 2009, there is a need to further extend the period of increased limits (15%) in these type of investments for another five years. By which time hopefully, increased return of capital by Private Equity managers will ensure the initial permissible limits (5% of fund assets) will suffice.

FINANCIAL IMPLICATIONS

The financial implications are explained within the report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

Statement of Investment Principles
(Revised March 2014)

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 sets out the powers and duties of the administrating 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:

- Appointing the investment manager(s) and any external consultants felt to be necessary,
- Appointing the custodian,
- Reviewing on a regular basis (quarterly) the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls,
- Ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund invests in suitable types of investments,
- Approving the Statement of Investment Principles, and
- Monitoring compliance with the Statement and reviewing its contents from time to time.

The **Investment Sub Committee** has responsibility for:

- Monitoring financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework,
- Keeping asset allocation under review within range guidelines set by the Pension Committee,
- Considering the framework for the allocation of new money among managers and similarly, in the event that assets need to be realised,
- Formally reviewing the mandates of the managers, and their adherence to their expected investment process and style,
- Considering the need for any changes to the investment managers' mandates or manager arrangements,
- Evaluating the credentials of potential managers and make recommendations to the Pension Committee in respect of any change of managers.
- Monitoring the investment advice from their investment consultant and investment adviser at least annually,
- Maintaining the Funds Statement of Investment Principles.

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.

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, Barings Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, M&G Investments, Macquarie Infrastructure & Real Assets Europe, Marathon Asset Management, Newton Asset Management, 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 and Investment Consultant and gives 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 and fund of hedge fund strategies. 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
Barings Asset Management	- 4% 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
Marathon Asset Management	- Outperform benchmark
Macquarie Infrastructure	- Outperform internal rate of return hurdle
Newton Asset Management	- 2% 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

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
Barings Asset 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
Marathon Asset Management	- Fee based on performance
Macquarie Infrastructure	- Fee based on committed capital + performance fee
Newton Asset Management	- Fixed fee based on portfolio value
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.
Hymans Robertson LLP	- Price per piece
Scott Jamieson	- Fixed fee

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

Schedule 1 Limits on Investments

At their meeting on 12 December 2012, the Committee agreed to an increase in the limit on investments in contributions to any single partnership from 2% to 5%, an increase in the limit on investments in contributions to all partnerships from 5% to 15% and an increase in the limit on investments in any single insurance contract from 25% to 35%. Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken to allow for diversification into private equity and infrastructure; both categories use partnerships and single insurance contracts are utilised for safekeeping of transitioned assets from disengaged managers. The decision will apply for a period of 1 year from the date of the meeting (12 December 2012), at which point it will be re-considered. This decision complies with The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009.

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.

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.

APPENDIX A

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	Administering Authorities should ensure that: • 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.	Compliant 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. 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. 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. An independent adviser sits on the Pension Committee to add additional challenge to the advice received.
Principle 2 Clear objectives	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.	Compliant The investment objectives and attitudes to risk are set out in the Statement of Investment Principles and Funding Strategy Statement. Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.

Principle 3 Risk and liabilities	In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities. These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Compliant The review of the Funding Strategy takes into account relevant issues and implications.
Principle 4 Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. 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.	Partly Compliant 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. Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.
Principle 5 Responsible ownership	Administering authorities should: • 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.	Partially Compliant The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles. Fund manager engagement and Local Authority Pension Fund Forum activities are reported and reviewed on a quarterly basis.
Principle 6 Transparency and reporting	Administering authorities should: • act in a transparent manner, communicating with shareholders on issues relating to their management of investment, its governance and risks, including performance against stated	Partially Compliant The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated as required.

	objectives • provide regular communication to scheme members in the form they consider most appropriate.	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. The minutes and decisions taken at Pension Committee meetings are available on the Council website.

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended, 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	1%
All contributions to any single partnership	5%
All contributions to partnerships.	15%
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	10%
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	25%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%
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).	25%
Any single insurance contract.	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Restrictions identified in the above table does not apply if:

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.

- Restrictions identified in the above table do not apply to:

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.

APPENDIX C

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**		

Barings ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Dynamic Asset Allocation	100	100	LIBOR 3 month **+ 4%**
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**		

MARATHON ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Global Equities	100	n/a	MSCI World
Total	**100**		

Newton Asset Management			
Asset Class	Benchmark %	Ranges %	Index
Global Higher Income	100	n/a	FTSE World Index +2%
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 Equity Index fund	3		FTSE All-World All Emerging (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**		

STATE STREET GLOBAL ADVISORS - Account 2			
Asset Class	Benchmark %	Ranges %	Index
Sterling Corporate Bond All Stocks Index Fund	50	+/- 10% of Benchmark	Barclays Capital Sterling Aggregate (or similar)
Sterling Liquidity sub-Fund	50		
Total	**100**		

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

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

APPENDIX E

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	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. In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of NAPF.
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.	The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings.
Principle 3 - Institutional investors should monitor their investee companies	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.
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.	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.
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.	The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	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. 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.

	Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does not currently disclose any voting data.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on “Responsible Investing” in its annual report.

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