Public Document Pack

HILLINGDON
LONDON

A

Pensions Committee

Date: TUESDAY, 23 SEPTEMBER 2014

Time: 7.00 PM

Venue: COMMITTEE ROOM 2 - 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)
Beulah East
Tony Eginton (Labour Lead)
Raymond Graham
John Morse
Richard Mills
David Simmonds

Advisory Members

John Holroyd
Andrew Scott

This agenda and associated reports can be made available in other languages, in Braille, large print or on audio tape on request. Please contact us for further information.

Published: Monday, 15 September 2014

Contact: Khalid Ahmed
Tel: 01895 250833
Fax: 01895 277373
Email: kahmed@hillingdon.gov.uk

This Agenda is available online at:
http://modgov.hillingdon.gov.uk/ieListDocuments.aspx?CId=125&MId=2031&Ver=4

Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
3E/05, Civic Centre, High Street, Uxbridge, UB8 1UW
www.hillingdon.gov.uk

Useful information

Bus routes 427, U1, U3, U4 and U7 all stop at the Civic Centre. Uxbridge underground station, with the Piccadilly and Metropolitan lines, is a short walk away. Limited parking is available at the Civic Centre. For details on availability and how to book a parking space, please contact Democratic Services

Please enter from the Council's main reception where you will be directed to the Committee Room. An Induction Loop System is available for use in the various meeting rooms. Please contact us for further information.

Please switch off any mobile telephones and BlackBerries™ before the meeting. Any recording of the meeting is not allowed, either using electronic, mobile or visual devices.

If there is a FIRE in the building the alarm will sound continuously. If there is a BOMB ALERT the alarm sounds intermittently. Please make your way to the nearest FIRE EXIT.

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

Minutes

PENSIONS COMMITTEE

18 June 2014

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

	Committee Members Present: Councillors Philip Corthorne (Chairman) Beulah East Tony Eginton (Labour Lead) Raymond Graham John Morse Richard Mills Susan O'Brien David Simmonds **Advisory Members** John Holroyd and Andrew Scott **LBH Officers Present**: Paul Whaymand Nancy le Roux Ken Chisolm Charles Francis	
3.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Cllr Markham. Cllr O'Brien acted as substitute.	**Action by**
4.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillors Corthorne, Simmonds, O'Brien, Mills and Eginton and advisory member John Holroyd declared pecuniary interests in all Agenda Items, in that they were all members of the Local Government Pension Scheme, and remained in the room.	**Action by**
5.	**MINUTES OF THE MEETINGS - 26 MARCH 2014 AND 5 JUNE 2014** *(Agenda Item 3)* Were agreed as an accurate record subject to the following amendments: Cllr Harmsworth did attend 26 March 2014 meeting and £719 mentioned within *'Review of Performance Measurement of the Pension Fund'* be changed to read £719 m.	**Action by**
6.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)*	**Action by**

	That Agenda Items 8, 9 and 10 be considered in private for the reasons stated on the agenda and the rest of the items be considered in public.	
7.	**REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND** *(Agenda Item 5)* Consideration was given to the report which provided a summary of fund manager performance for the London Borough of Hillingdon Pension Fund for the quarter ending 31 March 2014. It was noted that the total value of the fund's investments as at 31 March 2014 was £724m. Reference was made to the performance of the Fund for the quarter ending 31 March 2014, showing an outperformance of 0.17%, with a return of 0.97% compared to the benchmark of 0.80%. One year figures showed returns of 6.78%, which were 0.32% relatively better than the benchmark. Reference was made to Kempen and Macquire and their poor performance against the benchmark. Officers explained they were monitoring the situation closely but proposed the reasons for this would need to be explored by the Investment sub-Committee. In relation to the composition of Hillingdon's Pension Fund, it was noted that the investment strategy had a deliberate defensive bias through the strong allocation to multi-asset programmes and equity programmes that focused on providing sustainable dividend yeilds. With regards to the private equity proportion of the Pension Fund, Officers explained that they were considering a disinvestment strategy. Noting the quarterly reporting cycle and gap between 31 March and the mid June Committee date, Members requested that future reports incorporate comments about subsequent activities. **RESOLVED -** **That the report be noted.**	**Action by** Tunde Adekoya
8.	**ADMINISTRATION REPORT** *(Agenda Item 6)* Consideration was given to the report which provided an update on the outsourced Pensions Administration contract, the latest pension administration performance data and early retirements in the last quarter of 2013/14. It was noted that a contract review meeting was held on 10 April 2014 with the Capita managers responsible for the contract to emphasise Hillingdon's concerns. Capita were informed that the quality of the Hillingdon data had deteriorated and confidence had fallen in its ability to maintain Hillingdon's data. As a result, a Capita Employee Benefits (CEB) recovery plan was initiated to remedy the situation. Unfortunately, early signs suggest the recovery plan has not been as	**Action by**

	effective as anticipated. The Corporate Director of Finance will monitor this closely and further updates will be provided to the both the Investment Sub Committee and Pensions Committee. In relation to Administration Performance Information, it was noted that over the quarter, the overall average performance was 87.38% per month which was an improvement of 25.94% per month over the previous quarter. The report highlighted there were concerns about the performance with regards to sending condolence letters, and officers confirmed that they were monitoring this area on a daily basis to ensure that CEB improved its performance immediately. Officers explained that they would be visiting Capita in the near future to discuss the Authorities' concerns at CEB's overall performance and would provide an update to the next meeting. The statistics in relation to early retirement and the developments pertaining to the development of an Employee Pensions website were noted. **RESOLVED -** **That the Pensions Committee:** 1. **Note the ongoing Officer action in relation to the Capita Pensions Administration contract.** 2. **Review the latest administration performance statistics.** 3. **Note the latest information in respect of early retirements and communications.**	
9.	**LOCAL GOVERNMENT PENSION SCHEME AMENDMENTS - CONSULTATIONS AND UPDATE** *(Agenda Item 7)* Members were provided with a report which provided details of the recent changes to the Local Government Pension Scheme and further consultations on proposed scheme changes. In relation to Councillor membership of the Local Government Pension Scheme, Officers were asked to prepare a report which provided details on the options for Councillor members of the Pension Fund with the new changes to the scheme. **RESOLVED -** **1. That the information contained in the report be noted**	**Action by** Nancy Leroux
10.	**REPORT FROM INVESTMENT SUB-COMMITTEE AND INSIGHTS FROM INVESTMENT CONSULTANCY TENDERING PROCESS** *(Agenda Item 8)* 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	**Action by**

	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.**	
11.	**CORPORATE GOVERNANCE & SOCIALLY RESPONSIBLE INVESTMENT** *(Agenda Item 9)* 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.**	**Action by**
12.	**APPOINTMENT OF FUND ACTUARY AND STRATEGIC INVESTMENT CONSULTANT** *(Agenda Item 10)* 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.**	**Action by**
	The meeting, which commenced at 7.00 pm, closed at 7.37 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Charles Francis on 01895 556454. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

EXTERNAL AUDITOR REPORT ON THE PENSION FUND ANNUAL REPORT AND ACCOUNTS

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	Deloitte: Report on the financial statement audit for the year ended 31 March 2014 Pension Fund Annual Report and Accounts 2013/14

SUMMARY

The attached report summarises the findings of the External Auditor on the audit of the 2013/14 Pension Fund Annual Report and Accounts. The auditor has indicated that, subject to clearance of final points they expect to issues an unmodified opinion on the financial statements. A verbal update on the final outcome will be given at the meeting.

RECOMMENDATIONS

To note the auditor's findings and to approve the Annual Report of the Pension Fund.

BACKGROUND

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, Deloitte LLP, which must be completed by 30 September 2014.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Annual Report requires the approval of Pensions Committee. This report will also be taken to Audit Committee on 23 September 2014.

SCOPE OF THE EXTERNAL AUDIT

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:

- Significant audit risks
- Accounting and internal controls
- Consideration of Fraud

6. In addition, the Auditor requires a “Representation Letter” to be signed by management. The contents of this letter are set out at Appendix 1 to the attached Deloitte report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE REPORT

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and reports satisfactorily on the key audit risks. There was an adjustment made to the split between normal and deficit contributions, as the split has been based in incorrect information.

8. In relation to accounting and internal control systems, Deloitte have made one recommendation and that relates to the misstatement mentioned above. The recommendation was to develop a process which confirms the appropriate split with the latest actuary valuation. This process is now in place to ensure this error does not reoccur.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

Deloitte.

London Borough of Hillingdon Pension Fund

Report to the Pension Committee and the Audit Committee for the year ended 31 March 2014 Pension Fund Audit

the Distinctive audit

19 August 2014

Contents

The big picture

The Big Picture

We have pleasure in setting out in this document our report to the Pension Committee and Audit Committee of the London Borough of Hillingdon Pension Fund for the year ended 31 March 2014 for discussion at the meeting scheduled for 23 September 2014. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2014.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Audit Scope

The scope of our audit is unchanged from the previous period and from the scope set out in our Planning Report dated 27 February 2014.

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements which are prepared under CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").
- Report to "those charged with governance" on certain additional matters, including any adjusted and unadjusted errors identified by our audit, our independence and any other issues we consider should be brought to their attention.

Significant representations

A copy of the representation letter to be signed on behalf of the Pension Committee and Audit Committee has been included in Appendix 1 of this report. There are no new representations to highlight to those included for the 2013 audit.

Independence

We have identified no matters which would affect our independence as auditor. Our reporting requirements in respect of independence matters, including fees, are covered in Appendix 4.

"I am delighted to present our final report on the findings from our 2013/14 audit."

Heather Bygrave, Audit Partner

A reminder of our audit plan:

- Materiality: £7.3m (2012/13: £7.5m).
- Threshold for reporting misstatements: £0.36m (2012/13: £0.38m).
- Significant risks over contributions, benefits, investments and management override of controls.

The Big Picture (continued)

Status of the audit

We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan.

This report does not include any post balance sheet events from the date of issue of the report on 19 August 2014.

We have substantially completed our remaining audit work in accordance with our Audit Plan, which was presented to you prior to the commencement of the audit, subject to the satisfactory completion of the matters set out below:

- Receipt of signed management representation letter (see Appendix 1); and
- Update of post balance sheet event review.

We will report to you verbally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

At the date of this report and subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension Fund information that would result in the issuance of a modified audit opinion.

Significant audit risks

This section explains the nature of the significant risks we have identified, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.

1. Completeness and accuracy of contributions

Significant audit risk

Nature of risk

Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.

Impact on the financial statements and our audit challenge

Errors in processing contributions can lead to issues such as deducting incorrect amounts from active members' payroll, which can be costly to rectify and result in reputational damage.

Work completed to address the significant risk

We have performed the following testing to address the significant risks around contributions:

- reviewed the design and implementation of controls present in the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly;
- we performed sample tests of details to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates; and
- we developed an expectation based on changes in membership numbers and contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level.

We note the following from our testing:

- It was noted that an incorrect allocation of the contributions between employer normal contributions and deficit contributions was disclosed in the fund account for both the current and prior year. The employer normal contribution is capped for 12/13 and 13/14 at 15.9% and contributions made over and above this amount are classed as deficit contribution. The London Borough of Hillingdon also has an additional 1% of employer normal contribution to cover early retirement costs. We have discussed this with the Fund's Actuary to confirm the calculation.
- As such £80k has been posted as an adjustment to re-allocate deficit funding from employer normal contributions for the current year. A similar adjustment has been reflected in the prior year which has led to a restatement of £3m being posted as an adjustment to re-allocate to deficit funding from employer normal contributions.
- All other testing was completed with satisfactory results.

Deloitte view

We have formed a satisfactory conclusion in this area based on the results from the procedures performed.

2. Valuation of investments

Significant audit risk

Nature of risk

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

The value of unquoted private equity vehicles represents 5% (2013: 6%) of the assets of the Fund as a whole, totalling £37.1m (2013: £39.6m). The majority of the investments held by the Fund are in investments which have a quoted value £598.6m (2013: £564.5m) or are derived from quoted values £88.8m (2013: £75.4m);

Market volatility raises questions about how to value private equity funds. It would normally be expected that the reasonableness of the Fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the Fund year end.

In addition derivative financial instruments were identified as a risk due to the complexities in the valuations, however the scheme has only £288,000 investment asset relating to these products in the current year.

Impact on the financial statements and our audit challenge

Incorrect valuations of investments can lead to misstatements in the financial statements impacting investment decisions and future recovery plans.

Audit procedures completed to address the focus area

The following tests were performed to address the significant risks:

- we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly;
- we reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports;
- we have reconciled the total value of the investments held by the Fund as reported in the investment report from the custodian, Northern Trust to the value of investments reported in the Net Assets Statement;
- we have compared the valuations provided by Northern Trust to the reports provided by the investment manager;
- we have engaged our internal financial instrument experts to ensure our testing approach was appropriate given the Fund's specific investment strategy and portfolio;
- we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers by comparing the latest audited accounts of the investment (and its subsequent cash movements if the audited accounts are not same year end as the Fund) to ensure there are no differences to those in the Fund's financial statements; and
- we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the Northern Trust to the quoted price obtained from Bloomberg, DataStream or other third party sources.

Deloitte view

No issues were identified during the completion the testing.

We confirm there are no matters we wish to bring to the attention of the Committee.

2. Valuation of investments (continued)

Significant audit risk

Audit procedures completed to address the focus area (continued)

The valuations used by Northern Trust for Adams Street Partners are based on the quarterly reporting from Adams Street Partners. The valuation is then maintained until the next report is available. Thus the valuation shown as at 31 March 2014 relates to the December 2013 valuations. The valuations as at March 2014 are not provided until July 2014 by Adams Street. For the current year, management waited for the updated valuations by Adam Street and reflected the March 2014 valuations in the financial statements. This resulted in an increase in the value of these investments by £171k which has been reflected in the final financial statements. We received confirmations of these valuations as part of our audit procedures.

In addition it was noted that the audited accounts for the LGT Capital Partner funds again contained modified opinions. The scheme has £17.3m (2013: £18.2m) in these funds. The financial statements of the funds included an emphasis of matter paragraph over the valuation of the illiquid investments. We held discussions with the fund manager to satisfy ourselves that the values of the investments are unlikely to contain a material error. We gained a further understanding of the valuation process used and noted that this was in line with the industry standard.

In line with the prior year an additional disclosure has been included in the financial statements to give the users of the accounts better information on the risks surrounding this type of investment. Note 16 contains the following wording:

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

We note that steps have been made for the committee to annually review the funds' audited accounts to satisfy themselves that the valuations provided are sufficiently accurate.

We also note that, whilst not an adjustment, there are pricing differences totalling £680,000 between the custodian and the investment managers. This is due to the different pricing streams available to investment managers and custodians. The total represents 0.1% of the fund which is not considered significant.

Other than the above no issues were identified during our audit procedures.

3. Accuracy of benefit calculations

Significant audit risk

Nature of risk

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.

The risk noted was that benefits payable could be inaccurately recorded and that unauthorised payments could be made to non-existent members.

Impact on the financial statements and our audit challenge

Incorrect benefit calculations or making payments to members who are not eligible can lead to misstatements in the financial statements, financial loss, pensioner's being wrongly paid and reputational damage.

Work completed to address the focus area

The following tests were performed to address the significant risk around benefits:

- we reviewed 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 and testing that controls were in force during the year under review;
- we obtained a schedule of benefits paid and selected a sample of benefits for detailed testing. The sample was tested 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
- we developed 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.

Deloitte view

We have formed a satisfactory conclusion in this area based on the results from the procedures performed. There are no matters to bring to the attention of the Committee.

4. Management override of controls

Presumed significant audit risk

Nature of risk

In accordance with ISA 240 (UK and Ireland) management override is always a significant risk. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Work completed to address the significant risk

Our audit work included:

- we reviewed the controls around the financial reporting process, including segregation of duties, existence of reporting manuals, reviews and processing and approval of journal entries;
- we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale;
- we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings;
- we have reviewed significant management estimates and judgements such as year-end accruals and provisions and consider whether they are reasonable;
- we have made enquiries of those charged with governance as part of our planning and detailed audit processes; and
- we reviewed and challenged the financial statements and management judgements against the SORP, LGPS and applicable UK pension regulations.

Deloitte view

There are no matters to bring to the attention of the Committee.

We have not identified any significant judgements or estimates used by management and there is no indication of significant bias.

Insight - Internal control and risk management

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Pension Committee & Audit Committee.

Accounting and internal controls

We highlight one update from a prior period control observation

We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Observation

As observed in the prior year, it was noted during testing that the calculation of deficit funding contributions was being completed using a historic split rather than the split provided by the latest actuarial valuations. We enquired with management on how this has updated for the current year. We obtained correspondence between management and the actuary as to how this split should have been calculated. We reconfirmed with the actuary direct that the calculation was in line with the latest actuarial valuation and recalculated the split. Whilst there is no issue with the total amount being paid, an adjustment was posted to re-allocate £80k of contributions between normal and deficit in the current year and £3m in the prior year following confirmation of the calculation with the Actuary.

Recommendation

We recommend a process be implemented that confirms the appropriate allocation with the latest actuary valuation with the Fund Actuary when the deficit contributions are being calculated.

Management response

Management agree with this recommendation and confirm that a process will be developed during the autumn as part of our annual review of the closing process.

Consideration of fraud

Consideration of fraud

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 to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

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. 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.

ISA (UK and Ireland) 240 – 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks. It also requires us to presume there is a risk of fraud in respect of revenue recognition; however, considering the nature of the Fund and the revenue streams (mainly contributions and investment income) we have rebutted this risk.

We have made enquiries of management and others within the Fund as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Fund. In addition, we are required to discuss the following with the Committee:

1. Whether the Committee have knowledge of any fraud, alleged or suspected fraud
2. The role that the Committee exercise in oversight of the:
    - assessment of the risks of fraud and
    - design and implementation of internal controls to prevent and detect fraud
3. The Committees' assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. Whether the Committee has disclosed to us all information in relation to any fraud, alleged or suspected fraud

Representations from the Committee in this area are included in the draft letter of representation included in Appendix 1 of this report.

Management override of controls

In addition to the procedures above we are required to design and perform audit procedures to respond to the risk of management's override of controls, which included:

- understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, we tested the appropriateness of a sample of such entries and adjustments.
- a review of accounting estimates for bias that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management. We also perform a retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements.
- obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Fund and its environment.

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 help the Pension & Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Any internal control observations; and
- Insights we may have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Committee.
- 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, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 27 February 2014.

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

19 August 2014

This report has been prepared for the Pension Committee and the Audit Committee, as a body, 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: Draft representation letter

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

Our Ref: ***HAB/GYW/2014*** ***Date:***

Dear Sirs

London Borough of Hillingdon Pension Fund (the "Fund")

This representation letter is provided in connection with your audit of the financial statements of the Fund for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, the financial transactions of the Pension Fund during the year ended 31 March 2014, and the amount and disposition of the Fund's asset and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the Fund year.

We acknowledge as members of London Borough of Hillingdon Pension Fund our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. 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.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (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.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

Appendix 1: Draft representation letter (continued)

7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.

   We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under the Code of Audit Practice on Local Authority Accounting in the United Kingdom in 2013/14: based on International Financial Reporting Standards or other regulations.

9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

10. You have been informed of all changes to the Fund rules during the year and up to the current date.

11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

12. No claims in connection with litigation have been or are expected to be received.

13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

14. There have been no events subsequent to 31 March 2014 which require adjustment of or disclosure in the financial statements or notes thereto.

15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

16. The pension Fund accounts and related notes are free from material misstatements, including omissions.

17. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

18. The Fund has satisfactory title to all assets.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

Appendix 1: Draft representation letter (continued)

20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.

21. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2014 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of London Borough of Hillingdon Pension Fund

Appendix 2: Audit adjustments
Unadjusted misstatements detail

Uncorrected misstatements

We report all individual identified uncorrected misstatements in excess of £360,000 (2013: £380,000) for the financial statements:

	Credit/ (charge) to current year fund account £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in prior year net assets £'000	Increase/ (decrease) in contributions £'000
Uncorrected misstatements				
None noted				

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable those charged with governance to evaluate the impact of those matters on the financial statements. There were no disclosure deficiencies identified to bring to the attention of the Committee.

Appendix 3: Fraud: responsibilities and representations

Required representations

We have asked the Committee to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you that affects the Fund.

Audit work performed

In our planning we identified management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management.
In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Pension and Audit committee on the process for identifying, evaluating and managing the system of internal financial control.

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. 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.

Appendix 4: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	Our fee for the audit of the 2014 accounts was £21,000 plus disbursements and VAT (2013: £21,000). In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to London Borough of Hillingdon Pension Fund was £2,874.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Fund's policy for the supply of non-audit services or of any apparent breach of that policy. To confirm we have not performed any non-audit services in the year or previous year. 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.
Relationships	We are required to provide written details of all relationships between us and the audited entity, its senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its senior management and its affiliates that we consider may reasonably be thought to bear on our objectivity and independence and the related safeguards that have been put in place. We can confirm that we are not aware of any such relationships.

Pension Fund
Annual Report & Accounts
for the year to 31 March 2014

HILLINGDON
LONDON

INVESTOR IN PEOPLE

www.hillingdon.gov.uk

CONTENTS

PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2014

Administering Authority: London Borough of Hillingdon

Pension Fund Committee Members as at 31 March 2014:
Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth
Cllr Raymond Graham
Cllr David Simmonds
Cllr Janet Duncan
John Holroyd(Pensioner/Deferred Member Rep)
Andrew Scott (Active Member Rep)

Corporate Director of Finance: Paul Whaymand

Strategic Investment Consultant: Hymans Robertson LLP

Independent Investment Adviser: Scott Jamieson

Fund Managers:
Adam Street Partners
Barings Asset Management
JP Morgan Asset management
Kempen International Investments
LGT Capital Partners
Macquarie Investment
M&G Investments (Direct Investment)
Newton Investment Management
Ruffer LLP
State Street Global Advisors
UBS Global Asset Management

Actuary: Hymans Robertson LLP

Administration: Capita Employee Benefits

Legal Services: Raj Alagh, Borough Solicitor LBH

Auditor: Deloitte LLP

Banker: HSBC Bank Plc
Natwest Plc

Custodian for Fund Assets: Northern Trust Company

AVC Provider: Prudential Assurance Company

Officer Support:
Nancy le Roux, Deputy Director - Strategic Finance
Ken Chisholm, Corporate Pensions Manager
Tunde Adekoya, Pension Fund Accountant

2. Management Report

(a) Introduction

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

The day to day management of the investment of the funds is undertaken by independent Fund managers. The Pensions Administration of the scheme is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

During the year Pensions Committee meet formally on four occasions and the Investment sub-committee also meet four times per year between main committee meetings and on an ad hoc basis as required.

b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the Fund unless they elect otherwise. Over the last few years total membership of the Fund has grown as shown in the table below. There has been a large increase in the number of active scheme members in the last year, which is due to the L B Hillingdon and other scheme employers undergoing auto-enrolment.

5 Year Analysis of Fund Membership

Membership type	2009/10	2010/11	2011/12	2012/13	2013/14	5 year movement
Active	6,235	6,039	5,948	6,213	7,524	+20.67%
Pensioner	4,991	5,187	5,378	5,498	6,003	+20.28%
Deferred	4,772	4,890	5,492	5,883	6,311	+32.25%
Total Membership	**15,988**	**16,116**	**16,818**	**17,594**	**19,838**	**+24.08%**

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

Type of Retirement	2009/10	2010/11	2011/12	2012/13	2013/14
Redundancy or Efficiency	21	26	65	23	50
Ill Health	15	13	12	6	3
Total	**36**	**39**	**77**	**29**	**53**

The age and membership profile as at 31 March 2014 is shown below-

Age Band	Active	Deferred	Pensioner/Dependent	Total
0 - 5	0	0	1	1
6 – 10	0	0	0	0
11 – 15	0	0	19	19
16 – 20	123	6	21	150
21 – 25	353	176	13	542
26 – 30	521	434	0	955
31 – 35	690	583	1	1,274
36 – 40	789	655	2	1,446
41 – 45	1,090	927	15	2,032
46 – 50	1,372	1,224	35	2,631
51 – 55	1,234	1,197	93	2,524
56 – 60	841	871	312	2,024
61 – 65	386	175	1,112	1,673
66 – 70	107	47	1,380	1,534
71 – 75	18	10	966	994
76 – 80	0	6	884	890
81 – 85	0	0	660	660
86 – 90	0	0	335	335
91 – 95	0	0	131	131
96 – 100	0	0	20	20
Over 100	0	0	3	3
Total	**7,524**	**6,311**	**6,003**	**19,838**

(c) Key Performance Data

All LGPS Funds measure performance against key industry performance indicators. Targets are set and agreed at the start of each year. Pensions Committee receive a quarterly report on performance which addresses any concerns in relation to performance. The table below details CEB's performance against target for the year to 31 March 2014.

Performance Indicator	Hillingdon Target	2012/13 Performance %	2013/14 Performance %
Letter detailing transfer in quote	10 days	98.81	87.18
Letter detailing transfer out quote	10 days	99.31	78.38
Process refund & issue payment	5 days	97.22	81.64
Letter notifying estimate of benefit	10 days	97.85	80.07
Letter notifying actual benefit	5 days	95.21	78.14
Letter acknowledging death	5 days	99.48	82.77
Letter notifying amount of dependant’s benefit	5 days	100.00	50.50
Calculate & notify deferred benefits	10 days	95.65	78.70

(d) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2013/14 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	297,877.77	23.40
Belmore Primary School	137,074.11	22.80
Bishop Ramsey School	172,984.05	26.30
Bishopshalt School	230,273.35	29.60
Charville Academy	148,436.27	34.50
Coteford Junior School	187,442.26	27.40
Cranford Park School	210,748.07	28.00
Douay Martyrs School	193,365.12	30.30
Eden Academy	560,338.02	25.10
Genuine Dining Ltd	40,820.00	21.00
Greenwich Leisure	83,784.40	16.80
Guru Nanak Academy	292,011.18	21.20
Harefield Academy	141,111.70	19.00
Haydon School	283,708.07	22.20
Heathrow Travel care	19,896.25	18.90
Hewens Academy	188,396.67	24.50
Hillingdon & Ealing Citizens Advice	37,397.22	19.10 + £12,000.00
LBDS Frays Academy	190,552.73	24.80
London Housing Consortium	98,975.11	21.00
Mitie Cleaning	25,205.72	21.00
Mitie Facilities Management	66,616.08	21.00
Nanaksar Primary School	14,738.48	15.30
Northwood School	79,160.68	21.70
Queensmead School	130,919.62	24.30
Stag Security Services	1,537.32	20.60
Stockley Academy	169,413.94	19.40
Swakeleys Academy	136,174.83	24.00
Uxbridge College	792,071.13	17.80
Uxbridge High School	181,248.55	21.50
Vyners Academy	180,161.17	28.70
Willows Academy	43,060.08	27.20
Wood End Park School	204,784.43	24.50
Total	**5,540,284.38**	

(e) Impact of Contributions received and Benefits paid on cash flow

Total contributions and transfers In received during the year were £35.8m, an increase of £3.6m over 2012/13, this was primarily due to the increased number of scheme members, and the number of transfers In received. The total benefits and transfers out, in 2013/14 amounted to £37.6m, an increase of £4.2m on last year. The overall deficit between income and expenditure was £2.4m, an increase of £0.6m over 2012/13.

(f) Administrative expenses

Administration expenses increased over the year by £21k due to the additional actuarial costs associated with the triennial valuation as at 31 March 2013.

3. Risk Management

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

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated monthly and reported to Pension Committee on an exception basis. A brief narrative description of each risk is set out below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement in Section F of this report.

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

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

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

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

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT COMMENTARY FOR THE YEAR TO 31 MARCH 2014

Equity markets in the UK, Euro zone and North America performed strongly over the year, albeit with some unsettled periods when share prices fell. Investor confidence was supported, in the main, by record low short-term interest rates.

In late May 2013, there was a distinct, if short lived, change in the prevailing bullish market sentiment, when the US central bank hinted it might begin scaling back its programme of asset purchases. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Euro zone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging markets. In the UK, Europe and US, there was some recovery over the summer of 2013, as central banks sought to re-assure investors and to restore confidence.

In December 2013, and after much speculation, the US central bank commenced the scaling back of its monthly asset buying program. This is likely to be phased out entirely during 2014 but official guidance indicates no rise in interest rates until there is clear evidence of sustainable economic growth. In contrast to US policy, the European central bank provided further monetary easing through two cuts in short-term interest rates; one in May 2013, from 0.75% to 0.50%, and a second in November 2013, to 0.25%, as inflation in the Euro zone dipped below 1% p.a.

In the March 2014 budget, branded as a budget for ‘savers’, the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

Key events over the 12 month period were:

Global Economy

- Forecasts of UK economic growth for 2014 & 2015 were revised upwards by the Office for Budget Responsibility;
- Short-term interest rates were unchanged in UK and US and reduced, in two stages, from 0.75% to 0.25%, in the Euro zone;
- The Euro zone emerged from recession after four consecutive quarter of economic contraction but growth remained very subdued;
- The European Commission allowed some member states to slow the pace of austerity measures. In the UK, the government’s deficit reduction plans remained on course;
- UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February 2014;
- Euro zone inflation fell to 0.5% in March 2014 (the lowest rate since November 2009);
- Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports.

Equities

- The best performing sectors relative to the 'All World' Index were Technology (+8.1%) and Health Care (+7.6%); the worst were Basic Materials (-9.8%) and Consumer Goods (-5.2%);
- Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements (July 2013);
- Vodafone sold its 45% stake in Verizon for $130bn (September 2013).
- The UK government announced plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25% (March 2014).

Bonds

- UK government bonds yields rose (prices fell), reflecting optimism about the economic outlook;
- Corporate bonds outperformed their government counterparts by a comfortable margin;
- Argentinian devaluation in January 2014 caused sharp fluctuations in other emerging market currencies.

Linda Selman May 2014, for and on behalf of Hymans Robertson LLP

INVESTMENT STRATEGY

The setting and maintenance of the Fund's investment strategy is undertaken through the work of the Investment Sub Committee. The main consideration when devising an investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependents, both now and in the future. These benefits, which form the liabilities of the Fund, are very long term in nature. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities and property which are expected to deliver higher investment returns over the longer term.

During 2013/14 several changes to the Fund's asset allocation were agreed and implemented:

- Transition of assets totalling £61m from both UBS Equities and Ruffer portfolios was implemented in April 2013 to fund the new Barings Dynamic Asset Allocation strategy, as decided by the Pensions Committee in March 2013.

- Following a review of the Fund's asset allocation and style risk profile, committee decided to reduce the Fund's exposure to UK Equities and lock-in some gains from the outperformance of the UBS Equities portfolio through 2013/14 and to increase exposure to Emerging markets where the Fund was underweight. As a result £29m was disinvested from the UBS Equity Portfolio and the same amount was invested in the Kempen Global Higher Dividend Fund.

- The Fund concluded arrangements to action the final part of commitment to Infrastructure investments by committing $10m to the Macquarie Infrastructure Programme III (MIP III), the North American offering to fully diversify investments in infrastructure as planned at its inception.

- A decision was taken to defund the JP Morgan Corporate Bonds portfolio for reasons associated with very low, though positive, returns achieved and the likely lack of offsetting performance on any decline in equities, although the movement of funds would only be made once new opportunities were identified and agreed.

- Subsequently a further £15m was committed to M&G as part of its' Debt Opportunities Fund II offering to exploit the lack of credit in the financial market and take advantage of the generous IRR offered by the new offering from M&G.

- Additionally, £15m was committed to secondary property through the AEW UK Core Property Fund, to further enhance the diversified nature of the Fund's assets. (Deployment of the divested funds from JP Morgan (£30m) will be on a draw-down basis when required by the fund managers to fund investment opportunities. In the interim, JP Morgan will continue to manage the remaining funds as originally agreed.)

The allocation of Fund assets among the managers' mandates as at 31 March 2014 was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.93	
Barings	2.10	6.60				
JP Morgan			10.69			
Kempen	1.41	9.26				
LGT					2.18	
M&G						3.56
Macquarie						0.73
Newton	0.32	2.94				
Ruffer	2.12	4.64	3.92			0.16
State Street	8.70	7.20	3.96			
UBS Equities	15.34			0.01		
UBS Property				6.97		
UBS TAA			1.77			
Total	**29.99**	**30.64**	**20.34**	**6.98**	**5.11**	**4.45**

(A cash holding of 2.49% is not included in the above table.)

FUND MANAGERS

State Street

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

UBS (UK equities)

UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2014 was conducive to their investment style and contributed to their outperforming the benchmark from one year, three years, and five years and since inception categories.

UBS Property

The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a Fund of Funds arrangement with the assets managed in several pooled property Funds managed by several managers, but with UBS responsible for selecting the pooled funds. Following the successful restructure of the UBS Triton part of the Property portfolio, performances have been relatively better even though still behind benchmark in all categories.

Private equity
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 5.1% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several Funds launched in different years in order to provide time diversification.

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

Macquarie
The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year. The last part of infrastructure investments through Macquarie was formalised in April 2014, with the commitment of $10 million to Macquarie Infrastructure Programme III (MIP III), the North American fund and fully diversifying investments with Macquarie.

M&G
The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The Fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. During the financial year under review, commitments to M&G Funds were increased with an investment of a further £15 million in the Debt Opportunities Fund II. This Fund specifically targets distressed companies in which M&G already has vested interest and offer rescue packages at much discounted rates.

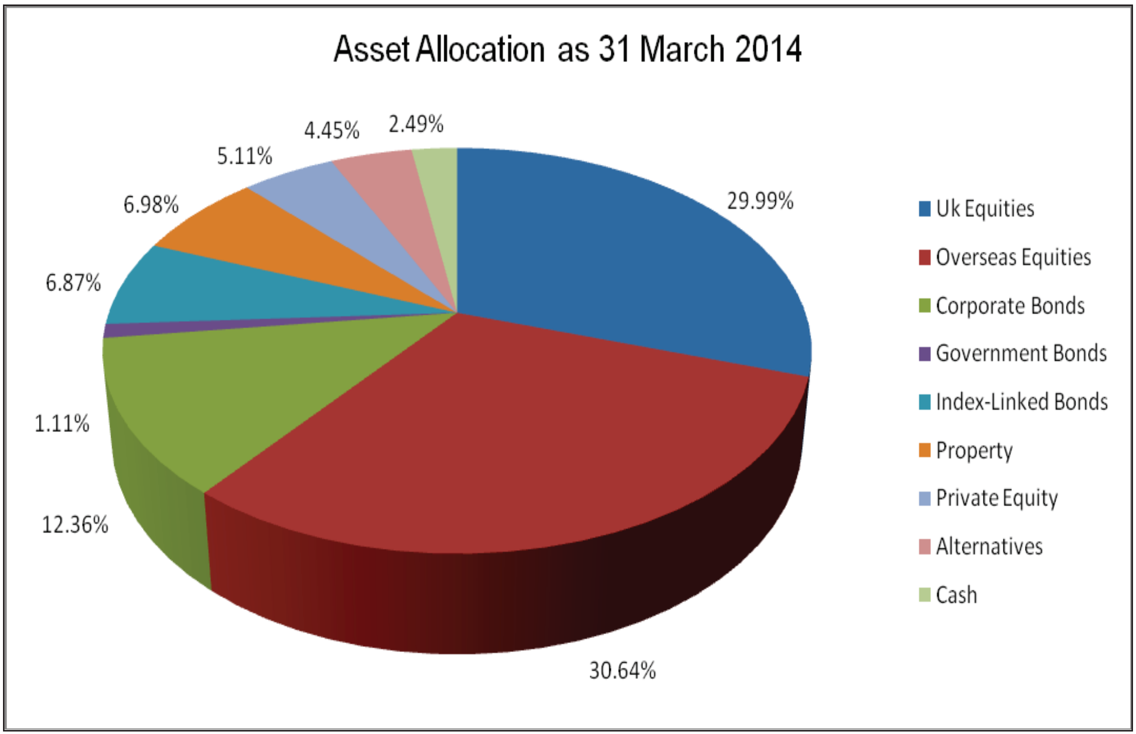
JP Morgan
JP Morgan mandate has been in place for just over 21/2 years and has been deemed to have performed below expectations by underperforming with a relative return of (0.30%) over one year. However, since inception, the portfolio outperformed the benchmark with a relative return of 1.02%.

Newton
Newton was appointed in January 2013 to manage about £22 million of the Fund's assets with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable outstripping contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate any assets.

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

Barings
Barings were appointed in April 2013 as an absolute returns manager to reduce the style risk with a considerable amount of the Fund's assets under Ruffer. Again, though Barings are an absolute returns manager, their style bias does complement Ruffer rather than mirror its' style.

Fund Value and Asset allocation as at 31 March 2014
At 31 March 2014 the total value of the Pension Fund investment assets was £724,461k. The following diagram identifies the allocation, by asset class, as at 31 March 2014.



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

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2014.

INVESTMENT MANAGER	31 March 2014		31 March 2013	
	£'000	%	£'000	%
Adams Street Partners	22,459	3.10	23,366	3.44
Barings Global Asset Management	63,046	8.70	-	-
JP Morgan Asset Management	77,397	10.68	74,981	11.03
Kempen International Investments	77,356	10.68	46,884	6.90
LGT Capital Partners	17,257	2.38	18,215	2.68
M&G Investments	25,912	3.58	16,351	2.41
Macquarie Infrastructure	5,858	0.81	8,536	1.26
Newton Asset Management	23,618	3.26	22,819	3.36
Ruffer LLP	84,447	11.66	131,368	19.33
State Street Global Advisors	143,802	19.85	142,038	20.90
UBS Global Asset Management	115,829	15.99	135,737	19.97
UBS Property	54,368	7.50	48,574	7.15
UBS TAA	12,873	1.78	-	-
Other*	239	0.03	10,683	1.57
Total	**724,461**	**100.00**	**679,552**	**100.00**

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

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), Schedule 1, sets out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance.

The largest five holdings in the Fund as at 31 March 2014 were:

Top 5 Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	77,397	10.68%
Kempen Int'l Funds	77,307	10.67%
SSgA Equity Index	63,114	8.71%
Baring Alpha Fund DAA	63,046	8.70%
BNY Mellon Newton Global Higher Income Fund	23,618	3.26%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
BP	12,538	1.73%
Royal Dutch Shell	11,842	1.63%
Lloyds Banking Group	6,039	0.83%
Rio Tinto	5,978	0.83%
GlaxoSmithKline	5,958	0.82%
Barclays	4,765	0.66%
HSBC	4,277	0.59%
Vodafone Group	3,691	0.51%
3I Group	3,556	0.49%
BAE Systems	3,191	0.44%

Investment Performance

Over the year, on investment performance, there was an annual return of 6.78%. All but one Fund manager, Macquarie produced positive returns over the year. Relative performance between the underlying managers was however, quite negative with all but three outperforming their benchmarks. Total Fund out-performance was helped by positive relative returns by UBS, M&G and Ruffer, which offset the below par returns by the rest of the Fund's managers and contributed to the relative outperformance of the plan benchmark by 0.32%.

As a result of the Fund restructuring over the last few years a full complement of returns is not available for all managers. JP Morgan, Kempen and Newton are yet to accrue three years worth of performance returns, whilst Barings have only been appointed for just under a year of the period under review.

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
JP Morgan	3.22	3.53	(0.30)	-	-	-	4.75	3.70	1.02
Kempen	0.76	11.21	(9.39)	-	-	-	5.75	16.52	(9.24)
Macquarie	(0.97)	3.53	(4.35)	(6.36)	3.74	(9.74)	(6.92)	3.75	(10.28)
M&G	5.41	4.54	0.84	5.65	4.74	0.86	5.03	4.75	(0.27)
Newton	3.50	8.88	(4.93)	-	-	-	10.11	13.58	(3.05)
Ruffer	0.68	0.52	0.16	5.52	0.75	4.74	5.83	0.74	5.05
SSgA	5.82	6.01	(0.17)	7.96	7.98	(0.02)	12.91	12.90	0.01
UBS	19.65	8.81	9.96	13.63	8.81	4.43	10.52	9.09	1.31
UBS (Property)	11.76	11.87	(0.10)	5.77	6.23	(0.44)	0.56	1.21	(0.64)
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Over the financial year under review, the fund grew by 6.78% equating to 32 basis points ahead of the benchmark figure of 6.44%. For a 3 year period to 31 March 2014, the Fund has outperformed with a relative return of 0.79% pa. Also, since inception in September 1995 the returns come to 6.78% just 5 basis points better than the benchmark.

Performance	1 Year			3 Year			Since Inception		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	16.44	8.81	7.63	12.24	8.81	3.43	3.85	8.41	(4.56)
Overseas Equity	3.12	6.21	(3.09)	3.96	6.64	(2.68)	5.68	6.64	(0.96)
Government Bonds	(15.50)	(2.56)	(12.94)	0.22	5.49	(5.27)	1.80	4.46	(2.66)
Corporate Bonds	1.28	1.55	(0.27)	7.89	7.35	0.54	10.97	8.78	2.19
Index Linked Gilts	(4.59)	(3.80)	(0.79)	6.36	7.79	(1.43)	6.79	8.02	(1.23)
Property	12.53	11.87	0.66	6.51	6.14	0.37	7.95	7.64	0.31
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Custody

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

Responsible Investing

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

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

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

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

PART C – SCHEME ADMINISTRATION

SCHEME ADMINISTRATION REPORT

Overview

The Administration of the Local Government Pension Scheme (LGPS) was outsourced to Capita Employee Benefits (CEB) 1 April 2012. London Borough of Hillingdon joined a pan-London Framework Agreement for LGPS Administration lead by the London Borough of Hammersmith and Fulham. Currently there are 4 London Boroughs signed up to the framework. They are London Borough of Hammersmith and Fulham, London Borough of Brent, London Borough of Hillingdon and The Royal Borough of Kensington and Chelsea. The Framework covers the full range of administration services for both current, former employees and pensioners of the London Borough of Hillingdon Fund including:

- Administer the Local Government Pension Scheme on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions.
- Administer the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions.
- Provide advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme.
- Exploit information technology to improve service standards and efficiency.

The performance of CEB is reported quarterly to Pensions Committee and monitored on a daily basis by pension's officers of London Borough of Hillingdon.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits and redundancy and compensation benefits for non-teaching employees.

The pensions administration service at CEB can be contacted by telephoning 0208 972 6050 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Operations Manager at CEB and at stage two to the Corporate Pensions Manager or a Senior Officer of the Council not previously involved in the case.

Review of 2013/14

The latest available Government SF3 statistics (for 2012/13) indicate the cost per member for all English Authorities was £27.02 compared with an outer London average of £44.83 per scheme member. The cost in 2013/14 for the London Borough of Hillingdon was £30.74, (a decrease of £3.28 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average "cost per member" when compared to all outer London Boroughs.

Every 3 years all LGPS Funds must undergo a formal valuation. This exercise took place as at 31 March 2013. As part of the triennial valuation, employer contributions rates are agreed for the following 3 years.

During 2013/14 a communications exercise was undertaken to inform scheme members of the changes to the benefit structure as a result of the introduction of the new Local Government Pension Scheme 2013, operative from 1 April 2014. This involved communicating with all current scheme members and making them aware of the changes. A number of workplace seminars were arranged and in total over 800 scheme members attended at least one session. Together with the Council's Communications team, information was sent out in the form of emails and articles in the Council's in house publications to all staff to highlight the main scheme changes. The Council's Pensions Website also included details of the changes due, and links were inserted to give further in-depth information of scheme changes.

Occasionally disagreements between members and scheme administrators arise. When disagreements do occur we do all we can to try to resolve them informally and reach an agreement. Where this is not possible the scheme provides a formal way for disagreements to be resolved. The Local Government Pension Scheme Regulations set out how disputes must be handled, and on our website we include our Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Director of Operations at CEB at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to the Corporate Pensions Manager at London Borough of Hillingdon or a Senior Officer of the Council, who has no previous involvement with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2013/14, there were 2 stage 1 appeals, neither of which progressed to stage 2. No cases have been referred to the Pensions Ombudsman.

PART D - ACTUARIAL REPORT

London Borough of Hillingdon Pension Fund Actuarial Statement for 2013/14
This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

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

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

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

Funding Position as at the last formal funding valuation
The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £683 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £266 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities
Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

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

Assumptions

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

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

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

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

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

*Currently aged 45

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation. The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen FFA, Fellow of the Institute and Faculty of Actuaries,
For and on behalf of Hymans Robertson LLP
15 May 2014

PART E - Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2014 £000's	31 March 2013 £000's
Contributions	*4*	35,099	31,871
Transfers In	*5*	750	284
Less: Benefits	*6*	(34,748)	(31,424)
Less: Leavers	*7*	(2,890)	(1,957)
Less: Administrative expenses	*8*	(610)	(589)
Net additions from dealings with members		**(2,399)**	**(1,815)**
Investment income	*9*	15,546	14,054
Changes in market value of investments	*10*	34,113	61,904
Taxes on income		(7)	(19)
Investment management expenses	*12*	(3,769)	(3,922)
Net return on investments		**45,883**	**72,017**
Net Increase in the fund during the year		**43,484**	**70,202**
Net Assets at start of year		**683,052**	**612,850**
Net Assets at end of year		**726,536**	**683,052**

		31 March 2014 £000's	31 March 2013 £000's
Investment Assets	*10*	725,110	682,984
Investment Liabilities	*11*	(649)	(3,432)
Current Assets	*13*	2,802	4,358
Current Liabilities	*14*	(727)	(858)
TOTAL NET ASSETS		**726,536**	**683,052**

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

Paul Whaymand
Corporate Director of Finance
29 September 2014

Pension Fund Accounts and Net Asset Statement

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

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

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

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

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

Admitted Bodies:

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

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Coteford Academy
Cranford Park Academy
Douay Martyrs Academy
Eden Academy
Guru Nanak Sikh Academy
Harefield Academy
Haydon Academy
LBDS Frays Academy Trust
London Housing Consortium
Nanak Sar Primary School
Northwood Academy
Queensmead Academy
Rosedale Hewens Academy
Stockley Academy
Swakeleys Academy
Willows Academy
Uxbridge College
Uxbridge Academy
Vyners Academy
Wood End Academy

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2014 there were 7,524 active employees contributing to the fund, with 6,003 in receipt of benefit and 6,311 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2014	31 March 2013
Number of employers with active members	33	32
Number of employees in scheme		
London Borough of Hillingdon	6,002	5,225
Other employers	1,522	988
Total	**7,524**	**6,213**
Number of Pensioners		
London Borough of Hillingdon	5,505	5,047
Other employers	498	451
Total	**6,003**	**5,498**
Deferred pensioners		
London Borough of Hillingdon	4,980	4,671
Other employers	1,331	1,212
Total	**6,311**	**5,883**

The pension fund investments are managed externally by fund managers: Adams Street Partners, Barings Global Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, Newton Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by the Pensions Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2013/14:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Paul Harmsworth
Cllr Janet Duncan
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority accounting in the United Kingdom 2013/14 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

3. ACCOUNTING POLICIES

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

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

3. ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2014 was £37,146k (£39,617k at 31 March 2013).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £37,146k. There is a risk that this investment may be under- or overstated in the accounts.

4. CONTRIBUTIONS

	31 March 2014 £000's	Restated 31 March 2013 £000's
Employers		
Normal	21,098	20,054
Deficit funding	5,160	3,673
Members		
Normal	8,133	7,920
Additional contributions	708	224
	35,099	**31,871**

Deficit Funding:- At the actuarial valuation on 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

Employers Normal and Deficit Funding has been restated from the published accounts to reflect a change in calculation methodology. The impact of the restatement was that, a) Deficit Funding was overstated by £3m and Normal contributions was understated by same amount. b) The overall net effect was nil.

NOTE:- At the latest actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%. This is further detailed in Note 18 and is effective from 01 April 2014.

Schedule of contributions by body	31 March 2014 £000's	31 March 2013 £000's
Employers		
LB Hillingdon	20,733	19,118
Scheduled Bodies	5,250	4,286
Admitted Bodies	275	323
Members		
LB Hillingdon	6,983	6,639
Scheduled Bodies	1,765	1,400
Admitted Bodies	93	105
	35,099	**31,871**

5. TRANSFERS IN

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers in from other schemes	750	284

6. BENEFITS

	31 March 2014 £000's	31 March 2013 £000's
Pensions	(28,114)	(26,818)
Commutations and lump sum retirement	(6,105)	(4,496)
Lump sum death benefits	(529)	(110)
	(34,748)	**(31,424)**

Schedule of benefits by employer	31 March 2014 £000's	31 March 2013 £000's
LB Hillingdon	(34,205)	(30,950)
Scheduled Bodies	(450)	(380)
Admitted Bodies	(93)	(94)
	(34,748)	**(31,424)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers out to other schemes	2,890	1,957
	2,890	**1,957**

8. ADMINISTRATIVE EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration and processing	525	545
Audit fee	18	21
Actuarial fee	67	23
	610	**589**

9. INVESTMENT INCOME

	31 March 2014 £000's	31 March 2013 £000's
Dividends from equities	6,668	6,662
Income from fixed interest Securities	40	0
Income from index-linked securities	334	396
Income from pooled investment vehicles	1,818	1,988
Interest on cash deposits	157	118
Other (for example from stock lending or underwriting)	6,529	4,890
	15,546	**14,054**

10. INVESTMENT ASSETS

	Value 1 April 2013 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2014 £000's
Equities	193,554	180,724	(218,069)	(8,151)	148,058
Index-linked securities	42,174	35,215	(32,170)	(9,856)	35,363
Pooled investment vehicles	415,149	85,467	(28,229)	49,798	522,185
	650,877	**301,406**	**(278,468)**	**31,791**	**705,606**
Other investment balances	3,048			2,542	1,131
Fund managers' cash	29,059			(220)	18,373
Total Investment Assets	**682,984**			**34,113**	**725,110**

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

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £539k (£357k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2014 £000's	Market Value 31 March 2013 £000's
Adams Street Partners	22,459	23,366
Barings Global Asset Management	63,046	0
JP Morgan Asset Management	77,397	74,981
Kempen International Investments	77,356	46,884
LGT Capital Partners	17,257	18,215
M&G Investments	25,912	16,351
Macquarie Infrastructure	5,858	8,536
Newton Asset Management	23,618	22,819
Ruffer LLP	84,447	131,368
State Street Global Advisors	143,802	142,038
UBS Global Asset Management (Equities	115,829	135,737
UBS Global Asset Management (Property	54,368	48,574
UBS TAA	12,873	0
Other*	239	10,683
Total	**724,461**	**679,552**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency		Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust	GBP - JPY	14,206	14,060	146	13/01/2014	14/04/2014
Northern Trust	JPY - GBP	1,675	1,679	(4)	17/01/2014	14/04/2014
Northern Trust	JPY - GBP	3,381	3,441	(60)	24/01/2014	14/04/2014
Northern Trust	JPY - GBP	1,655	1,664	(9)	05/03/2014	14/04/2014
Northern Trust	JPY - GBP	1,755	1,779	(24)	17/03/2014	14/04/2014
Northern Trust	GBP - EUR	23,781	23,661	120	06/02/2014	13/05/2014
Northern Trust	GBP - USD	7,701	7,598	103	11/02/2014	15/05/2014
Northern Trust	GBP - EUR	1,808	1,792	16	10/03/2014	13/06/2014
Total unrealised gains		**55,962**	**55,674**	**288**		

As at 31 March 2014 eight forward foreign exchange contracts were in place for £55,674k with unrealised gain of £288k. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class	31 March 2014 £000's	31 March 2013 £000's
Equities		
UK quoted	121,335	147,385
Overseas quoted	26,723	46,169
	148,058	**193,554**
Index Linked Securities		
UK Public Sector quoted	14,006	21,428
Overseas Public Sector Quoted	21,357	20,746
	35,363	**42,174**
Pooled Investment Vehicles		
UK Managed funds - other	364,199	260,800
UK Unit Trusts - property	50,427	46,465
Overseas Unit Trusts - other	70,413	68,267
Private Equity	37,146	39,617
	522,185	**415,149**
Other Investment balances		
Forward foreign exchange unrealised gain	288	0
Amount due from brokers	0	1,615
Outstanding dividend entitlements and recoverable withholding tax	843	1,433
	1,131	**3,048**
Cash deposits		
Sterling	18,373	29,059
	18,373	**29,059**
	725,110	**682,984**

NB: There are no investments that are more than 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

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

According to information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2014 was £5,035k and as at 31 March 2013 £5,298k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Amount outstanding to brokers	(649)	(3,351)
Forward foreign exchange unrealised loss	0	(81)
	(649)	**(3,432)**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration, management and custody	(3,704)	(3,796)
Performance measurement services	(10)	(12)
Other advisory fees	(55)	(114)
	(3,769)	**(3,922)**

13. CURRENT ASSETS

	31 March 2014 £000's	31 March 2013 £000's
Employers' contributions due	197	157
Employees' contributions due	65	56
Debtor: London Borough of Hillingdon	266	215
Debtor: Other Entities	7	4
Cash balances	2,267	3,926
	2,802	**4,358**

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

14. CURRENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Creditor: Other Entities	(721)	(849)
Creditor: London Borough of Hillingdon	(6)	(9)
	(727)	**(858)**

NB: The total of £721k other entities is due to bodies external to government, namely investment managers.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fixed Interest Securities	35,363	42,174
Equities	148,058	193,554
Pooled Investments	429,343	321,011
Pooled Property Investments	50,427	46,465
Private Equity/Infrastructure	42,415	47,673
Derivative Contracts	288	0
Cash	18,373	29,059
Debtors	843	3,048
	725,110	682,984
Financial Liabilities		
Derivative Contracts	0	(81)
Creditors	(649)	(3,351)
	(649)	(3,432)
	724,461	**679,552**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fair Value through profit and loss	33,366	61,985
Financial Liabilities		
Fair Value through profit and loss	288	(81)
	33,654	**61,904**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2014 £000's Fair Value	31 March 2014 £000's Carrying Value	31 March 2013 £000's Fair Value	31 March 2013 £000's Carrying Value
Fair Value through profit and loss	705,606	705,606	650,877	650,877
Loans and receivables	19,504	19,504	32,107	32,107
Total Financial assets	**725,110**	**725,110**	**682,984**	**682,984**
Financial Liabilities				
Fair Value through profit and loss	(649)	(649)	(3,432)	(3,432)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(649)**	**(649)**	(3,432)	(3,432)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	586,941	50,427	68,238	705,606
Loans and Receivables	12,316	3,940	3,248	19,504
Total Financial Assets	**599,257**	**54,367**	**71,486**	**725,110**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(649)	0	0	(649)
Total Financial Liabilities	**(649)**	**0**	**0**	**(649)**
Net Financial Assets	**598,608**	**54,367**	**71,486**	**724,461**

Values as at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	540,671	46,465	63,741	650,877
Loans and Receivables	27,270	2,109	2,728	32,107
Total Financial Assets	**567,941**	**48,574**	**66,469**	**682,984**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(3,432)	0	0	(3,432)
Total Financial Liabilities	**(3,432)**	**0**	**0**	**(3,432)**
Net Financial Assets	**564,509**	**48,574**	**66,469**	**679,552**

16. PRIVATE EQUITY VALUATIONS

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

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

Risk and risk management

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

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

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

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

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

Other price risk - Sensitivity Analysis

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

Asset Type	Potential market movements (+/-)
UK quoted equities	11.73%
Overseas quoted equities	9.97%
UK Public Sector quoted Index-Linked Securities	6.73%
Overseas Public Sector quoted Index-Linked Securities	6.73%
Corporate Bonds	4.11%
UK Managed funds - other	11.73%
UK Unit Trusts - property	2.38%
Overseas Unit Trusts - other	9.97%
Private Equity	5.41%

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

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

Asset type	**Value as at 31 March 2014 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
Cash and Cash equivalents	18,373	0.00	18,373	18,373
Investment Assets				
UK quoted equities	121,335	11.73	135,568	107,102
Overseas quoted equities	26,723	9.97	29,387	24,059
UK Public Sector quoted Index-Linked Securities	14,006	6.73	14,949	13,063
Overseas Public Sector quoted Index-Linked Securities	21,357	6.73	22,794	19,920
UK Managed funds - Equities	155,020	11.73	173,204	136,836
UK Managed funds - Bonds	68,407	4.11	71,219	65,595
UK Unit Trusts - property	50,427	2.38	51,627	49,227
Overseas Unit Trusts - Equities	136,622	9.97	150,243	123,001
Overseas Unit Trusts - Bonds	69,294	4.11	72,142	66,446
Private Equity/Infrastructure	42,415	5.41	44,710	40,120
Net Derivative assets	288	0.00	288	288
Investment income due	843	0.00	843	843
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(649)	0.00	(649)	(649)
Total Assets Available to pay benefits	**724,461**		**784,698**	**664,225**

Asset type	**Value as at 31 March 2013 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
Cash and Cash equivalents	29,059	0.00	29,059	29,059
Investment Assets				
UK quoted equities	147,385	12.90	166,398	128,372
Overseas quoted equities	46,169	11.80	51,617	40,721
UK Public Sector quoted Index-Linked Securities	21,428	6.50	22,821	20,035
Overseas Public Sector quoted Index-Linked Securities	20,746	6.50	22,094	19,938
UK Managed funds - Equities	100,447	12.90	113,405	87,489
UK Managed funds - Bonds	53,742	4.00	55,892	51,592
UK Unit Trusts - property	46,465	2.30	47,534	45,396
Overseas Unit Trusts - Equities	94,622	11.80	105,787	83,457
Overseas Unit Trusts - Bonds	72,200	4.00	75,088	69,312
Private Equity/Infrastructure	47,673	4.70	49,913	45,432
Net Derivative assets	(81)	0.00	(81)	(81)
Investment income due	1,433	0.00	1,433	1,433
Amounts receivable for sales	1,615	0.00	1,615	1,615
Amounts payable for purchases	(3,351)	0.00	(3,351)	(3,351)
Total Assets Available to pay benefits	**679,552**		**739,224**	**620,419**

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

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2014 £000's	31 March 2013 £000's
Cash equivalents	0	2,488
Cash	18,373	26,571
Fixed Interest Securities	173,064	168,117
Total	**191,437**	**197,176**

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

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

Asset Type	Carrying amount 31 March 2014	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	0	0	0
Cash	18,373	184	(184)
Fixed Interest Securities	173,064	1,730	(1,730)
Total change in assets available	**191,437**	**1,914**	**(1,914)**

Asset Type	Carrying amount as 31 March 2013	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash Equivalents	2,488	25	(25)
Cash	26,571	266	(266)
Fixed Interest Securities	168,117	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

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

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2014 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period ending 31 March 2013.

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

Currency exposure by asset type

	Asset value 31 March 2014	Asset value 31 March 2013
	£000's	£000's
Overseas quoted Securities	26,723	46,169
Overseas Corporate Bonds	69,294	72,200
Overseas Index-linked Bonds	21,357	20,746
Overseas managed funds	136,622	94,622
Private Equity/Infrastructure	42,415	47,673
	296,411	**281,410**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 4.32%, based on the data provided by WM. A 4.32% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 4.32% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

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

Currency exposure by asset type

	Asset value 31 March 2013	Change in the net assets available to pay benefits	
		+5.6%	-5.6%
	£000's	£000's	£000's
Overseas quoted Securities	46,169	48,754	43,584
Overseas Corporate Bonds	72,200	76,243	68,157
Overseas Index-linked Bonds	20,746	21,908	19,584
Overseas managed funds	94,622	99,921	89,323
Private Equity/Infrastructure	47,673	50,343	45,003
	281,410	**297,169**	**265,651**

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

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

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

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

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAm rated Northern Trust Money Market Fund ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2014 was £2,267k (31 March 2013: £16,046k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2014	Rating	Balances as at 31 March 2013
Money Market Funds		**£000's**		**£000's**
Northern Trust Global Sterling Fund A	AAAm	200	AAAm	10,832
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	0	AAAm	2,488
Bank current accounts				
Natwest (Capita)	A-	949	A-	1,169
HSBC Plc	AA-	1,118	AA-	1,557
Total		2,267		16,046

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.
The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,267k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2014 these assets totalled £586,941k, with a further £18,373k held in cash by fund managers.

18. ACTUARIAL POSITION

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

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

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

Price Inflation (CPI) - 2.50%

Funding Basis Discount Rate - 4.60%

Pay Increases - 3.30%

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

Description	**31 March 2014 % P.a.**	**31 March 2013 % P.a.**
Inflation /Pensions Increase Rate	2.8%	2.8%
*Salary Increase Rate	3.6%	5.1%
Discount Rate	4.3%	4.5%

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

An IAS 26 valuation was carried out for the fund as at 31 March 2014 by Hymans Robertson LLP with the following results:

Description	**31 March 2014 £000's**	**31 March 2013 £000's**
Present Value of Promised Retirement Benefits	1,102,000	1,066,000
Assets	726,536	683,052
Deficit	375,464	382,948

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

20. RELATED PARTY TRANSACTIONS

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

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

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

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There were five members of the pension fund committee who were active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

Key management personnel

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

	Accrued pension 31 March 2014 £000's	Accrued pension 31 March 2013 £000's
Corporate Director of Finance	1,128	1,107
Deputy Director - Strategic Finance	672	622

21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2014, securities worth £17,302k were on loan by Northern Trust from our portfolio and collateral worth £18,715k was held within the pool including Hillingdon. In the same period, a net income of £36k was received.

22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

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

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2013/14.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2014 totalled £61,506k (31 March 2013: £45,175k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure and secondary property parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

25. CONTINGENT ASSETS

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

26. POST BALANCE SHEET EVENTS

AEW UK Investment Ltd was appointed on 02 April, 2014 to manage about £15 million of the fund's assets in secondary property allocations. This was part of the fund's strive to increase returns and consequently improve funding position. On the same day, a further £15 million was committed to the M&G Debt Opportunities Fund II in addition to the previous £30 million already committed to two existing M&G funds. Funding for the cumulative £30 million allocation to AEW and M&G Debt Opportunities Fund II are to be derived from divestment from JP Morgan Asset Management Fund currently valued at £77 million. Due to the nature of the two new investments, the funds will be drawn-down by the two fund managers when required. As such, there is no need for transition management, as the JP Morgan fund is traded daily with a four day notice period for cash redemptions.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Corporate Director of Finance);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

2. The Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2014 and its income and expenditure for the year then ended.

Paul Whaymand

Corporate Director of Finance

29 September 2014

Pension Committee Certificate for the Approval of the Annual Report (excluding financial statements)

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2014, and approved by the Chairman on 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

23 September 2014

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

CHAIRMAN (AUDIT COMMITTEE)

23 September 2014

PART F - POLICY STATEMENTS

Details of the following Statements can be found on the London Borough of Hillingdon website, using the links provided below.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2014. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2014, and has been added to the website. The latest SoIP can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was approved by Committee in March 2014. It can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/media.jsp?mediaid=6411&filetype=pdf

PART G - SCHEME BENEFITS

SCHEME BENEFITS

Introduction

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

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert within limits, pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

The calculation of pension is based on the average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any three consecutive years in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

Pension (Ill Health)

The ill health pension is based on average pensionable pay for the last year of service and the split of 80ths and 60ths accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or age 65 if earlier, the employee's LGPS service is enhanced by 25% of potential service to age 65.

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

Lump Sum Retirement Grant

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

Death Grant

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

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

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

Spouses, civil partners and nominated cohabiting partner's Pension

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

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

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

Children's Pension

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

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

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

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

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

Pension Increases

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

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions

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

REGULATIONS

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

PART H - AUDITORS' REPORT

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

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

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

Respective responsibilities of the Corporate Director of Finance and the auditor

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

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Heather Bygrave (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
29 September 2014

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

Contact Officers	Nancy Leroux Tel: 01895 2503530
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 30 June 2014. The total value of the fund's investments as at 30 June 2014 was £734m.

RECOMMENDATION

That the content of this report be noted.

1. GENERAL BACKDROP

Recent years have seen all financial markets respond positively to the cheap liquidity that has flooded the globe. Consequently any reversal is most likely to be negatively for capital values. The Fund (and all other investors) would be adversely impacted by such a decline unless it was accompanied by a rising yield structure (which would reduce the current value of the projected liabilities).

Conversely the current economic expansion, which began in 2009, is very mature by historical standards and yet many regions e.g. Europe continue to face fundamental challenges. Central bankers and policymakers would have investors believe that the recovery is still in its infancy; the reality threatens to be quite different.

Principal among the trends exposed to change has been the policy response to the Great Financial Crisis (GFC) of ultra-low interest rates. The money markets already discount higher policy rates. By Q3, 2016 the US Federal Reserve and UK's Monetary Policy Committee are each expected to raise rates by around 1.5% respectively. However this has been the case for much of the period since the GFC; markets failed to anticipate this unprecedented period of low rates. Nonetheless there is clear appetite among central bankers to generate a higher rate structure. The rationale is not to dampen excess demand. Rather the current near-zero rate structure would be a wholly inappropriate starting point for monetary when the next recession hits.

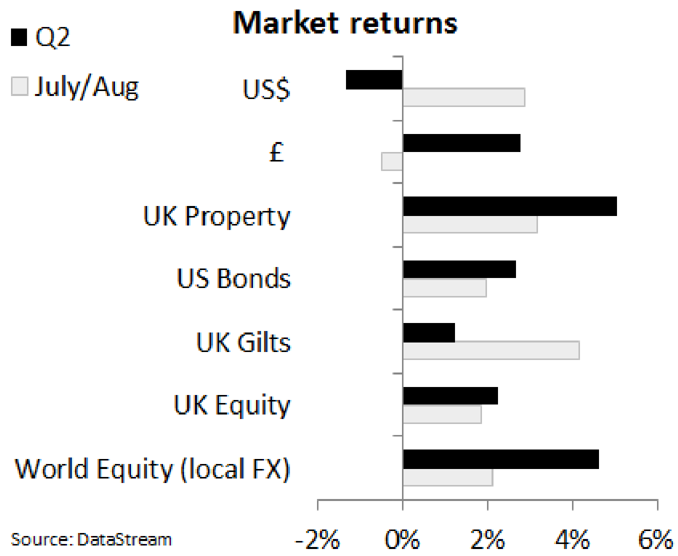
The exception to this is Europe where the deterioration in economic activity and the associated slide towards deflation (EU CPI stands at a mere +0.3%) now sees markets discounting effectively a decade of near zero interest rates. It is hard to believe that market expectations are wrong in this instance.

This emerging contrast between the US and elsewhere is likely to prove one of the most significant developments in the months ahead. It is likely to lead to a stronger US$; something that US Federal Reserve will probably not resist. This will help transfer US final demand into other areas of the world that are struggling to show any progress whatsoever.

Further comments on the market backdrop are contained in the detailed report prepared by Northern Trust and in the Investment Advisor's report.

2. MAJOR MARKET RETURNS

After a problematic start to the year, Q2 brought positive returns across all asset classes are economic activity in the US recovered following the harsh winter weather and the threat of higher monetary policy in the US receded.



Sterling's progress reflected the ongoing improvement seen in the UK economy and the strong gains being achieved in the property market – especially in the London area.

Bond yields continued to fall despite the data improvements. Pension funds and their like remain under-exposed to the asset class; the higher equity markets are allowing Funds to lock into these low yields. Generally cash remains an expensive asset.

Yield themed equities tended to underperform despite the strength of bond markets. These are defensive shares always likely to lag strength in the broader market.

3. FUND PERFORMANCE

The performance of the Fund for the quarter to 30 June 2014 showed a relative underperformance of 0.12%, with a return of 1.93% compared to the benchmark of 2.05%. One year figures show returns of 8.76%, 0.08% relatively behind than the benchmark.

The investment objective for the Hillingdon Pension Fund, agreed with the Actuary, is to generate, over the longer term, a real rate of return of 4% per annum; the current asset allocation is judged appropriate to that objective. Other LGPS will have set their objectives appropriate to their Scheme characteristics. Funds seeking greater returns will typically operate a higher allocation to riskier investments and vice versa. Against the average LGPS (as captured by WM data) for the quarter ending 30 June 2014, the Fund underperformed by 0.07%. The one year figure also shows underperformance, this time by 0.54%.

The WM survey combines all LGPS regardless of their objectives. The chart immediately below depicts the higher level contrast between the asset allocation of the average LGPS and that currently maintained by Hillingdon. The principle difference lies in the weightings to equities and multi-asset programmes. The past 12 months have seen equity markets outperform multi-asset programmes.

The Hillingdon Pension Fund's investment strategy comprises a deliberate defensive bias both through the strong allocation to multi-asset programmes – where the managers are tasked to deliver specific investment returns rather than track establish market benchmarks – and through the allocation to equity programmes that have a focus on sustainable dividend yields. Recent quarters have seen many investors turn much more optimistic about the outlook for the world economy and financial markets. In the face of ongoing debt accumulation and the continued threat of outright deflation, such optimism is judged dangerous.

4. MANAGER / PROGRAMME SUMMARY

The table below provides an update on the range of programmes into which the assets of the Pension Fund are deployed. With the exception of the State Street allocation, all programmes are actively managed.

Performance Attribution Relative to Benchmark (rounded)

	Value £m	Q2 2014 %	1 Year %	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)	Target (% p.a.)	Fees (% p.a.)
AEW	10.0	-	-	-	-	-		0.70
Barings	64.1	0.52	0.02	-	-	(1.64)	4.0	0.50
JP Morgan	63.1	0.07	2.24	-	-	0.95	3.0	0.30
Kempen	80.3	0.89	(4.74)	-	-	(7.10)	2.0	0.42
Macquarie	5.3	(3.25)	(11.36)	(10.40)	-	(10.42)	3.0	1.38
M&G	27.9	0.21	1.00	0.92	-	0.30	4.0	1.5
Adams St*	21.0	2.72	7.96	10.14	13.08	2.70	4.0**	1.20
LGT*	15.1	0.64	2.67	4.61	9.40	8.15	4.0**	1.00
Newton	24.2	(0.73)	(4.80)	-	-	(3.03)	2.0	0.75
Ruffer	84.8	0.25	0.33	4.42	-	4.80	4.0**	0.80
SSgA	147.0	(0.03)	(0.10)	(0.01)	0.01	0.00	0.0	0.10
UBS TAA	13.6	(2.06)	3.89	-	-	3.89	0.0	n/a
UBS Eq	116.0	3.91	2.73	3.53	1.51	1.22	2.0	0.35
UBS Property	58.0	1.05	0.72	(0.20)	(1.04)	(0.50)	1.0	0.20
Total Fund	**734.3**	**(0.12)**	**(0.08)**	**0.81**	**0.36**	**0.05**	**2.2**	**0.45**

*Absolute performance
**Set against LIBOR

Highlights:

- MacQuarie is in the build-up phase of their programme; initial capital write-downs are common at this stage. An issue with an Indian telecoms investment has been mentioned previously.

- The marked-to-market loss on the US index-linked bond (held in the UBS TAA account) was due to adverse currency translation which has since been reversed.

- Kempen and Newton operate equity programmes around the dividend yield theme; markets have been treating this style harshly especially in the US.

Also shown in the table are the individual programme costs. Across the Scheme, the aggregate annual excess return pursued in the spread of mandates is 2.2% against which the Scheme incurs approximate investment management costs of 0.45% p.a. This is a ratio of 5:1, ahead of an approximate norm of 4:1.

Further details on manager performance are contained in the Northern Trust report.

5. Other Items

At the end of June 2014, £19.823m (book cost) had been invested in **Private Equity**, which equates to 2.70% of the fund against the target investment of 5.00%. In terms of cash movements over the quarter, Adams Street called £169k and distributed £662k, whilst LGT called £336k and distributed £1,194k. 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 £7.5k. Offset against this was £2.7k of expenses leaving a net figure earned of £4.8k. The fund is permitted to lend up to 25% of the eligible assets total and as at 30 June 2014 the average value of assets on loan during the quarter totalled £13.6m representing approximately 7.10% of this total.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

None

London Borough of Hillingdon

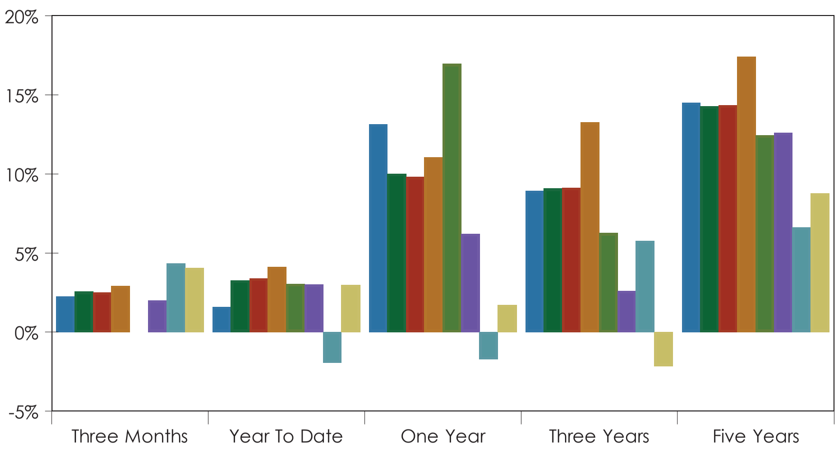
2nd Quarter, 2014

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	2.2	1.6	13.1	8.9	14.5
FT: World	2.6	3.2	10.0	9.1	14.3
FT: World ex UK	2.5	3.4	9.8	9.1	14.3
FT: AWI North America	2.9	4.1	11.0	13.3	17.4
FT: Developed Europe ex UK	0.0	3.0	16.9	6.3	12.4
FT: Developed Asia Pac x Jp	2.0	3.0	6.2	2.6	12.6
FT AW: Japan	4.3	-1.9	-1.7	5.7	6.6
MSCI Emerging Markets GD	4.0	3.0	1.7	-2.1	8.8

Commemorative ceremonies have marked both the anniversaries of the start of the First World War and D-Day. This year also represents the 25th anniversary of the collapse of the Soviet empire and the suppression at Tiananmen Square. That translates to a quarter of a century of global capitalism as Europe was freed and the Chinese embraced market economics. The Bank for International Settlements has warned that as we pass that milestone, financial markets are detached from reality due to developed governments continued support of the global economy with low rate monetary policy. The International Monetary Fund echoed that warning as it published figures showing that house prices sit above historical averages in many countries and further increase would represent a threat to economic stability. Despite these cautionary statements equity markets returned quarterly figures in the black across the board and none in excess of 7.5%. Globally, Oil & Gas was the best performer over quarter two and the Utilities sector was strong again. Financials lost most value over the quarter. The price of crude oil futures ended the quarter up slightly at $112 per barrel. The FTSE World was up by 2.6% (GBP) over quarter two 2014 and is ahead by 10% over the year (GBP).

The UK economy continues to produce good news headlines as figures confirmed that more jobs were created in quarter one than at any time since records began in 1971. The unemployment rate now stands at a 5 year low of 6.8%. The BoE dismissed an imminent interest rate rise and maintained its forecast of 3.4% growth for 2014. Additionally Mark Carney added his voice to the IMF warning that the housing market poses the biggest risk to the durability of the UK recovery. New lending at high loan to income ratios has surpassed pre-crisis levels. Average house prices rose by 8% in the year to March, in London the increase is by 17%. New IPOs continue to come to market, Card Factory and Pets at Home fell as trading began and closed down but Pattiserie Valerie rose 15% and Poundland closed up more than 20%. The outlook is bright for the UK Aerospace sector as demand for component exports to China increases and aircraft sales in the Middle East boom. Telecoms and Technology once again lost most value over the quarter. Health Care and Oil & Gas made the biggest gains. The FTSE All Share was up 2.2% (GBP) over the second quarter and remains ahead over one year, now by 13.1% (GBP).

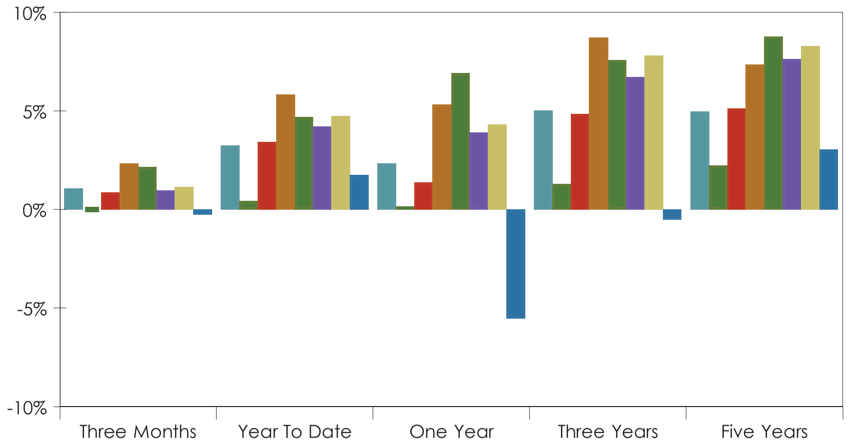
The Eurozone posted an unchanged growth rate from Q4 with 0.2% for Q1 2014. German growth was up but France was stagnant, Italy returned to contraction and the Netherlands shrank by 1.4%. The IMF has expressed concern about France with a growth prediction of just 0.4% for next year amidst calls for economic reform. Investors retreated around the world as the knock on to exporter nations of such worrying figures from a main consumer market was felt. Anti EU parties enjoyed success across the continent at the European elections; far right parties came in first in France and Denmark. The future of European car makers shows no signs of improvement as excess building capacity far outstrips demand and high fixed factory costs are resulting in heavy losses. The unrest in Iraq has led to increased volatility in oil prices; a 5% rise in oil prices was matched by a 13% drop in European airline shares over the same period. BNP Paribas pleaded guilty and agreed to an $8.9bn penalty for conspiring to violate sanctions with Sudan and other blacklisted regimes. Eurozone unemployment remained at 11.6% at the end of April and the CPI was just 0.5% in the year to May. The FTSE Developed Europe ex UK index returned 0% (GBP) over quarter two and 16.9% (GBP) over the year.

The Fed looks set to keep rates low into 2015 as it heralded a rebound in recent economic activity. Subsequently it transpired that the first quarter growth figure was worse than feared when the 3rd and final estimate was announced as a contraction of 2.9%. Q2 should be a significant improvement; with an end to the freezing weather, delayed activity can add to production. More jobs than expected were created in May and June and the unemployment rate dropped to 6.1%. Pfizer experienced a rare defeat in its quest to acquire AstraZeneca for £69.4bn and shift its tax residence to the UK. Big investors have confirmed their desire for the deal to be resurrected in the next 6 months. Fiat Chrysler plans to slash its EUR 10bn debt by expanding the building of its Jeep from just the US to five more countries. Cake shop Crumbs, which was listed in 2011 at the height of the cupcake boom, will shut all shops after shares were suspended. The FBI filed charges against 5 Chinese military officers accused of using espionage to gain commercial advantage for state sponsored companies. Utilities had another strong quarter but Oil & Gas led the way. Consumer Services had another weak quarter and Financials lost the most. The FTSE North America index returned 2.9% (GBP) over the second quarter and 11% (GBP) for the year.

Japan's CPI continues upwards rising at an annual rate of 3.4%, the fastest pace in 32 years. Unemployment also achieved a record, at 3.5% it's the lowest in 16 years. GDP was boosted to 5.9% for Q1 by a pre-sales tax increase buying spree although there is concern about the hangover of post-sales tax shopping habits. Oil & Gas led the Japanese sectors, Telecoms being the worst performer. The FTSE Japan returned 4.3% (GBP) for quarter two and the FTSE Developed Asia Pacific ex Japan returned 2% (GBP). Further to Samsung's earlier warnings the mobile phone maker confirmed that a strong Won and increased competition from China has resulted in a 24% drop in profits year on year to the end of Q2. Thailand's army declared martial law for the 19th time since 1932. Presidents Putin and Xi Jinping agreed a $400bn 30 year gas deal to supply China through a proposed pipeline between the countries. President Modi's BJP party trounced the Congress Party in India's general election and share prices rallied to new highs on promises of reform. Gold was up slightly from last quarter ending June at $1,315 per ounce. The MSCI Emerging Markets index returned 4% (GBP) for the second quarter and 1.7% (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	1.1	3.2	2.3	5.0	5.0
FTSE All Stock 0-5 Yr. Gilts	-0.0	0.4	0.1	1.3	2.2
FTSE All Stock 5-15 Yr. Gilts	0.8	3.4	1.4	4.8	5.1
FTSE All Stock > 15 Yr. Gilts	2.3	5.8	5.3	8.7	7.3
ML STG N-Gilts All Stocks	2.1	4.7	6.9	7.6	8.8
FTSE Index Linked	1.0	4.2	3.9	6.7	7.6
FTSE Index Linked 5+ yrs	1.1	4.7	4.3	7.8	8.3
JPM GBI Global	-0.3	1.8	-5.5	-0.5	3.0

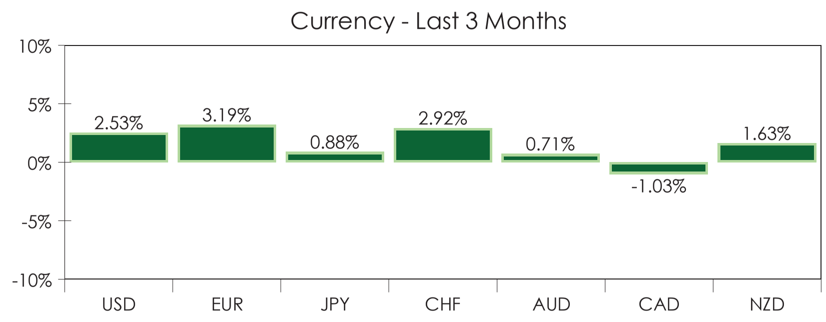
The global economy continued to improve and strengthen through the second quarter as macroeconomic data continued to encourage, and central banks of the major developed markets maintained their accommodative monetary policy. The JP Morgan Global Manufacturing & Services PMI advanced from 53.5 at the end of March to 55.4 at the end of June, the twenty-first consecutive month of expansion, as the growth rate for output and new orders accelerated to their highest readings since February 2011. The Chinese economy became a more significant contributor to the global story as the quarter wore on, stabilising on the back of a mini-stimulus package announced in May, as June ended with the HSBC China Composite PMI returning to expansionary territory at 52.4. The world's second biggest economy appears to have bottomed-out, as the rate of expansion accelerated to the strongest recorded since April 2013. Across the East China Sea in Japan, the quarter ended with the launch of Prime Minister's Shinzo Abe's "third arrow" from the growth strategy that has become known as "Abenomics". Following the sales tax increase earlier in Q2, the Japanese economy will hope to benefit from lower corporate taxes, sweeping labour-market reforms and a reduction in red tape regulatory barriers. Geopolitical events came into sharp focus during the quarter. On the downside, the Middle East experienced heightened tensions as the civil conflict within Iraq's borders escalated. Sentiment turned hopeful on the unrest in Ukraine, following the completion of elections in Ukraine itself, and the adoption of a more conciliatory tone from within Russia. And on the upside, India was cheered following the resounding election victory of BJP candidate Narendra Modi. The JPM Global Government Bond index returned -0.3% (GBP) in the second quarter of 2014, while the Barclays Capital Global Aggregate Corporate Bond index delivered 0.1% (GBP).

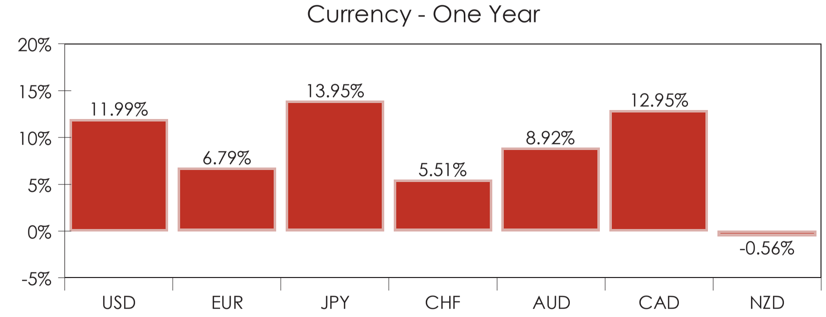
Bank of England Governor Mark Carney led markets a merry-dance through the quarter, firstly with comments in May that the Bank was prepared to wait until 2015 before raising interest rates, only to surprise markets in June with thinly veiled comments that the increasingly anticipated interest rate hike should be anticipated increasingly sooner. The Governor then ended the quarter in seemingly backtracking with further dovish comments in that interest rate policy is solely data dependent and should remain so. The data itself was positive across the board. Q1's GDP was confirmed at 0.8%, with strong contributions from both the manufacturing and construction sectors, and business investment growing at double the rate of analyst consensus expectation. Employment numbers continue to move in the right direction, with the jobless rate dropping to a five-year low of 6.6%. Consumer demand was one of the largest drivers of growth and was reflected in market research group Gfk's consumer confidence survey, which saw levels not seen since 2005. Tougher mortgage lending rules came into force during the quarter in response to the accelerating housing market which has seen annual growth return to pre-credit crunch levels. The Markit/CIPS UK Manufacturing Purchasing Managers' Index (PMI) survey hit 57.5 in June, the highest recorded reading since November 2013, as new order increases saw companies raise activity and increase headcount. The benchmark 10-year gilt yield moved from 2.74% last quarter to end June at 2.67%. The FTSE All Stock Gilt index returned +1.1% (GBP) for the quarter, while the ML Sterling Non Gilts index gained +2.1% (GBP).

The eurozone recovery began to flag in Q2 on the back of waning macroeconomic data. Bank lending hit a downward trajectory, the inflation rate weakened to 0.5%, and the year's first-quarter GDP figure was confirmed at 0.2%, down from 0.3% the previous quarter. The Markit Eurozone Composite PMI, despite hitting a 35-month high in April, subsequently receded to end the quarter at 52.8, in expansionary territory, but exhibiting a slowdown in the pace of growth. With pressure building, the European Central Bank duly obliged: the benchmark rate was cut from 0.25% to 0.15%, deposit rates for banks from zero to -0.1%, and a cheap, long-term loan facility was implemented for commercial banks through to 2018. As a result, the benchmark German Bund 10-year yield dropped 32bps from 1.57% at the end of Q1 to close June at 1.25%, a thirteen-month low. At country level - Germany was confirmed as Q1's strongest performer with a GDP of 0.8%, Greece returned to the bond markets in April, Portugal regained its economic sovereignty in May when exiting the EU bailout programme, and Cyprus saw its credit worthiness raised from a negative outlook to positive by ratings agency Standard & Poors. On the political front, May's European Parliament elections saw anti-European Union parties make strong gains on the back of growing Euroscepticism. The iTraxx Europe 5yr CDS index, representative of 125 investment grade entities across 6 sectors, fell from 58.75 at the end of March to close June at 46.84. The JPM European Government Bond index returned +3.3% (EUR) and the Barclay Capital Euro Aggregate Credit index was up at +2.4% (EUR) for Quarter 2.

The severe cold and snow which afflicted a large swathe of the continental United States saw the economy shrink 2.9% in the first quarter of 2014 and, whilst this was significantly worse than the earlier reported estimated figure, market analysts considered the decline in GDP to be only temporary. The second quarter's economic data indicated that business is booming in the US. Job growth surged during the quarter, as the unemployment rate fell to a near six-year low of 6.1%. The housing market grew, with existing home sales up 4.9% in May, the best monthly gain since 2011, while sales of new homes surged to a six-year high of 18.6%. Despite retail sales growth plateauing during the quarter following March's eighteen-month high, Americans remained firmly upbeat on their domestic economy and job prospects. The consumer confidence index of independent economic research group The Conference Board reached 85.2 in June, the highest level achieved since January 2008. The Markit U.S. Manufacturing PMI came in at 57.3 June, the highest reading since May 2010, driven by a sector which saw the fastest growth in output and new orders in more than four years. At the Federal Reserve, while the reduction in bond purchases of $10 billion each month continued, Chair Janet Yellen affirmed that no rate increases would be seen until the job market has achieved long-term stability. The 10-year benchmark Treasury yield ended the quarter at 2.53% down from 2.72% at the end of March. For the quarter the JPM US Govt Bond index was up +1.6% (USD) while the Barclay Capital US Aggregate Corporate Bond index returned +2.7% (USD).

Currency Performance (in GBP)





	Three Months	Year To Date	One Year	Three Years	Five Years
United States dollar	2.53	3.18	11.99	2.10	0.75
European Union euro	3.19	3.83	6.79	4.01	1.23
Japanese yen	0.88	-0.50	13.95	9.65	1.72
Swiss franc	2.92	2.90	5.51	3.82	-3.33
Australian dollar	0.71	-2.17	8.92	6.29	-2.34
Canadian dollar	-1.03	3.43	12.95	5.38	-0.98
New Zealand dollar	1.63	-3.00	-0.56	0.15	-5.27

The second quarter of 2014 saw a strengthening of Sterling compared to the Dollar, Euro and Yen. The Dollar, on the other hand, lost ground compared to Sterling and Yen. In Japan, unemployment continued to decrease, coming in at 3.5% in May, down from 3.6% in February. This is the lowest level since December 1997. Japanese business confidence worsened in the three months to June, weighed down by soft exports and weaker consumer spending after a sales tax increase. The Bank of Japan's closely watched Tankan Survey showed that the headline index for big manufacturers' sentiment was plus 15 in June, compared to plus 17 in March. A positive reading means optimists outnumber the pessimists. Since February, the Chinese government has shifted its course, driving the renminbi down about 3 per cent, but still way above its level of a few years ago. The US treasury, which has no problem with the Japanese government driving down the value of its currency, has been outspoken in its criticism of the Chinese change in its exchange rate policy, much to the anger of officials in Beijing. Chinese government spending surged in May as Beijing sought to boost flagging growth amid fears of a pronounced economic slowdown and a bursting property bubble. Spurred by this year's sharper than expected slowdown, the government has taken several steps to support growth, including ramping up state spending on infrastructure and gradually loosening monetary policy. The Canadian Dollar has seen strong performance since March. The main reason for the elevated level appears to be the bond market participants increasingly betting that interest rates will go up in Canada before they do in the US.

In the UK, Q2 2014 saw Sterling strengthen against the Dollar, Euro and Yen. At its June 5th , 2014 meeting, the Monetary Policy Committee of the Bank of England left the bank rate at 0.5% and the stock of purchased assets financed by the issuance of central bank reserves at £375bn. A fall in food prices and lower air fares helped drive down the rate of inflation. The Consumer Price index fell to 1.5% in May compared to 1.8% in April. It is the sixth consecutive month that inflation has been below the Bank of England's 2% target. The UK jobs market continued to improve in the three months to April, although the rate of wage increases slowed sharply, official figures show. The number of people out of work fell to 2.16 million bringing the unemployment rate down to 6.6%. Prime Minister David Cameron tweeted that the government had reached a "major milestone" in its long term economic plan, with "two million new private sector jobs since 2010". The continuing improvement in the jobs market in the three months to April was due mainly to jobs created in the private sector. According to the Nationwide building society, average house prices in the UK have surpassed their 2007 peak, rising nearly 12% in the past 12 months, bringing the average house in at £188,903. Part of the impact could be down to the government's help to buy initiative, designed to help borrowers with small deposits on to the housing ladder, which started in April 2013. Sterling closed the quarter up against the Dollar, Euro and Yen by 2.53%, 3.19% and 0.88% respectively.

In the US, the Dollar lost ground against both Sterling and the Yen but saw gains against the Euro. Janet Yellen, the Federal Reserve chairwoman, mounted a forceful defense of the US Federal Reserve's decision to keep monetary policy loose in the face of soaring asset prices, arguing that there was no need to increase interest rates to tackle financial instability. Ms Yellen said "I do not presently see a need for monetary policy to deviate from a primary focus on attaining price stability and maximum stability concerns". The key indicator of consumer confidence produced by the Conference Board showed an increase from 82.2 in May to 85.2 in June. Overall, consumers are more positive about the outlook for the labour market and those claiming business conditions are "good" increased from 21.1% in May to 23.0% in June. The US un-employment rate fell to 6.1% in June, the lowest level since September 2008. Employers added 288,000 jobs, well above the record in the first five months of 2014 and another sign that growth is finally rebounding. The number of unemployed was 9.5 million with 3.1 million, or 32.8%, of these being the long term unemployed (those jobless for 27 weeks or more). Through 2012 and 2013, U.S. house prices were rising at a pace as extreme as anything seen during the disastrous housing bubble of the last decade. Since the start of 2014, the pace of increase has slowed markedly. The US trade deficit fell in May, to $44.4bn, as U.S exports hit an all-time high, helped by a jump in exports of petroleum products. This comes after the two year high which was hit in April which saw the deficit at $47.0bn. The Dollar weakened against the Sterling and Yen by 2.53% and 1.64% respectively but gained 0.66% against the Euro.

In the Euro area, the Euro weakened against the Yen, Sterling and Dollar. The European Central Bank unveiled an unprecedented package of measures in early June in a dramatic attempt to inject life into the Eurozone's flagging economy and ward off a damaging deflationary spiral. In an historic first for the troubled region, the ECB boss, Mario Draghi, cut the deposit rate for the region's commercial banks to -0.1% from zero. The central bank also cut its main interest rate to a record low of 0.15% from 0.25%, and announced a £325bn package of cheap funding for banks. The ECB indicated that this rate was likely to remain unchanged for some time. Inflation in the currency block remained low, at 0.5% in June, well below the ECB's target of 2%. The Eurozone economic sentiment indicator (ESI) fell slightly from 102.4 in March to 102.0 in June 2014. The jobless rate for the currency bloc dropped to 11.6% in May, compared to 11.9% in February 2014. The German unemployment rate remains low at 5.1%, while Italy's was 12.6% and Spain's was 25.1%. Youth unemployment in the Eurozone, which stands at 23.3%, remains a serious problem across the area, and is much worse in southern European countries such as Greece and Spain. Eurostat, the statistical office of the European Union, estimates that youth unemployment came in at 3.36 million. The Euro ended the quarter down compared to the Dollar, Yen and Sterling, by 0.66%, 2.31% and 3.19% respectively.

Scheme Performance

The global economy continued to improve and strengthen through the second quarter as macroeconomic data continued to encourage and central banks of the major developed markets maintained their accommodative monetary policy. Developed economies look set to generate accelerating growth this year, likely to be led by the bullish markets of United States and the United Kingdom. Globally Oil & Gas was the best performer over quarter two and the Utilities sector was strong again. Financials lost most value over the quarter. The Eurozone recovery began to flag in Q2 on the back of waning economic data. Bank lending hit a downward trajectory, the inflation rate weakened to 0.5% in June and the year's first quarter GDP was confirmed at 0.2% down from 0.3% the previous quarter. Against this backdrop the London Borough of Hillingdon returned 1.93% which in contrast to last quarter is an underperformance of 12 basis points over the Total Plan benchmark of 2.05%. In monetary terms this is a growth in assets of £9 million, despite almost £5 million being withdrawn this quarter and the value of the combined scheme now stands at £734.3 million as at 30th June 2014. This period £15 million was taken from the JP Morgan mandate and £10 million was used to fund the new AEW mandate, while £1.6 million from Private quity was invested with M&G. Looking further into the analysis the results seen were driven by the underperformance of UBS UK Equity although this was offset by the positive impact of the other UBS accounts coupled with Kempen. While in allocation terms most mandates are in line with the neutral position, so effects are minimal.

This means that over the year so far the Scheme posts a return of 2.95%, which is relatively 7 basis points ahead of the total benchmark of 2.87%; while for the 1 year an underperformance of 8 basis points is seen coming from figures of 8.76% versus 8.85%. In contrast to the quarter the largest positive effect comes from UBS, offset by Kempen, Newton and Private Equity; 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 7.81% over three year versus 6.94%, while for 5 years we see figures of 11.37% versus 10.97% per annum. Then since inception in September 1995, the Fund remains ahead of target by 5 basis points with an annualised return of 6.80% against 6.75%.

Manager Performance

Barings

The second quarter of 2014 saw the Barings mandate offset some of the previous periods losses with a return of 1.65%, which translates as a 0.52% relative return against the target of the 3 Month LIBOR +4% per annum, which posted 1.12%. Although this is not enough to overtake the target for the year to date, it does mean that for the rolling one year a return of 4.57% is 3 basis points ahead of target. Which now means in the short period since inception in April 2013 they return 2.83% which is still below the target of 4.55%.

JP Morgan

Over the latest quarter JP Morgan returned 0.94%, which was 7 basis points ahead of the 0.88% target for the 3 Month LIBOR + 3% p.a. This was the fourth positive consecutive quarter, so the 1 year period now stands 2.24% ahead of the target generated by figures of 5.85% against 3.54%. While since inception (November 2011) remains ahead with figures of 4.67% versus 3.68%, which is 0.95% on a relative annualised basis.

Kempen

Over the last three months the Kempen mandate produced a return of 3.85%, an outperformance of 89 basis points when compared to the 2.93% posted by the MSCI All World Index +2%. This means for 2014 the manager is ahead of the benchmark with 4.74% versus 4.20%, however longer periods show underperformance culminating in a return since inception in January 2013 of 7.54% versus the benchmark of 15.76%; which is a relative return of -7.10%.

Macquarie

Similar to the previous quarter Macquarie posted the lowest relative return with -3.25% in Q2 coming from an absolute return of -2.40%, against 0.88% for the 3 Month LIBOR +3% p.a. This means over the year assets fall-8.22% which is -11.36% below the benchmark of 3.54%; while since inception they've delivered ten negative quarterly relative returns, leading to an annualised loss of -7.08% against the target of 3.73%.

M&G Investments

In the second quarter M&G produced a 1.34%, which against the 3 Month LIBOR +4% pa return of 1.12% translates as an outperformance of 21 basis points. Over the last year the account registers 5.59% against 4.54% whilst since inception at the end of May 2010, the portfolio return falls to 5.06% pa whilst the benchmark is 4.74% pa. While the since inception Internal Rate of Return for this portfolio moves further ahead of the target with a figure of 5.61% opposed to the comparator of 4.67%.

Manager Performance

Newton

During the second quarter of 2014 Newton posted a 2.41% return compared to 3.17% for the FTSE World Index +2%, leading to an underperformance of -73 basis points. With five consecutive quarters of underperformance all longer periods are in the red, so since inception (January 2013) the fund return of 10.10% against the benchmark of 13.53%, produces a relative return of -3.03%.

Ruffer

Once again the UBS Tactical mandate posts both the highest absolute and relative return with a return of 5.42% compared to the Barclays US Inflation Linked Index of 1.46%. Which means in the 1 year since the inception of the fund, despite a loss of -3.50%, this compares favourably to the index figure of -7.11%, leading to an outperformance of 3.89%.

Private Equity

The private equity assets, consisting of funds with Adam Street and LGT, continued to grow through the first three months of 2014 with quarterly figures of 3.50% and 0.09% respectively. So over the last year figures remain positive with Adam Street on 9.01% and LGT with 1.77%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. Over three years both see increases, Adam Street to 11.27% and LGT 6.03% on an annualised basis. Then since their respective inceptions in May 2004 and January 2005, while LGT rises further to 8.19% pa, Adam Street drops to 2.82% pa.
At present no benchmark has been applied to these mandates.

SSGA

The SSGA passively managed portfolio produced a return of 2.09% in the quarter which was just 3 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 10.04% return, which is 10 basis points behind target, while over 3 years the per annum return falls to 8.10% which is a mere basis point behind the benchmark. Since inception (November 2008) a return of 12.72% pa is in line with 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 broke their positive run with an underperformance of -2.06%, producing a quarterly return of 0.13% compared to the FTSE All Share figure of 2.24%. Looking into the attribution analysis, stock selection was the main driver with all sectors contributing a negative impact, the most notable being Health Care and Basic Materials at -0.55% and -0.47% respectively. Whilst within allocation the most significant decision was the overweight of Oil & Gas (0.34%) although this was offset by underweighting Consumer Goods (-0.17%) and overweighting Consumer Services (-0.16%). Due to the previous good results longer periods remain in the black and over the year demonstrate the highest absolute return with 16.20% which relatively is 2.73%. This outperformance is also attributable to selection effects and Consumer Services lead the way (1.32%) coupled with Financials (0.56%), while underweighting Consumer Goods (0.40%) and overweighting Oil & Gas (0.25%) also add value. UBS maintain this outperformance over the longer time periods, translating as a since inception return of 10.41% versus 9.09% on an annualised basis.

UBS Property

The UBS Property portfolio grew 5.40% over the 2nd quarter, which was 1.05% ahead of the IPD UK PPFI All Balanced Funds index figure of 4.30%. This feeds into the year to date and one year figures, with 15.90 vs 15.07% over the rolling year. While over longer time periods the fund still demonstrates positive absolute returns with 3 and 5 year showing figures of 6.89% and 8.38% respectively, but negative relative returns with -0.20% and -1.04% below the benchmark. Since inception, in March 2006, the fund now shows growth of 1.19% per annum while the benchmark shows a positive 1.69% return, translating as an underperformance of -50 basis points.

UBS Tactical

Once again the UBS Tactical mandate posts both the highest absolute and relative return with a return of 5.42% compared to the Barclays US Inflation Linked Index of 1.46%. Which means in the 1 year since the inception of the fund, despite a loss of -3.50%, this compares favourably to the index figure of -7.11%, leading to an outperformance of 3.89%.

Active Contribution

By Manager

	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 04/14	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 05/14	Portfolio	Benchmark	Excess Return	Relative Return	Active Contribution 06/14	Active Contribution 2Q 2014
Adam Street	0.52	-	0.52	-	107,463.69	0.66	-	0.66	-	138,842.14	1.52	-	1.52	-	314,631.68	560,937.51
Barings	-0.18	0.37	-0.56	-0.55	-351,527.00	1.86	0.37	1.49	1.48	939,168.95	-0.03	0.37	-0.40	-0.40	-255,587.62	332,054.33
Cash	-0.80	0.03	-0.83	-0.83	-98.32	0.41	0.03	0.38	0.38	44.66	-3.50	0.03	-3.52	-3.52	-416.77	-470.43
JP Morgan	0.36	0.29	0.07	0.07	51,947.48	0.03	0.29	-0.26	-0.26	-178,343.12	0.55	0.29	0.26	0.26	165,295.20	38,899.56
Kempen	1.49	-0.04	1.52	1.52	1,178,126.90	2.36	2.91	-0.55	-0.53	-442,274.45	-0.04	0.06	-0.10	-0.10	-78,694.46	657,158.00
LGT	1.53	-	1.53	-	242,211.57	-0.44	-	-0.44	-	-70,090.14	-0.44	-	-0.44	-	-66,039.25	106,082.18
Macquarie	-0.88	0.29	-1.17	-1.16	-62,633.06	0.06	0.29	-0.23	-0.23	-12,296.80	-1.60	0.29	-1.89	-1.89	-102,738.15	-177,668.01
M&G Investments	1.33	0.37	0.96	0.96	265,363.81	0.00	0.37	-0.37	-0.37	-103,686.19	0.00	0.37	-0.37	-0.37	-103,638.65	58,038.96
Newton	1.20	-0.13	1.32	1.32	312,132.34	2.22	3.10	-0.89	-0.86	-218,181.22	-1.00	0.19	-1.19	-1.18	-290,072.22	-196,121.10
Pasco Currency Ov	115.31	-	115.31	-	163,103.39	76.01	-	76.01	-	231,486.26	72.11	-	72.11	-	386,514.27	781,103.92
Ruffer	-1.09	0.04	-1.14	-1.14	-961,242.78	1.52	0.04	1.48	1.48	1,234,351.22	-0.03	0.04	-0.07	-0.07	-63,496.10	209,612.34
SSGA	0.91	0.90	0.01	0.01	10,873.91	1.92	1.97	-0.05	-0.05	-74,244.86	-0.74	-0.75	0.01	0.01	15,405.63	-47,965.32
UBS	1.59	2.16	-0.57	-0.56	-674,836.61	0.48	1.37	-0.89	-0.88	-1,061,767.20	-1.91	-1.28	-0.63	-0.64	-736,589.93	-2,473,193.75
UBS Property	1.25	1.32	-0.07	-0.07	-39,914.29	1.89	1.57	0.32	0.32	183,740.15	2.17	1.35	0.81	0.80	467,936.67	611,762.53
UBS Tactical	2.57	0.18	2.39	2.39	308,436.25	4.29	2.93	1.36	1.32	184,925.71	-1.45	-1.61	0.16	0.16	21,176.83	514,538.79

Total Fund Market Value at Qtr End: £734.3 M

Page 86

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	734.3	100.00	1.93	2.05	-0.12	-0.12	2.95	2.87	0.07	0.07	8.76	8.85	-0.09	-0.08

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	21.0	2.86	2.72	-	-	-	9.81	-	-	-	7.96	-	-	-
AEW UK	10.0	1.36	-	-	-	-	-	-	-	-	-	-	-	-
Barings	64.1	8.73	1.65	1.12	0.53	0.52	1.12	2.25	-1.13	-1.11	4.57	4.54	0.02	0.02
JP Morgan	63.1	8.59	0.94	0.88	0.07	0.07	2.13	1.75	0.37	0.37	5.85	3.54	2.31	2.24
Kempen	80.3	10.94	3.85	2.93	0.91	0.89	4.74	4.20	0.54	0.52	7.47	12.82	-5.35	-4.74
LGT	15.1	2.05	0.64	-	-	-	2.67	-	-	-	2.67	-	-	-
Macquarie	5.3	0.73	-2.40	0.88	-3.28	-3.25	-4.40	1.75	-6.16	-6.05	-8.22	3.54	-11.76	-11.36
M&G Investments	27.9	3.79	1.34	1.12	0.22	0.21	2.75	2.25	0.51	0.49	5.59	4.54	1.05	1.00
Newton	24.2	3.29	2.41	3.17	-0.76	-0.73	3.43	4.24	-0.81	-0.78	6.45	11.81	-5.37	-4.80
Ruffer	84.8	11.55	0.37	0.13	0.25	0.25	0.09	0.26	-0.17	-0.17	0.85	0.52	0.33	0.33
SSGA	147.0	20.02	2.09	2.12	-0.03	-0.03	2.48	2.53	-0.05	-0.05	10.04	10.16	-0.12	-0.10
UBS	116.0	15.80	0.13	2.24	-2.11	-2.06	0.45	1.59	-1.14	-1.12	16.20	13.12	3.08	2.73
UBS Property	58.0	7.90	5.40	4.30	1.10	1.05	8.66	7.74	0.92	0.85	15.90	15.07	0.83	0.72
UBS Tactical	13.6	1.85	5.42	1.46	3.96	3.91	13.86	3.02	10.84	10.52	-3.50	-7.11	3.61	3.89

Total Fund Market Value at Qtr End: £734.3 M

Scheme Performance

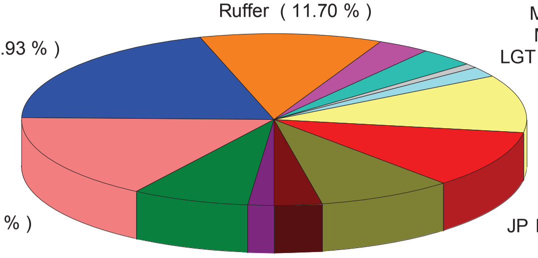
	Three Years				Five Years					Inception To Date			
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
London Borough of Hillingdon	7.81	6.94	0.87	0.81	11.37	10.97	0.39	0.36	30/09/95	6.80	6.75	0.05	0.05

By Manager

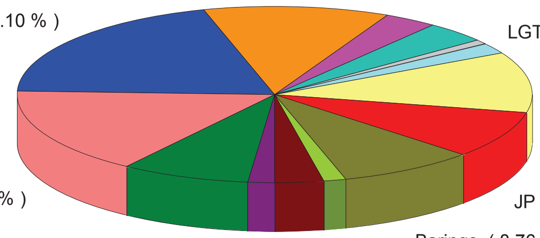
	Portfolio	Benchmark	Excess Return	Relative Return	Portfolio	Benchmark	Excess Return	Relative Return	Inception Date	Portfolio	Benchmark	Excess Return	Relative Return
Adam Street	10.14	-	-	-	13.08	-	-	-	31/01/05	2.70	-	-	-
AEW UK	-	-	-	-	-	-	-	-	30/06/14	-	-	-	-
Barings	-	-	-	-	-	-	-	-	24/04/13	2.83	4.55	-1.72	-1.64
JP Morgan	-	-	-	-	-	-	-	-	08/11/11	4.67	3.68	0.98	0.95
Kempen	-	-	-	-	-	-	-	-	31/01/13	7.54	15.76	-8.22	-7.10
LGT	4.61	-	-	-	9.40	-	-	-	31/05/04	8.15	-	-	-
Macquarie	-7.07	3.71	-10.78	-10.40	-	-	-	-	30/09/10	-7.08	3.73	-10.81	-10.42
M&G Investments	5.68	4.72	0.96	0.92	-	-	-	-	31/05/10	5.06	4.74	0.32	0.30
Newton	-	-	-	-	-	-	-	-	24/01/13	10.10	13.53	-3.44	-3.03
Ruffer	5.17	0.72	4.45	4.42	-	-	-	-	28/05/10	5.56	0.73	4.84	4.80
SSGA	8.10	8.11	-0.01	-0.01	12.79	12.78	0.01	0.01	30/11/08	12.72	12.71	0.00	0.00
UBS	12.76	8.92	3.84	3.53	16.21	14.48	1.73	1.51	31/12/88	10.41	9.09	1.33	1.22
UBS Property	6.89	7.10	-0.21	-0.20	8.38	9.51	-1.13	-1.04	31/03/06	1.19	1.69	-0.50	-0.50
UBS Tactical	-	-	-	-	-	-	-	-	30/06/13	-3.50	-7.11	3.61	3.89

Total Fund Market Value at Qtr End: £734.3 M

Weighting at Beginning of Period



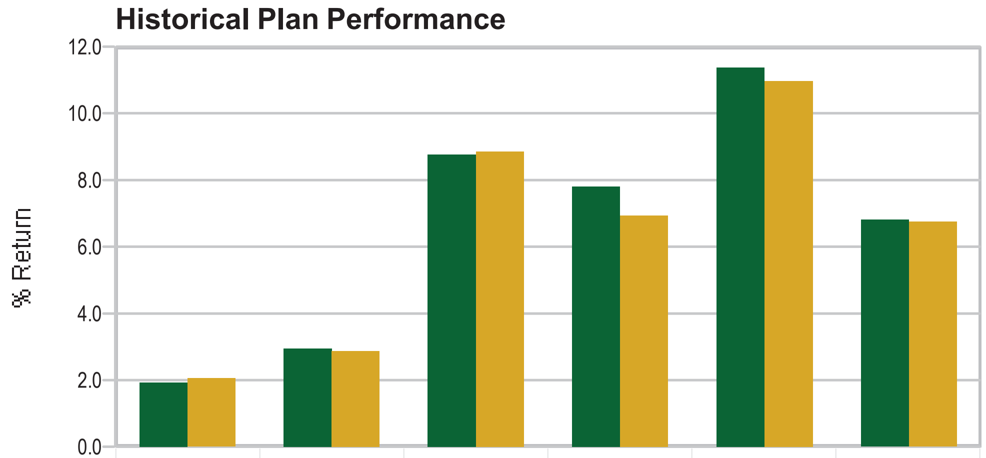
Weighting at End of Period



	Opening Market Value £(000)	% of Fund	Net Investment £(000)	Appreciation £(000)	Income Received £(000)	Closing Market Value £(000)	% of Fund
London Borough of Hillingdon	725,279	100.00	-4,981	11,530	2,484	734,312	100.00
Adam Street	21,199	2.92	-800	566	0	20,966	2.86
AEW UK	-	-	10,002	0	-3	9,999	1.36
Barings	63,046	8.69	11	1,037	0	64,094	8.73
JP Morgan	77,397	10.67	-14,998	666	-3	63,062	8.59
Kempen	77,356	10.67	0	2,975	0	80,331	10.94
LGT	15,776	2.18	-823	104	0	15,058	2.05
Macquarie	5,858	0.81	-398	-131	0	5,329	0.73
M&G Investments	25,912	3.57	1,590	120	242	27,864	3.79
Newton	23,618	3.26	0	570	0	24,188	3.29
Pasco Currency Overlay	141	0.02	0	781	0	923	0.13
Ruffer	84,524	11.65	0	-63	380	84,841	11.55
SSGA	143,998	19.85	0	3,006	0	147,004	20.02
UBS	115,870	15.98	0	-1,234	1,384	116,020	15.80
UBS Property	55,040	7.59	8	2,505	467	58,020	7.90
UBS Tactical	12,873	1.77	0	681	17	13,571	1.85

London Borough of Hillingdon

Historical Plan Performance



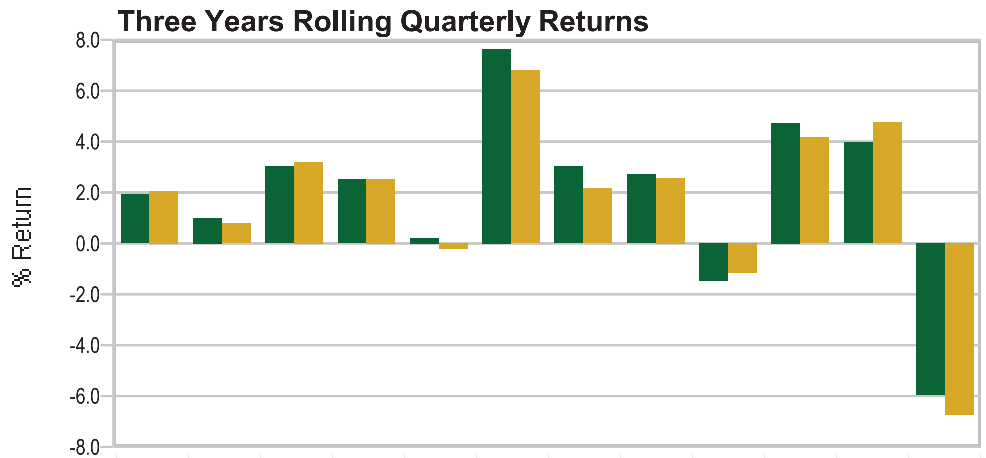
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.93	2.95	8.76	7.81	11.37	6.80
Benchmark	2.05	2.87	8.85	6.94	10.97	6.75

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	7.81	6.94
Standard Deviation	6.06	5.85
Relative Return	0.81	
Tracking Error	1.26	
Information Ratio	0.69	
Beta	1.01	
Alpha	0.75	
R Squared	0.96	
Sharpe Ratio	1.13	1.02
Percentage of Total Fund	100.0	
Inception Date	Sep-1995	
Opening Market Value (£000)	725,279	
Net Investment £(000)	-4,981	
Income Received £(000)	2,484	
Appreciation £(000)	11,530	
Closing Market Value (£000)	734,312	

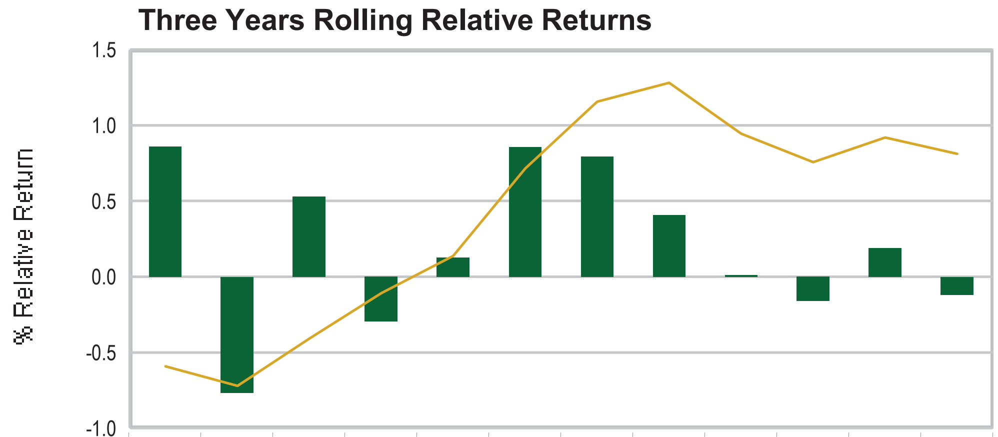
Page 90

Three Years Rolling Quarterly Returns



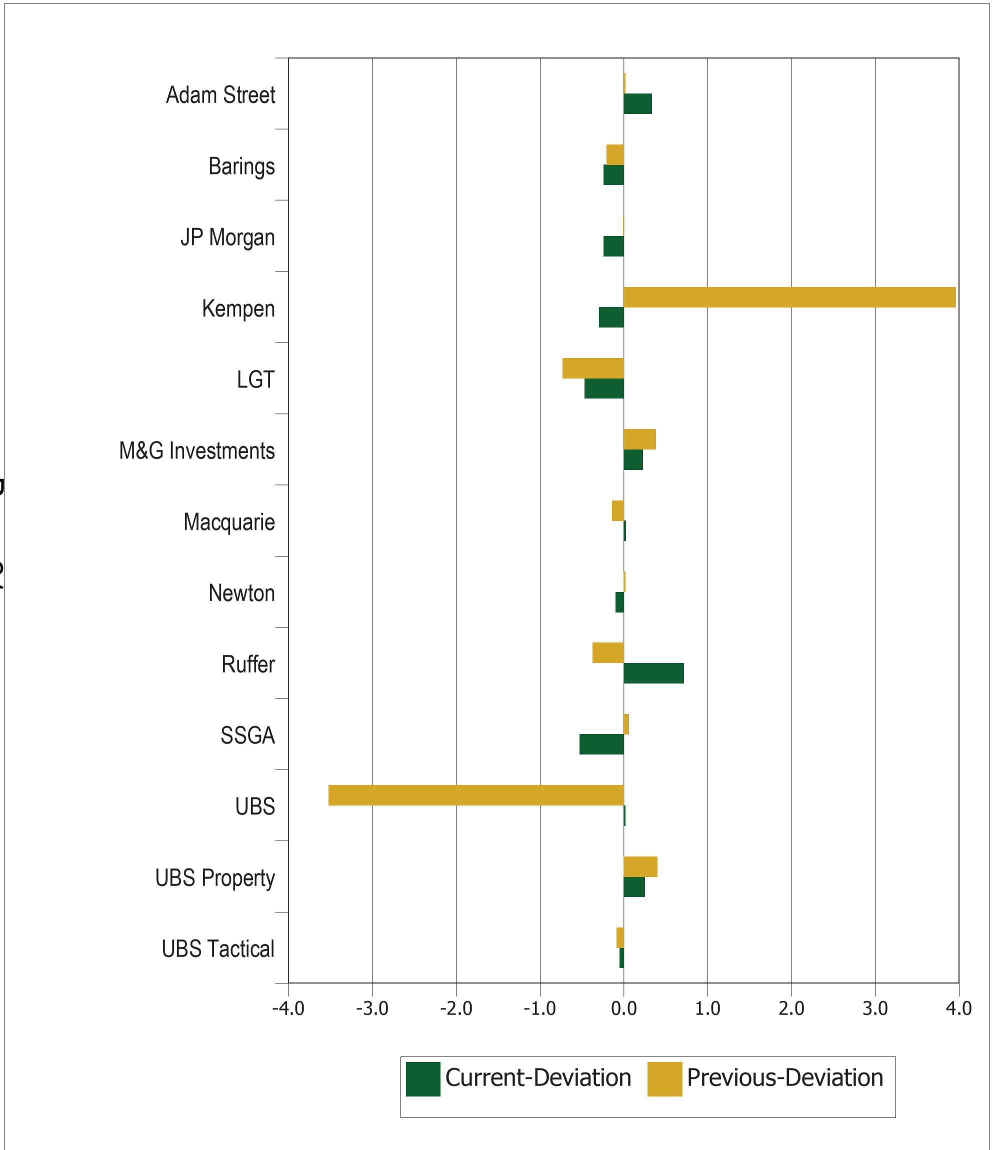
	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	1.93	0.99	3.04	2.53	0.20	7.65	3.05	2.71	-1.47	4.72	3.96	-5.94
Benchmark	2.05	0.80	3.21	2.52	-0.20	6.80	2.18	2.58	-1.18	4.16	4.76	-6.74

Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	0.86	-0.76	0.53	-0.29	0.13	0.86	0.79	0.41	0.01	-0.16	0.19	-0.12
3Y Relative	-0.59	-0.72	-0.41	-0.11	0.14	0.72	1.16	1.28	0.94	0.76	0.92	0.81

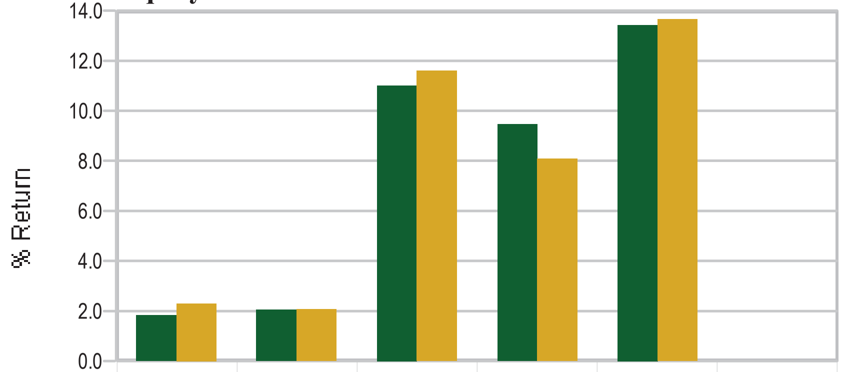
Manager Allocation



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Adam Street	2.86	2.92	2.52	0.34	2.91	0.01
Barings	8.73	8.69	8.97	-0.24	8.90	-0.21
JP Morgan	8.59	10.67	8.83	-0.24	10.68	-0.01
Kempen	10.94	10.67	11.24	-0.30	6.71	3.96
LGT	2.05	2.18	2.52	-0.47	2.91	-0.73
M&G Investments	3.79	3.57	3.57	0.22	3.19	0.38
Macquarie	0.73	0.81	0.70	0.03	0.95	-0.14
Newton	3.29	3.26	3.39	-0.10	3.24	0.02
Ruffer	11.55	11.65	10.84	0.71	12.03	-0.38
SSGA	20.02	19.85	20.55	-0.53	19.80	0.05
UBS	15.80	15.98	15.78	0.02	19.50	-3.52
UBS Property	7.90	7.59	7.65	0.25	7.19	0.40
UBS Tactical	1.85	1.77	1.90	-0.05	1.86	-0.09

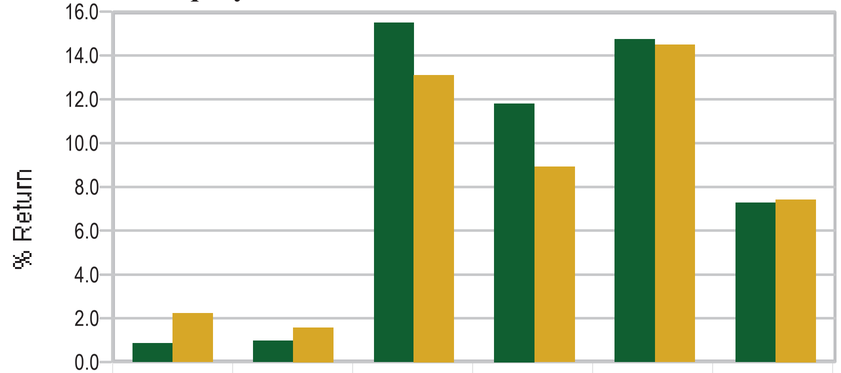
London Borough of Hillingdon

Equity



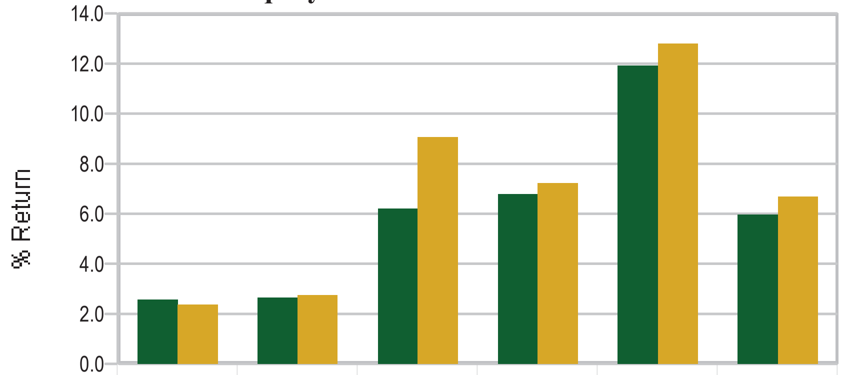
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.83	2.05	11.01	9.47	13.43	-
B'Mark	2.30	2.07	11.60	8.09	13.66	-

UK Equity



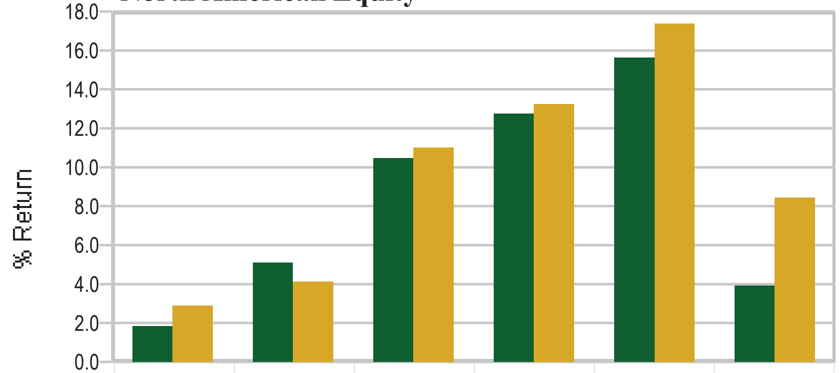
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.87	0.96	15.49	11.82	14.75	7.28
B'Mark	2.24	1.59	13.12	8.92	14.48	7.44

Overseas Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.57	2.66	6.21	6.78	11.93	5.97
B'Mark	2.37	2.76	9.06	7.22	12.79	6.68

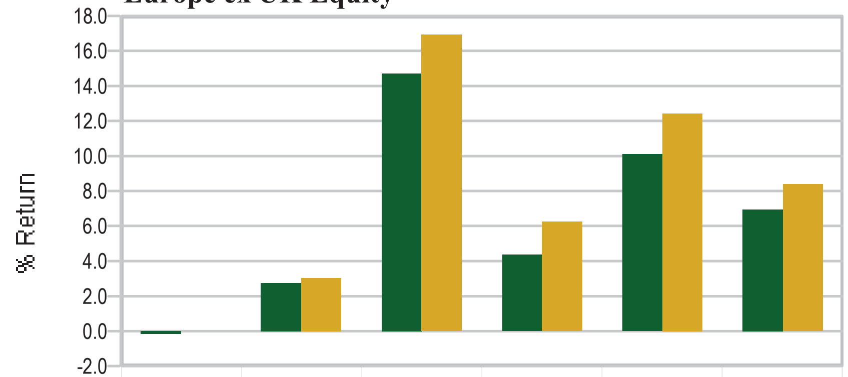
North American Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.83	5.10	10.46	12.75	15.63	3.91
B'Mark	2.89	4.12	11.02	13.26	17.39	8.45

London Borough of Hillingdon

Europe ex UK Equity

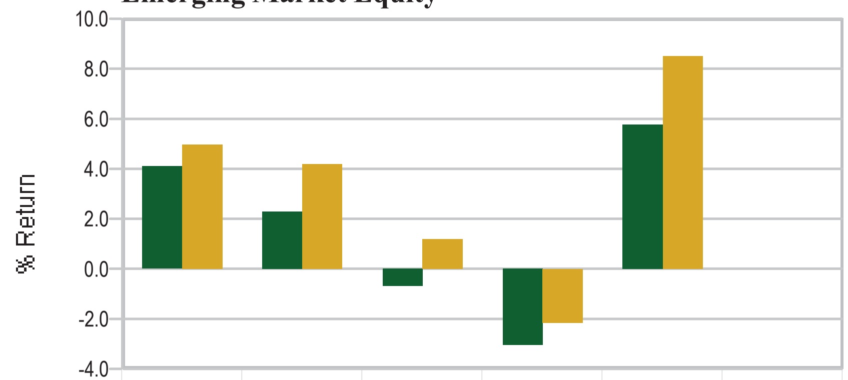


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.15	2.75	14.72	4.38	10.11	6.95
B'Mark	0.01	3.04	16.93	6.26	12.43	8.39

Asia Pacific Equity

	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.67	-1.51	-1.76	4.65	7.51	-
B'Mark	3.27	0.22	1.69	4.30	9.32	-

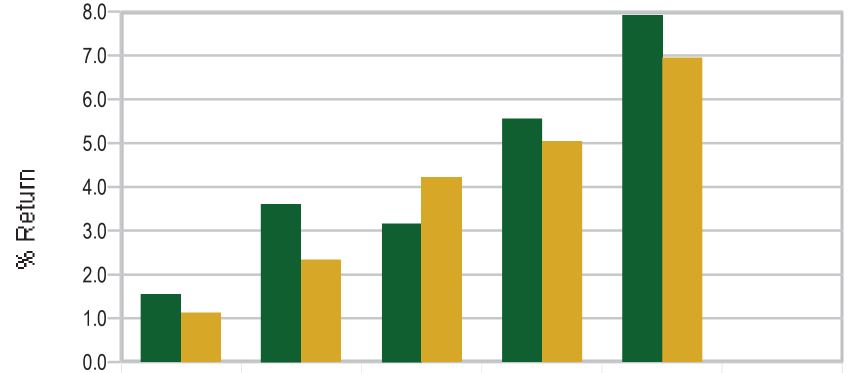
Emerging Market Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.09	2.29	-0.70	-3.06	5.76	-
B'Mark	4.96	4.18	1.20	-2.16	8.51	-

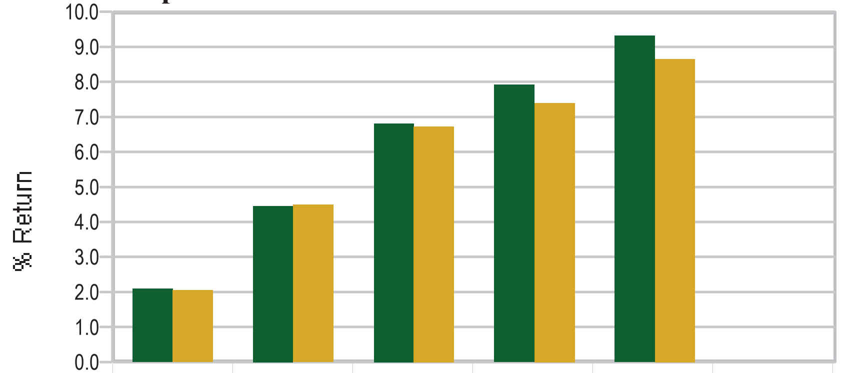
London Borough of Hillingdon

Fixed Income



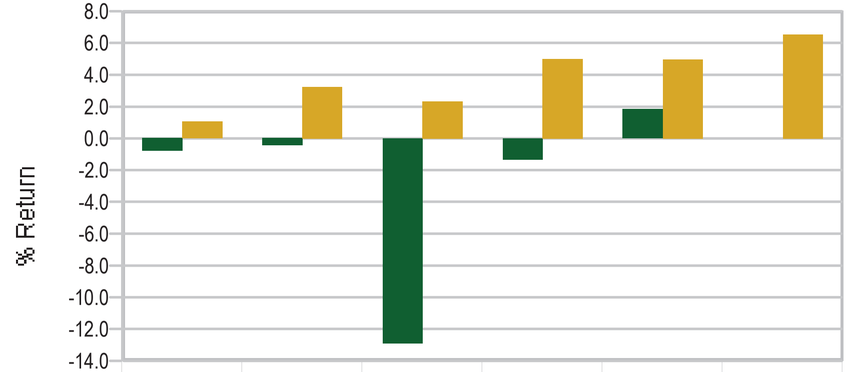
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.55	3.61	3.17	5.56	7.93	-
B'Mark	1.13	2.34	4.22	5.05	6.95	-

Corporate Bonds



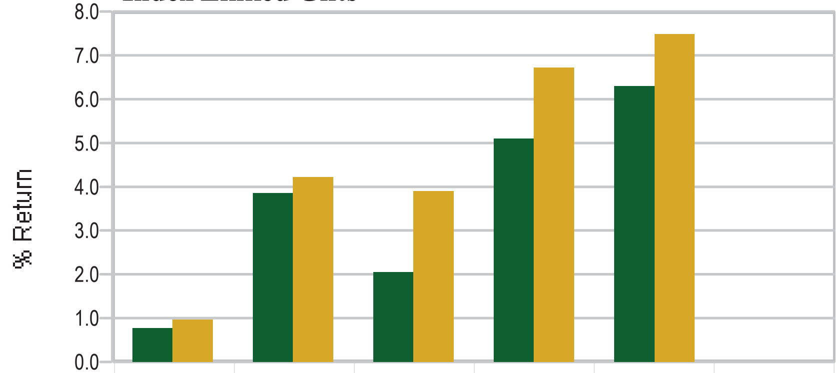
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.09	4.46	6.82	7.92	9.32	-
B'Mark	2.04	4.49	6.72	7.40	8.66	-

Government Bonds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.80	-0.44	-12.91	-1.32	1.85	-
B'Mark	1.08	3.25	2.33	5.01	4.97	6.53

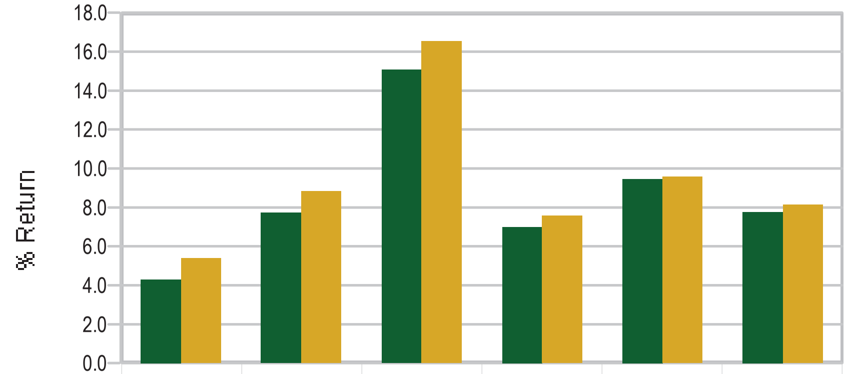
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.77	3.86	2.05	5.11	6.30	-
B'Mark	0.97	4.22	3.90	6.72	7.49	-

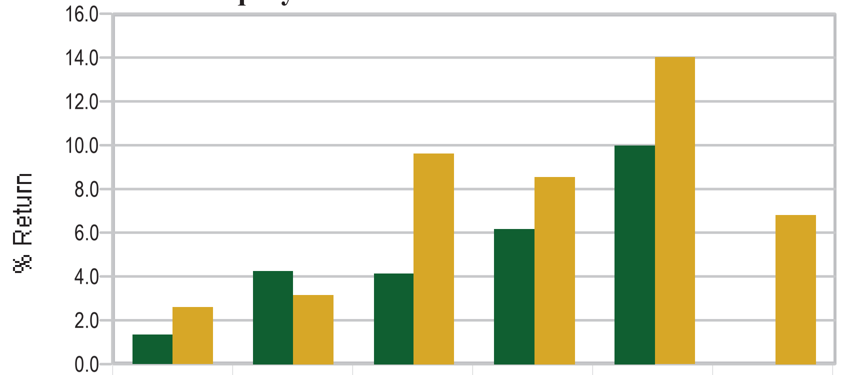
London Borough of Hillingdon

Real Estate



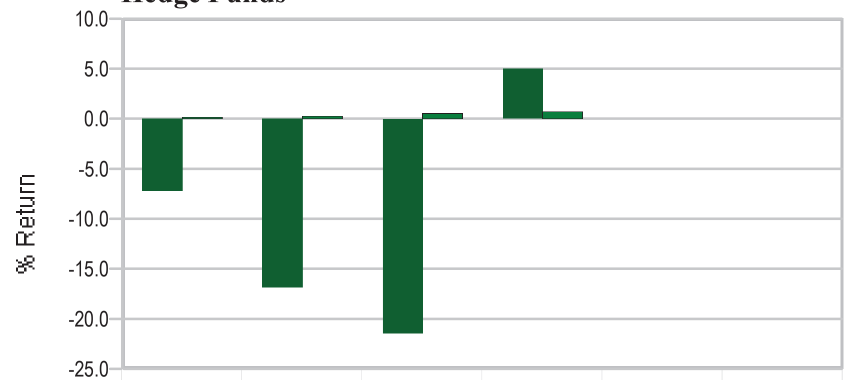
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.38	8.83	16.54	7.56	9.57	8.14
B'Mark	4.30	7.74	15.07	7.00	9.45	7.77

Private Equity



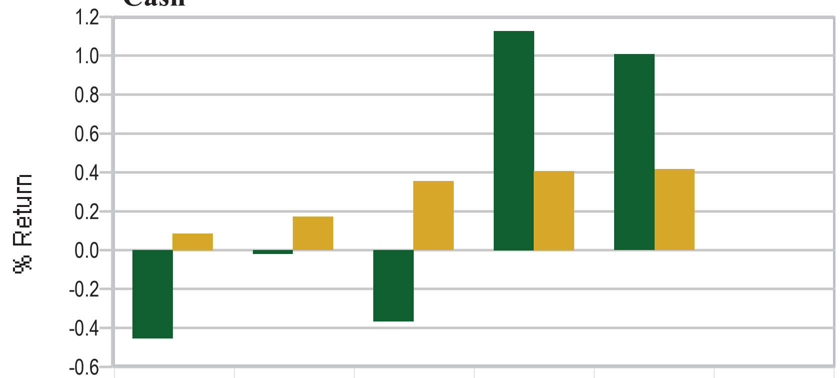
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.34	4.26	4.14	6.17	9.99	-
B'Mark	2.60	3.16	9.62	8.55	14.02	6.82

Hedge Funds



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-7.23	-16.87	-21.44	5.00	-	-
B'Mark	0.13	0.26	0.52	0.72	-	-

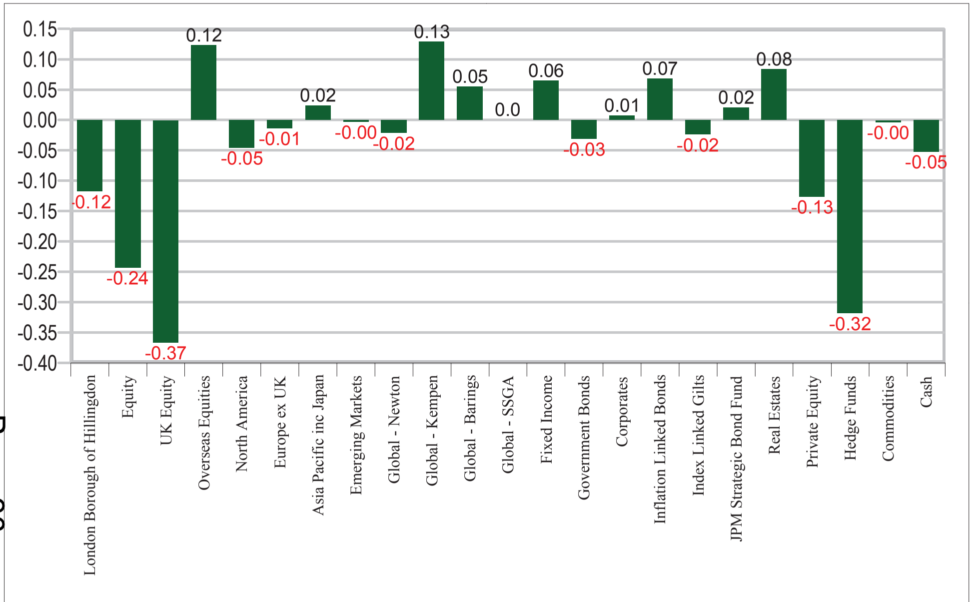
Cash



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.45	-0.02	-0.37	1.13	1.01	-
B'Mark	0.09	0.17	0.35	0.41	0.42	-

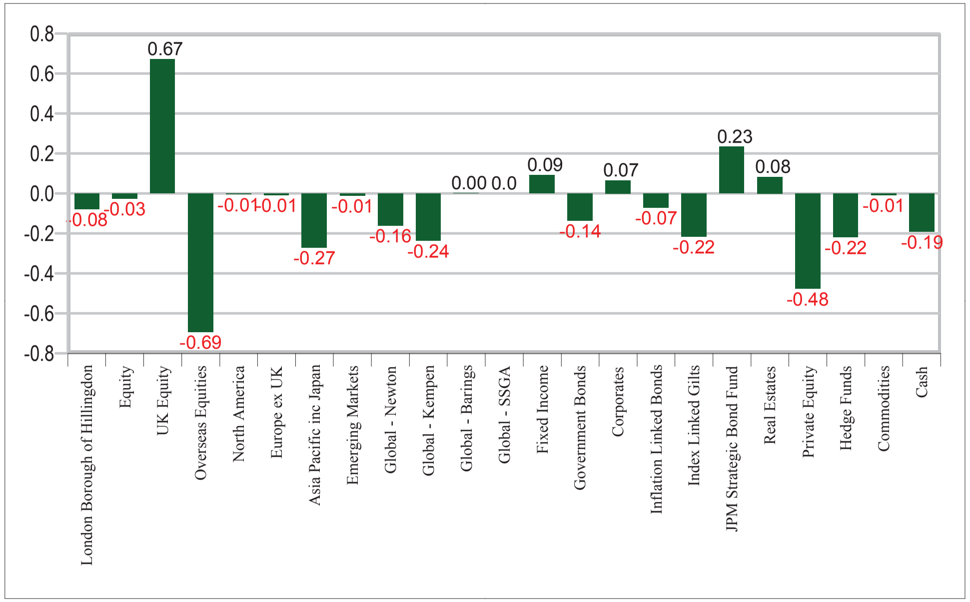
London Borough of Hillingdon

Relative Contribution - Three Months



	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	1.93	2.05	-0.12	0.15	-0.89	-0.02	0.29	-0.12
Equity	1.83	2.30	-0.46	0.00	-0.70	0.03	0.43	-0.24
UK Equity	0.87	2.24	-1.34	0.00	0.03	-0.05	-0.35	-0.37
Overseas Equities	2.57	2.37	0.19	0.00	-0.73	0.08	0.78	0.12
North America	1.83	2.89	-1.03	0.00	-0.05	0.04	-0.03	-0.05
Europe ex UK	-0.15	0.01	-0.16	0.00	-0.09	-0.01	0.09	-0.01
Asia Pacific inc Japan	3.67	3.27	0.39	0.00	-0.03	0.02	0.03	0.02
Emerging Markets	4.09	4.96	-0.83	0.00	0.00	0.00	-0.01	-0.00

Relative Contribution - One Year

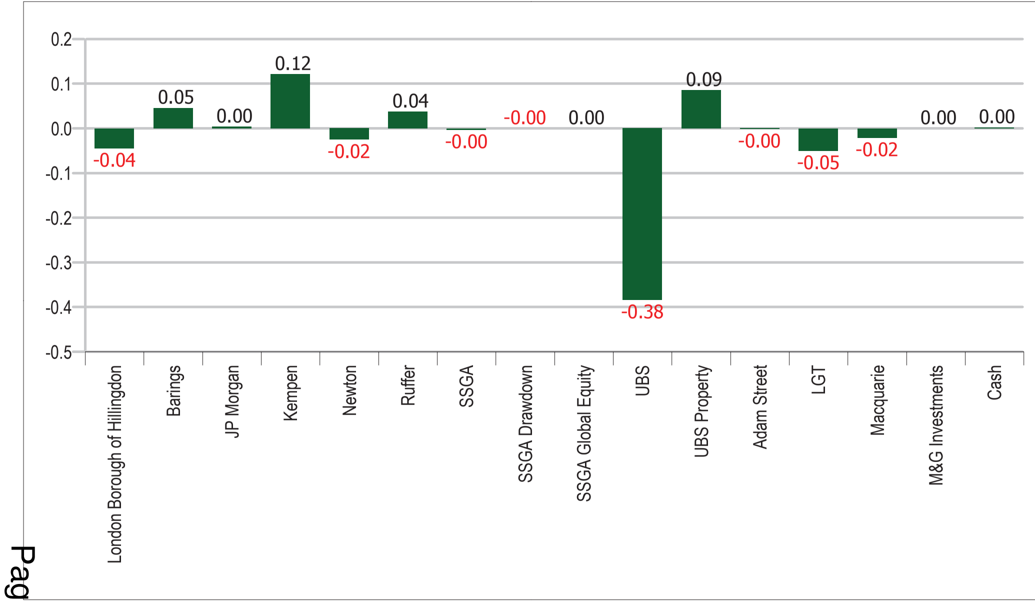


	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	8.76	8.85	-0.08	0.54	-1.90	0.61	0.35	-0.08
Equity	11.01	11.60	-0.53	0.00	-1.64	0.27	1.37	-0.03
UK Equity	15.49	13.12	2.10	0.00	0.04	-0.06	0.69	0.67
Overseas Equities	6.21	9.06	-2.61	0.00	-1.68	0.32	0.68	-0.69
North America	10.46	11.02	-0.50	0.00	-0.14	0.15	-0.02	-0.01
Europe ex UK	14.72	16.93	-1.88	0.00	-0.18	0.03	0.14	-0.01
Asia Pacific inc Japan	-1.76	1.69	-3.39	0.00	-0.30	0.05	-0.02	-0.27
Emerging Markets	-0.70	1.20	-1.87	0.00	0.00	0.00	-0.01	-0.01

	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Global - Newton	2.41	3.17	-0.73	0.00	0.00	0.00	-0.03	-0.02
Global - Kempen	3.85	2.93	0.89	0.00	-0.30	0.02	0.41	0.13
Global - Barings	1.64	1.12	0.52	0.00	-0.27	0.00	0.32	0.05
Global - SSGA	-	2.42	-2.36	0.00	0.00	0.00	0.00	0.00
Fixed Income	1.55	1.13	0.42	0.00	-0.05	0.02	0.09	0.06
Government Bonds	-0.80	-	-0.80	0.00	-0.02	-0.01	0.00	-0.03
Corporates	2.09	2.04	0.05	0.00	-0.00	0.01	0.00	0.01
Inflation Linked Bonds	4.67	1.46	3.17	0.00	-0.04	0.02	0.09	0.07
Index Linked Gilts	0.77	0.97	-0.20	0.00	0.00	-0.02	-0.00	-0.02
JPM Strategic Bond Fund	0.95	0.88	0.07	0.00	0.01	0.01	0.00	0.02
Real Estates	5.38	4.30	1.03	0.00	0.01	-0.01	0.08	0.08
Private Equity	1.34	2.60	-1.23	0.00	-0.02	0.09	-0.20	-0.13
Hedge Funds	-7.23	0.88	-8.04	0.00	-0.13	-0.08	-0.11	-0.32
Commodities	-2.05	0.88	-2.90	0.00	-0.00	0.01	-0.01	-0.00
Cash	-0.45	0.09	-0.54	0.00	-0.00	-0.05	-0.00	-0.05

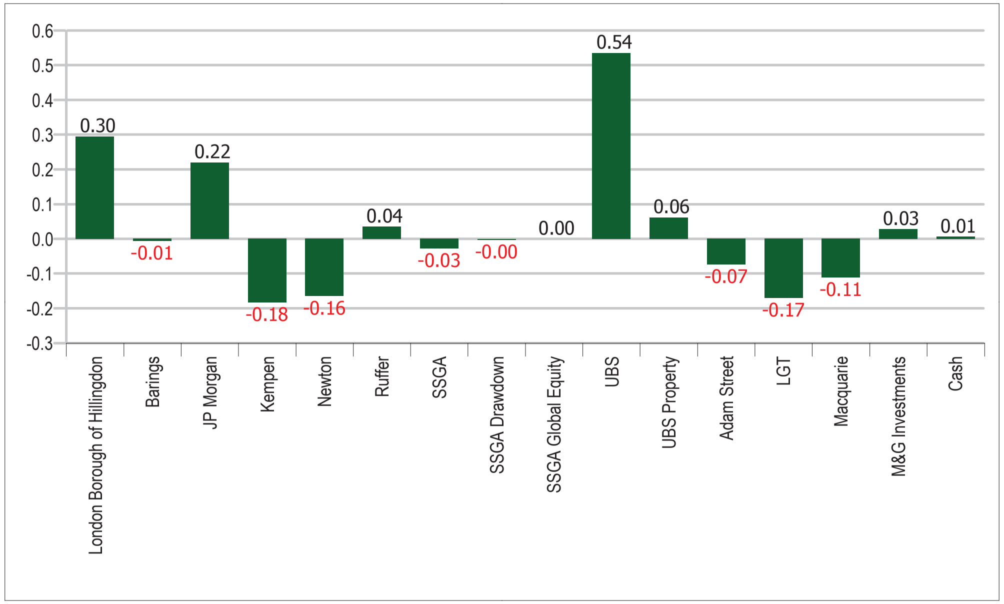
	Return	B'mark	Relative Return	Hedging Effect	Currency Effect	Asset Allocation	Stock Selection	Relative Contribution
Global - Newton	6.45	11.81	-4.80	0.00	0.00	-0.00	-0.16	-0.16
Global - Kempen	6.66	12.82	-5.46	0.00	-0.48	0.09	0.16	-0.24
Global - Barings	4.56	4.54	0.02	0.00	-0.59	0.00	0.60	0.00
Global - SSGA	-	9.06	-8.31	0.00	0.00	0.00	0.00	0.00
Fixed Income	3.17	4.22	-1.01	0.00	-0.17	-0.05	0.31	0.09
Government Bonds	-12.91	-	-12.91	0.00	-0.03	-0.11	0.00	-0.14
Corporates	6.82	6.72	0.09	0.00	-0.04	0.10	0.00	0.07
Inflation Linked Bonds	-4.67	-7.11	2.63	0.00	-0.11	-0.05	0.08	-0.07
Index Linked Gilts	2.05	3.90	-1.78	0.00	-0.06	-0.16	0.01	-0.22
JPM Strategic Bond Fund	5.86	3.54	2.24	0.00	0.01	-0.00	0.23	0.23
Real Estates	16.54	15.07	1.27	0.00	0.00	-0.02	0.10	0.08
Private Equity	4.14	9.62	-5.00	0.00	0.28	0.35	-1.09	-0.48
Hedge Funds	-21.44	3.54	-24.13	0.00	-0.32	0.42	-0.32	-0.22
Commodities	-3.02	3.54	-6.33	0.00	-0.00	0.03	-0.03	-0.01
Cash	-0.37	0.35	-0.72	0.00	-0.00	-0.21	0.02	-0.19

Three Months



	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	1.93	1.98	-0.04	0.10	-0.13	-0.04
Barings	1.65	1.12	0.52	0.00	0.04	0.05
JP Morgan	0.94	0.88	0.07	0.00	0.00	0.00
Kempen	3.85	2.93	0.89	0.03	0.09	0.12
Newton	2.41	3.17	-0.73	0.00	-0.03	-0.02
Ruffer	0.37	0.13	0.25	0.01	0.03	0.04
SSGA	2.09	2.12	-0.03	0.00	-0.01	-0.00
SSGA Drawdown	-1.58	1.09	-2.64	-0.00	-0.00	-0.00
SSGA Global Equity	-	-	0.00	0.00	0.00	0.00
UBS	0.13	2.24	-2.06	-0.05	-0.33	-0.38
UBS Property	5.40	4.30	1.05	0.00	0.08	0.09
Adam Street	2.72	2.80	-0.07	0.00	-0.00	-0.00
LGT	0.64	2.80	-2.10	-0.00	-0.05	-0.05
Macquarie	-2.40	0.88	-3.25	0.00	-0.02	-0.02
M&G Investments	1.34	1.12	0.21	-0.01	0.01	0.00
Cash	-3.88	0.09	-3.96	0.00	-0.00	0.00

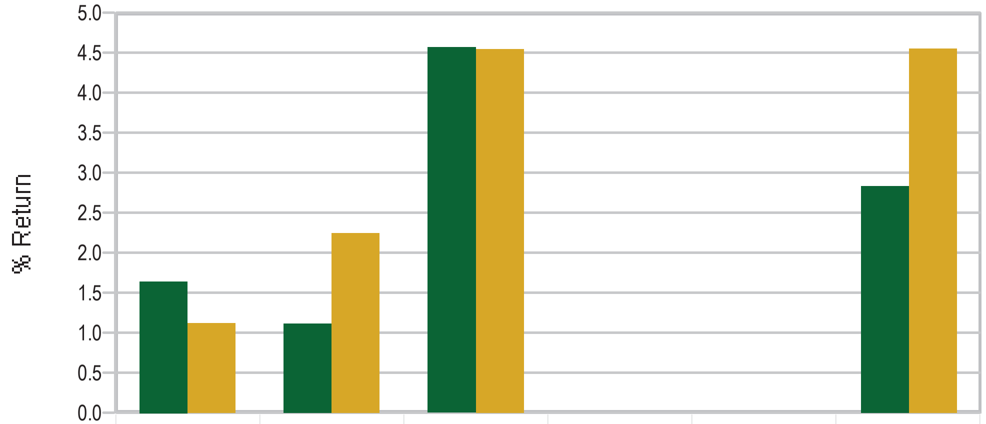
One Year



	Fund Return	Index Return	Relative Return	Asset Allocation	Stock Selection	Relative Contribution
London Borough of Hillingdon	8.76	8.44	0.30	0.14	0.23	0.30
Barings	4.57	4.54	0.02	0.00	-0.01	-0.01
JP Morgan	5.85	3.54	2.24	-0.01	0.23	0.22
Kempen	7.47	12.82	-4.74	0.09	-0.28	-0.18
Newton	6.45	11.81	-4.80	-0.00	-0.16	-0.16
Ruffer	0.85	0.52	0.33	0.00	0.03	0.04
SSGA	10.04	10.16	-0.10	-0.01	-0.02	-0.03
SSGA Drawdown	-7.03	3.53	-10.20	-0.00	-0.00	-0.00
SSGA Global Equity	-	-	0.00	0.00	0.00	0.00
UBS	16.20	13.12	2.73	-0.10	0.64	0.54
UBS Property	15.90	15.07	0.72	0.00	0.06	0.06
Adam Street	7.96	9.83	-1.70	-0.00	-0.07	-0.07
LGT	2.67	9.83	-6.52	-0.01	-0.16	-0.17
Macquarie	-8.22	3.54	-11.36	-0.00	-0.11	-0.11
M&G Investments	5.59	4.54	1.00	-0.01	0.03	0.03
Cash	24.88	0.35	24.43	0.01	0.00	0.01

Barings

Historical Plan Performance

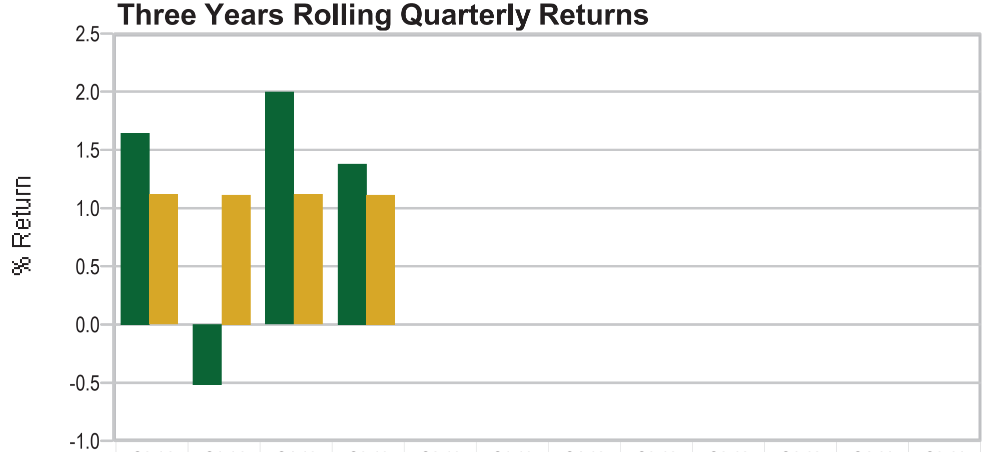


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.65	1.12	4.57	-	-	2.83
Benchmark	1.12	2.25	4.54	-	-	4.55

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	8.7	
Inception Date	Apr-2013	
Opening Market Value (£000)	63,046	
Net Investment £(000)	11	
Income Received £(000)	0	
Appreciation £(000)	1,037	
Closing Market Value (£000)	64,094	

Three Years Rolling Quarterly Returns



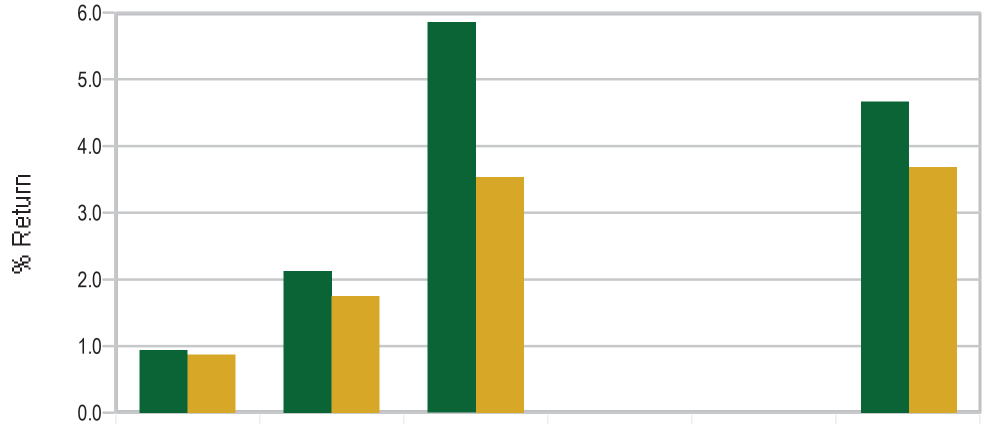
	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	1.65	-0.52	2.00	1.38	-	-	-	-	-	-	-	-
Benchmark	1.12	1.11	1.12	1.12	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns

	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-	-	-	-	-	-	-	-2.24	0.27	0.87	-1.62	0.52
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

JP Morgan

Historical Plan Performance

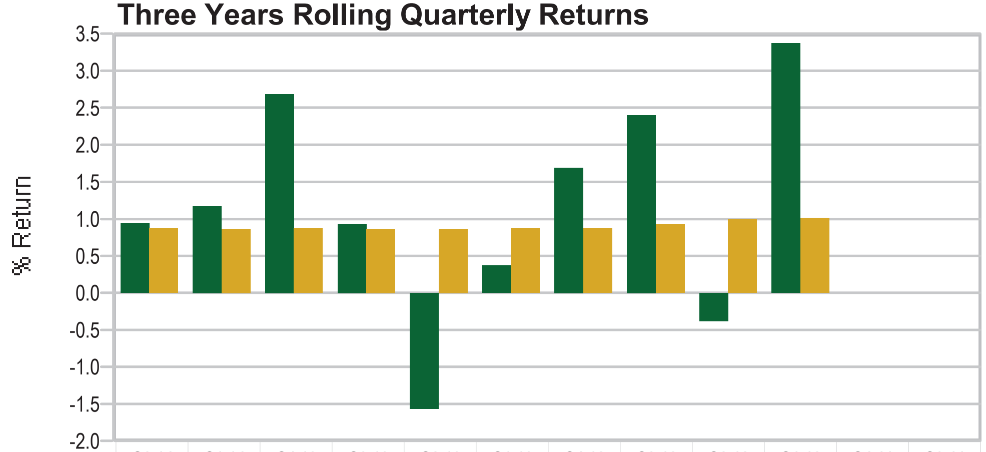


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.94	2.13	5.85	-	-	4.67
Benchmark	0.88	1.75	3.54	-	-	3.68

Risk Statistics - 3 years

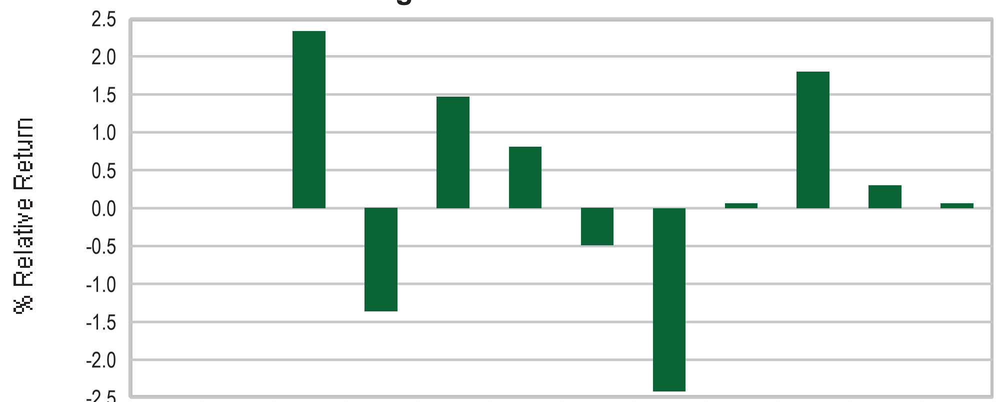
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	8.6	
Inception Date	Nov-2011	
Opening Market Value (£000)	77,397	
Net Investment £(000)	-14,998	
Income Received £(000)	-3	
Appreciation £(000)	666	
Closing Market Value (£000)	63,062	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	0.94	1.17	2.69	0.94	-1.57	0.37	1.69	2.41	-0.38	3.37	-	-
Benchmark	0.88	0.87	0.87	0.87	0.87	0.87	0.88	0.93	0.99	1.01	-	-

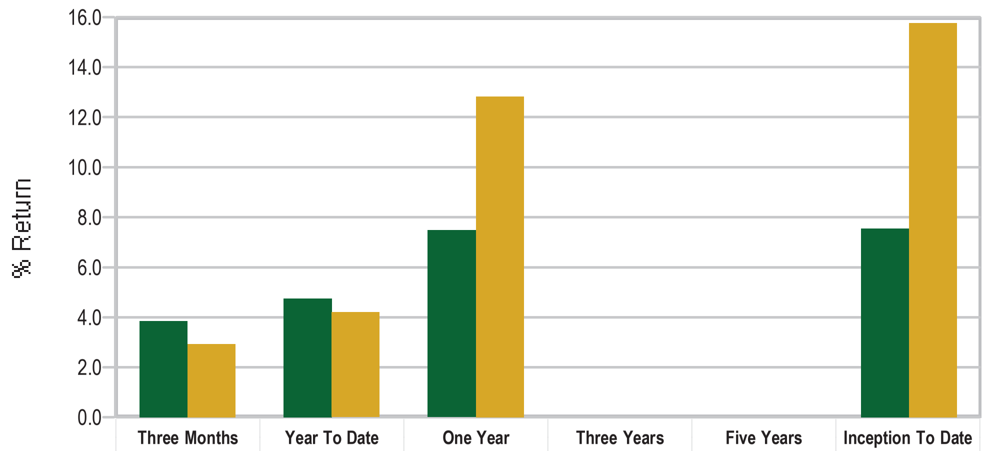
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-	-	2.34	-1.36	1.47	0.81	-0.49	-2.41	0.06	1.80	0.30	0.07
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Kempen

Historical Plan Performance

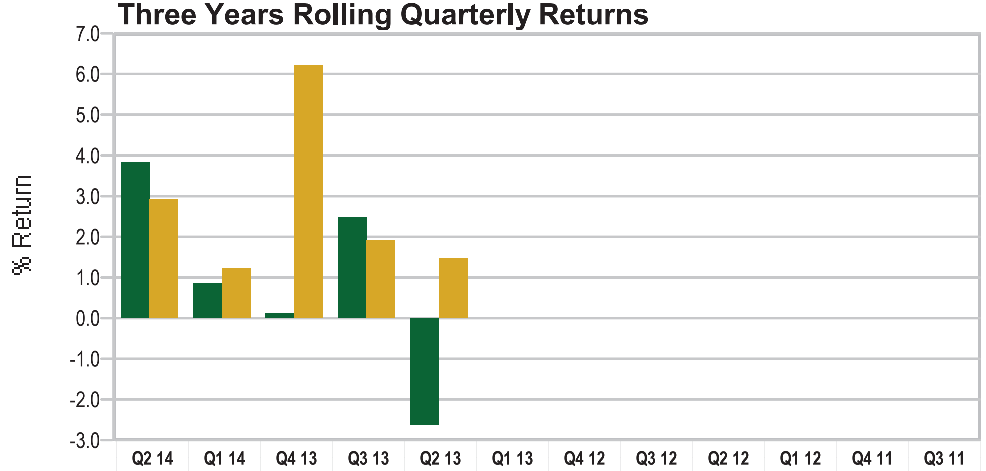


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.85	4.74	7.47	-	-	7.54
Benchmark	2.93	4.20	12.82	-	-	15.76

Risk Statistics - 3 years

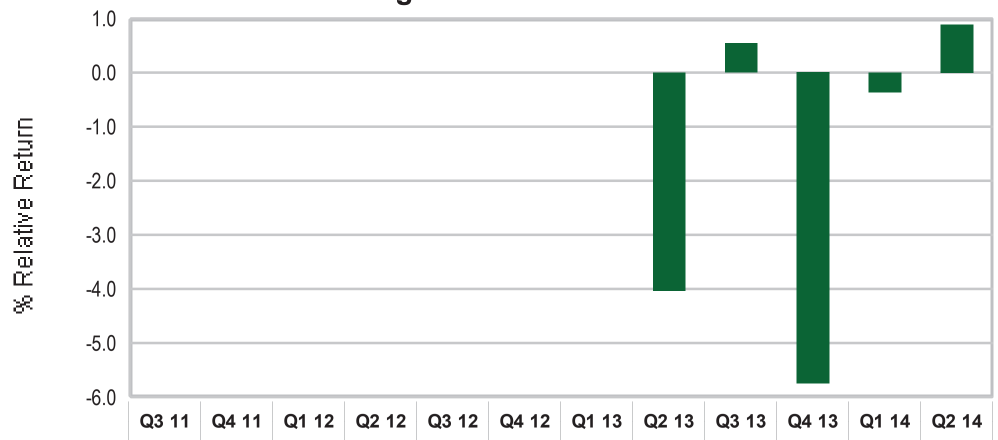
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	10.9	
Inception Date	Jan-2013	
Opening Market Value (£000)	77,356	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	2,975	
Closing Market Value (£000)	80,331	

Three Years Rolling Quarterly Returns



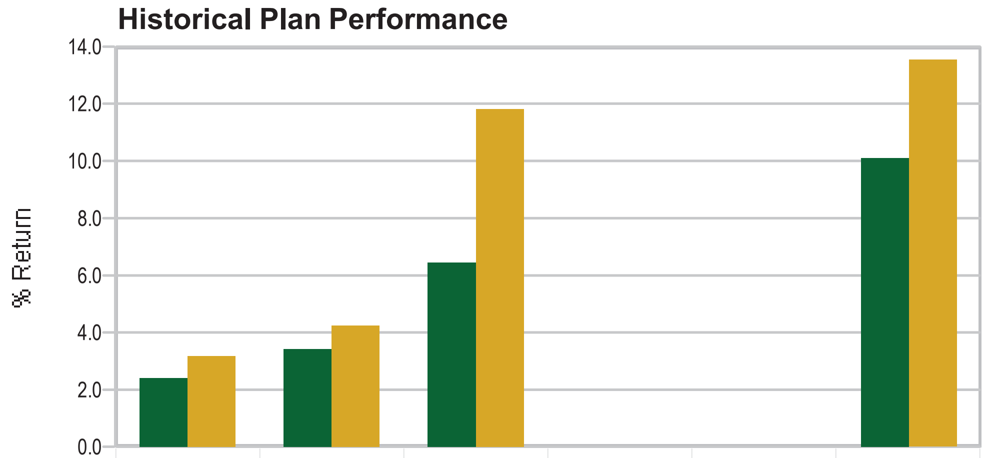
	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	3.85	0.87	0.12	2.48	-2.63	-	-	-	-	-	-	-
Benchmark	2.93	1.23	6.22	1.93	1.46	-	-	-	-	-	-	-

Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-	-	-	-	-	-	-	-4.04	0.54	-5.75	-0.36	0.89
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

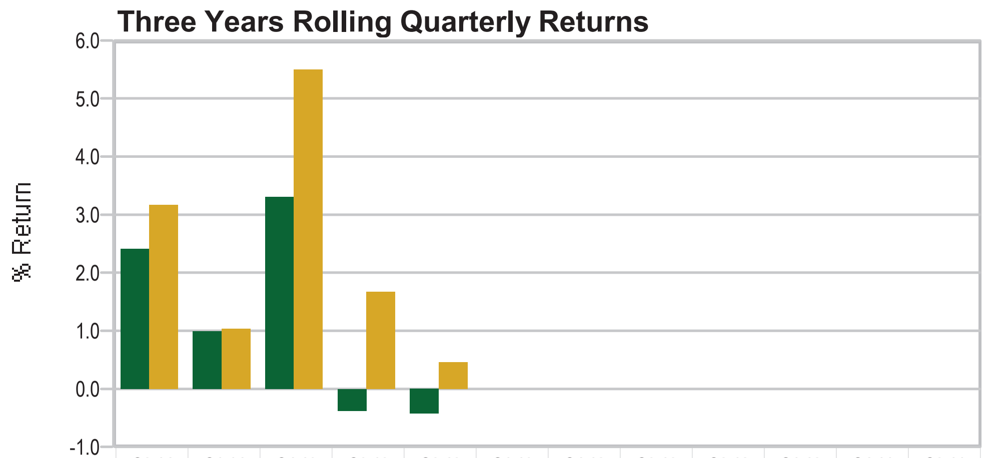
Newton



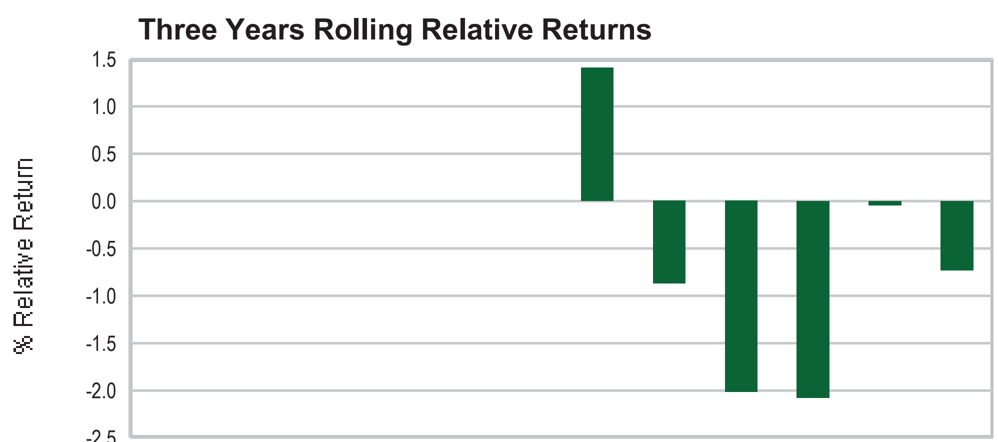
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.41	3.43	6.45	-	-	10.10
Benchmark	3.17	4.24	11.81	-	-	13.53

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)	23,618	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	570	
Closing Market Value (£000)	24,188	



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	2.41	0.99	3.31	-0.38	-0.42	-	-	-	-	-	-	-
Benchmark	3.17	1.04	5.50	1.68	0.46	-	-	-	-	-	-	-



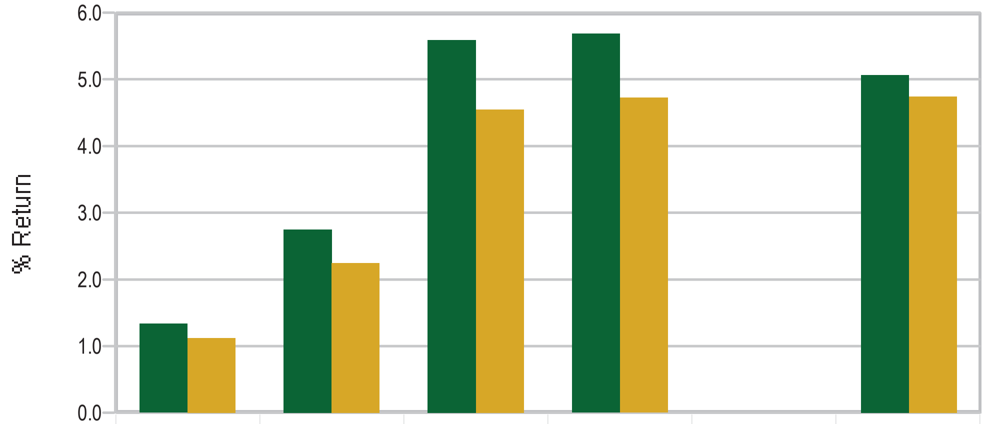
	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-	-	-	-	-	-	1.41	-0.88	-2.02	-2.08	-0.05	-0.73
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Northern Trust

Prepared by Investment Risk & Analytical Services

M&G Investments

Historical Plan Performance

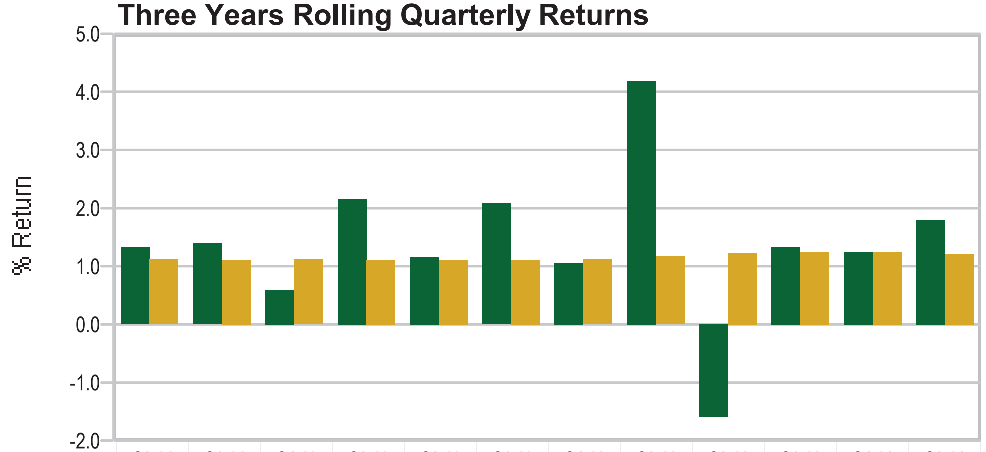


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.34	2.75	5.59	5.68	-	5.06
Benchmark	1.12	2.25	4.54	4.72	-	4.74

Risk Statistics - 3 years

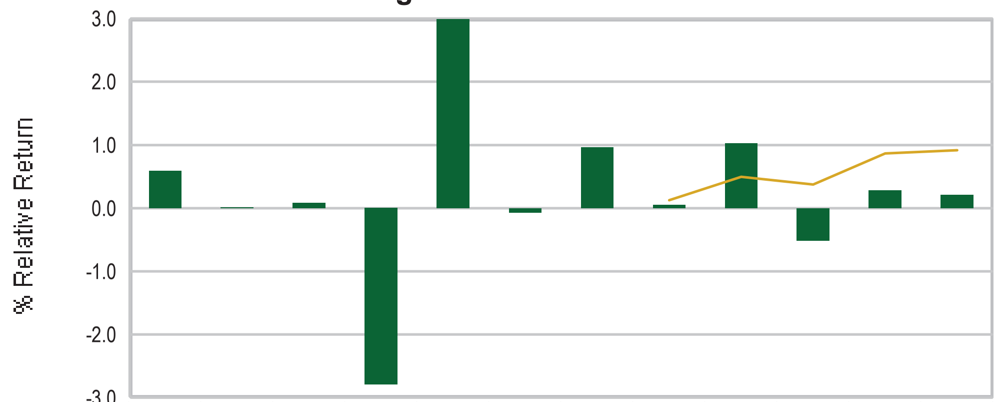
	Fund	B'mark
Performance Return	5.68	4.72
Standard Deviation	2.74	0.06
Relative Return	0.92	
Tracking Error	2.74	
Information Ratio	0.35	
Beta	1.71	
Alpha	-1.64	
R Squared	0.00	
Sharpe Ratio	1.73	58.74
Percentage of Total Fund	3.8	
Inception Date	May-2010	
Opening Market Value (£000)	25,912	
Net Investment £(000)	1,590	
Income Received £(000)	242	
Appreciation £(000)	120	
Closing Market Value (£000)	27,864	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	1.34	1.40	0.60	2.15	1.16	2.09	1.05	4.19	-1.59	1.34	1.25	1.80
Benchmark	1.12	1.11	1.12	1.12	1.11	1.11	1.12	1.17	1.23	1.25	1.24	1.21

Three Years Rolling Relative Returns

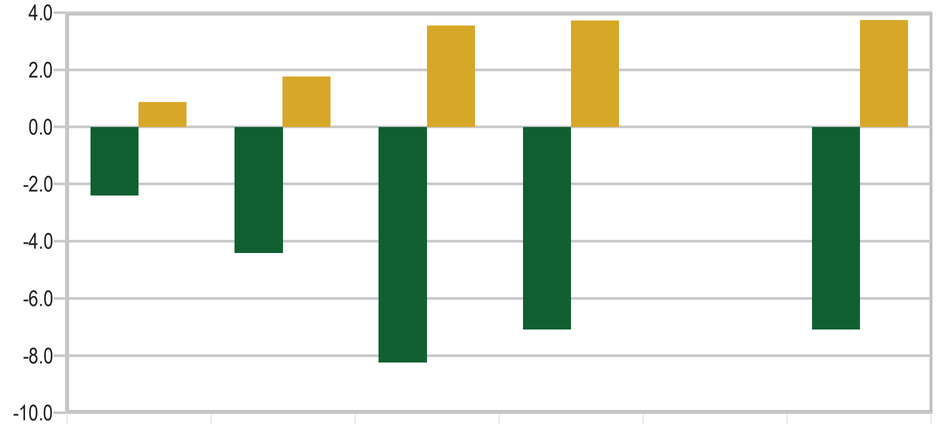


	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	0.59	0.01	0.08	-2.79	2.99	-0.07	0.97	0.05	1.03	-0.51	0.28	0.21
3Y Relative	-	-	-	-	-	-	-	0.13	0.50	0.38	0.86	0.92

Page 103

Macquarie

Historical Plan Performance

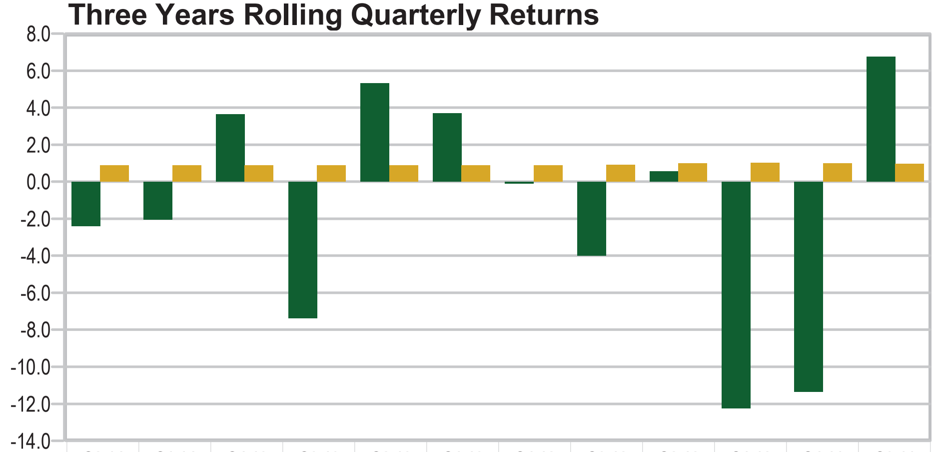


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-2.40	-4.40	-8.22	-7.07	-	-7.08
Benchmark	0.88	1.75	3.54	3.71	-	3.73

Risk Statistics - 3 years

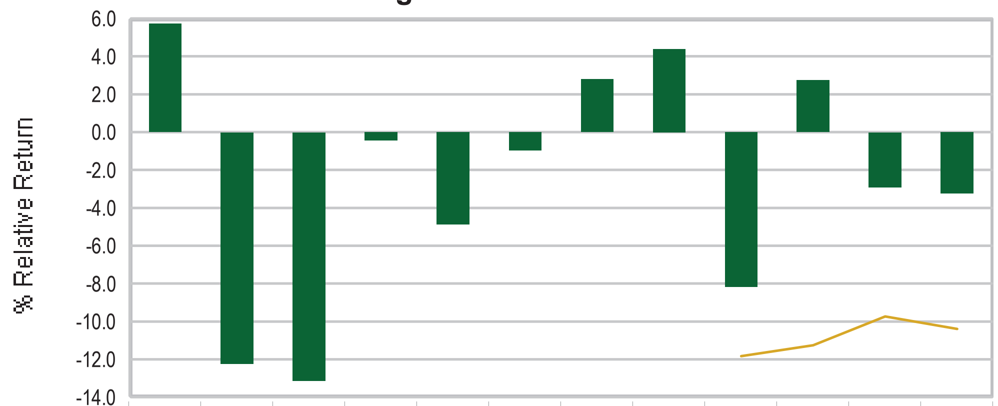
	Fund	B'mark
Performance Return	-7.07	3.71
Standard Deviation	11.38	0.06
Relative Return	-10.40	
Tracking Error	11.39	
Information Ratio	-0.95	
Beta	37.87	
Alpha	-68.38	
R Squared	0.07	
Sharpe Ratio	-0.71	43.00
Percentage of Total Fund	0.7	
Inception Date	Sep-2010	
Opening Market Value (£000)	5,858	
Net Investment £(000)	-398	
Income Received £(000)	0	
Appreciation £(000)	-131	
Closing Market Value (£000)	5,329	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	-2.40	-2.05	3.65	-7.37	5.31	3.69	-0.10	-4.01	0.56	-12.25	-11.35	6.74
Benchmark	0.88	0.87	0.87	0.87	0.87	0.87	0.88	0.93	0.99	1.01	1.00	0.96

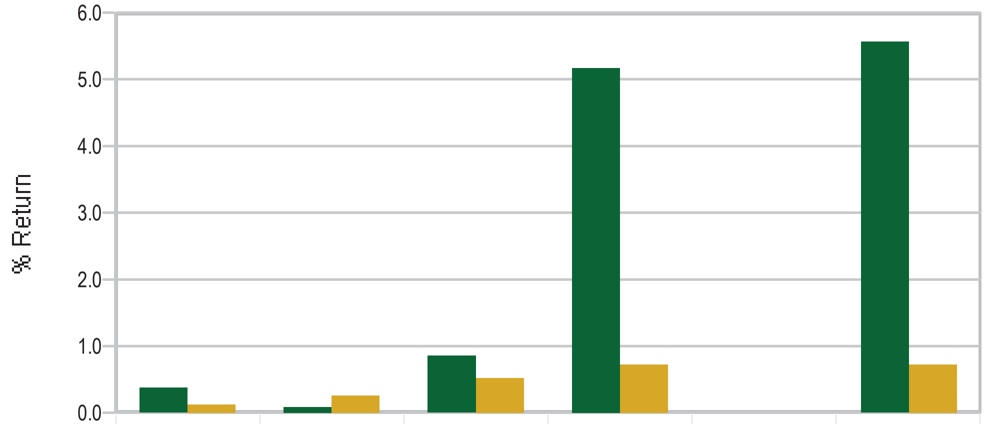
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	5.73	-12.22	-13.12	-0.43	-4.89	-0.96	2.79	4.40	-8.17	2.75	-2.90	-3.25
3Y Relative	-	-	-	-	-	-	-	-	-11.82	-11.24	-9.74	-10.40

Ruffer

Historical Plan Performance

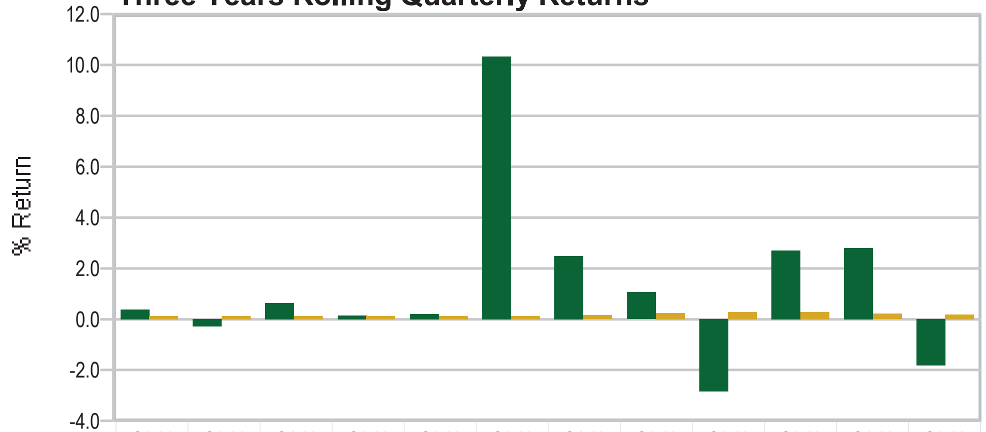


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.37	0.09	0.85	5.17	-	5.56
Benchmark	0.13	0.26	0.52	0.72	-	0.73

Risk Statistics - 3 years

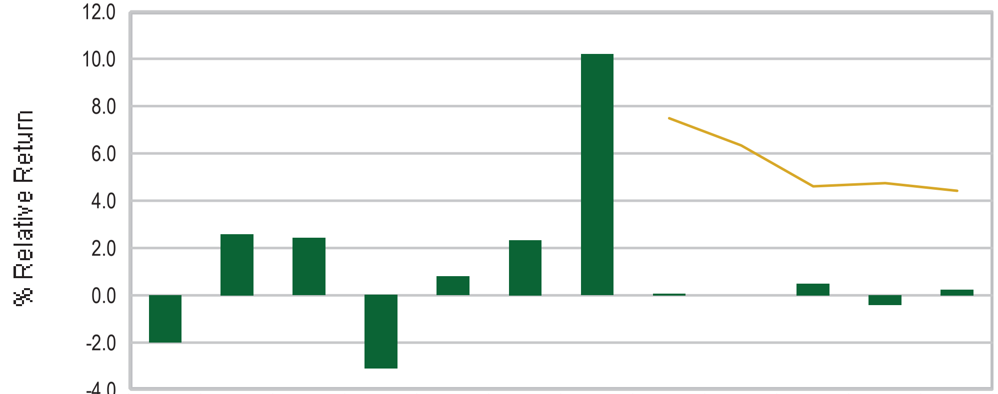
	Fund	B'mark
Performance Return	5.17	0.72
Standard Deviation	5.32	0.07
Relative Return	4.42	
Tracking Error	5.33	
Information Ratio	0.83	
Beta	17.76	
Alpha	8.76	
R Squared	0.05	
Sharpe Ratio	0.79	-3.29
Percentage of Total Fund	11.6	
Inception Date	May-2010	
Opening Market Value (£000)	84,524	
Net Investment £(000)	0	
Income Received £(000)	380	
Appreciation £(000)	-63	
Closing Market Value (£000)	84,841	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	0.37	-0.29	0.62	0.14	0.20	10.33	2.49	1.06	-2.83	2.70	2.81	-1.82
Benchmark	0.13	0.13	0.13	0.13	0.13	0.13	0.15	0.26	0.28	0.28	0.22	0.19

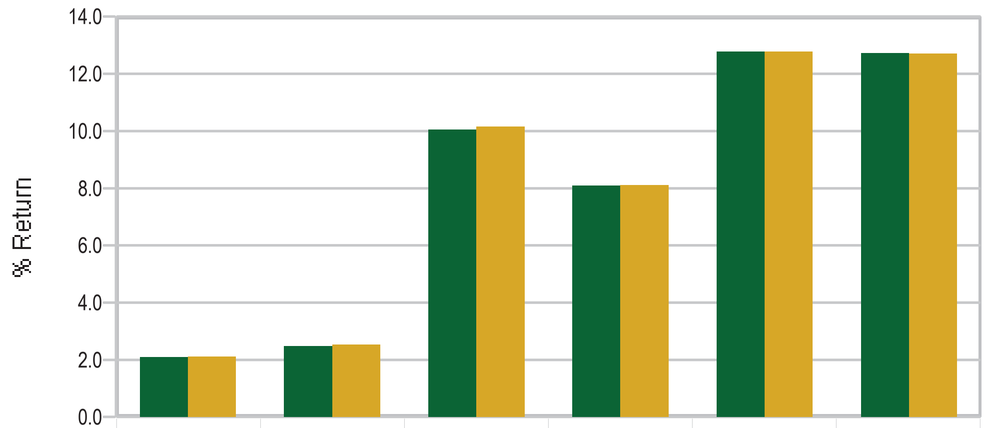
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-2.01	2.58	2.42	-3.10	0.80	2.33	10.19	0.08	0.01	0.49	-0.42	0.25
3Y Relative	-	-	-	-	-	-	-	7.48	6.34	4.60	4.74	4.42

SSGA

Historical Plan Performance

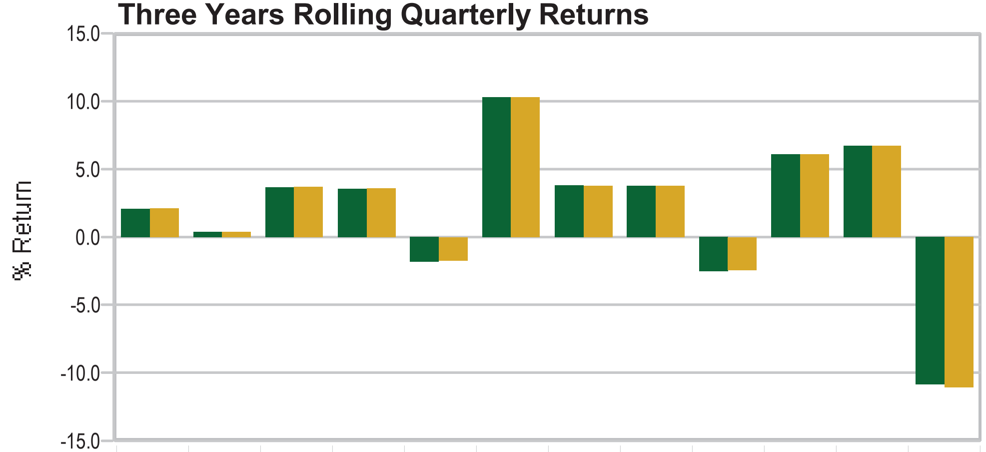


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.09	2.48	10.04	8.10	12.79	12.72
Benchmark	2.12	2.53	10.16	8.11	12.78	12.71

Risk Statistics - 3 years

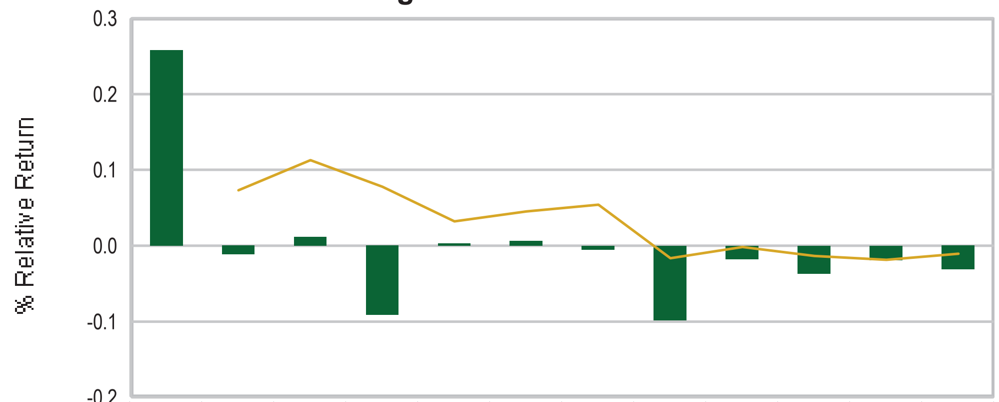
	Fund	B'mark
Performance Return	8.10	8.11
Standard Deviation	9.30	9.39
Relative Return	-0.01	
Tracking Error	0.16	
Information Ratio	-0.07	
Beta	0.99	
Alpha	0.05	
R Squared	1.00	
Sharpe Ratio	0.77	0.76
Percentage of Total Fund	20.0	
Inception Date	Nov-2008	
Opening Market Value (£000)	143,998	
Net Investment £(000)	0	
Income Received £(000)	0	
Appreciation £(000)	3,006	
Closing Market Value (£000)	147,004	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	2.09	0.38	3.68	3.57	-1.83	10.32	3.80	3.77	-2.53	6.11	6.71	-10.84
Benchmark	2.12	0.40	3.72	3.59	-1.73	10.32	3.79	3.77	-2.44	6.09	6.73	-11.07

Three Years Rolling Relative Returns



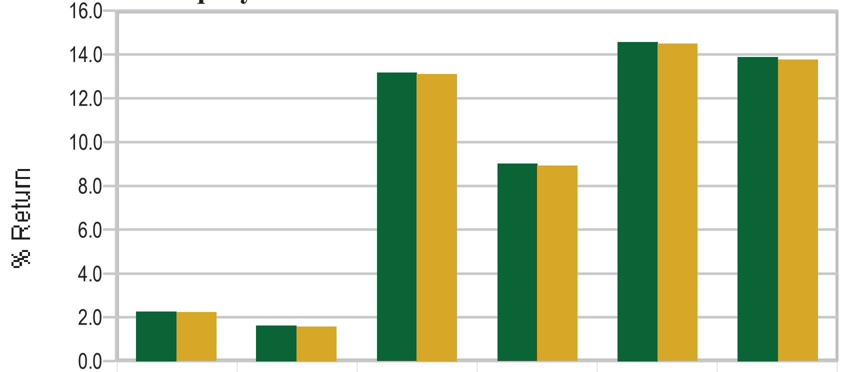
	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	0.26	-0.01	0.01	-0.09	0.00	0.01	-0.01	-0.10	-0.02	-0.04	-0.02	-0.03
3Y Relative	-	0.07	0.11	0.08	0.03	0.05	0.05	-0.02	-0.00	-0.01	-0.02	-0.01

SSGA

	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
United Kingdom	44.17	43.83	44.15	0.02	44.08	-0.25
Europe ex UK	10.94	11.04	10.95	-0.01	11.25	-0.21
North America	10.95	11.02	10.96	-0.01	11.44	-0.42
Asia Pacific	11.01	11.13	11.02	-0.01	11.49	-0.36
Emerging Markets	3.00	3.05	2.99	0.01	2.98	0.07
Government Bonds	1.50	1.49	1.50	-0.00	1.37	0.12
Corporate Bonds	8.49	8.45	8.47	0.02	7.84	0.61
Index Linked Gilts	9.95	9.98	9.96	-0.01	9.55	0.43

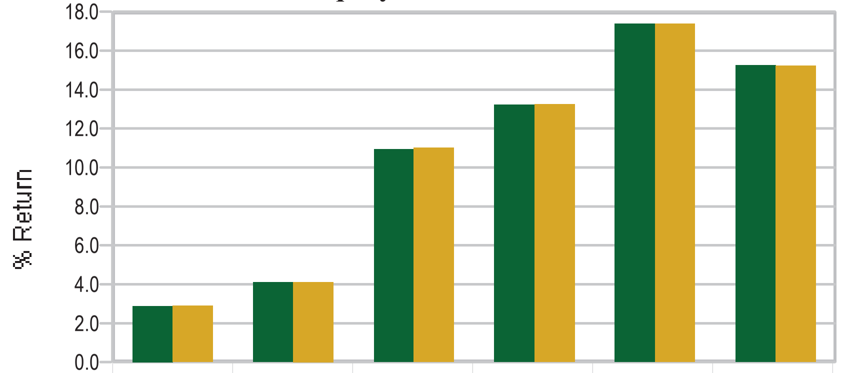
SSGA

UK Equity



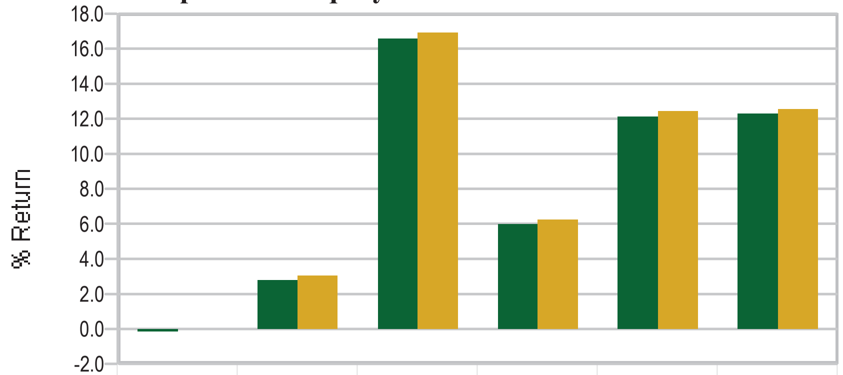
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.27	1.62	13.18	9.01	14.58	13.90
B'Mark	2.24	1.59	13.12	8.92	14.48	13.77

North America Equity



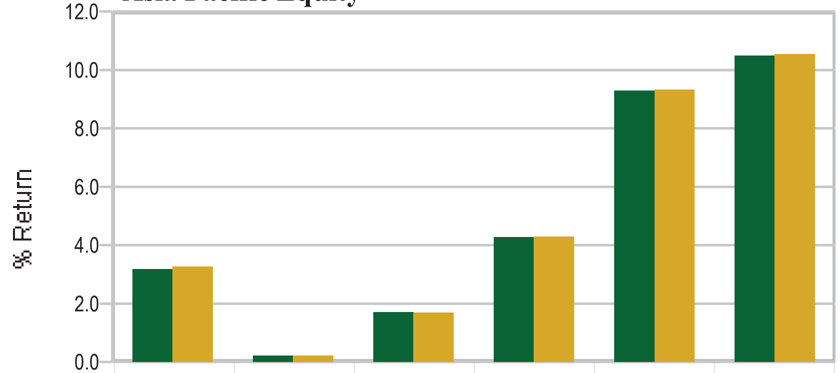
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.88	4.09	10.94	13.22	17.39	15.25
B'Mark	2.89	4.12	11.02	13.26	17.39	15.23

Europe ex UK Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	-0.14	2.79	16.57	5.99	12.12	12.29
B'Mark	0.01	3.04	16.93	6.26	12.43	12.54

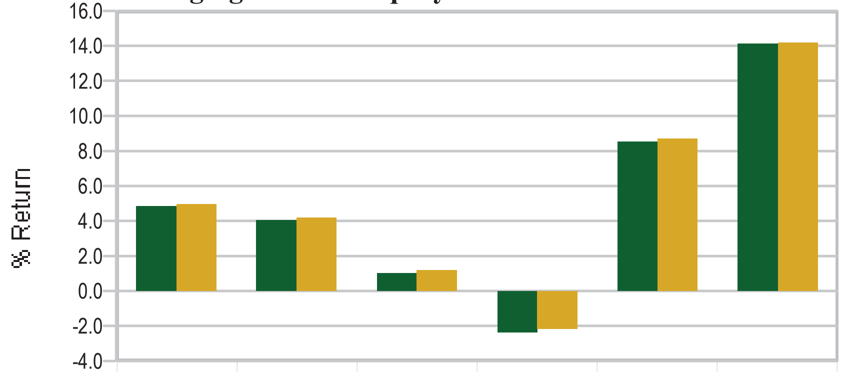
Asia Pacific Equity



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	3.19	0.21	1.70	4.27	9.29	10.50
B'Mark	3.27	0.22	1.69	4.30	9.32	10.55

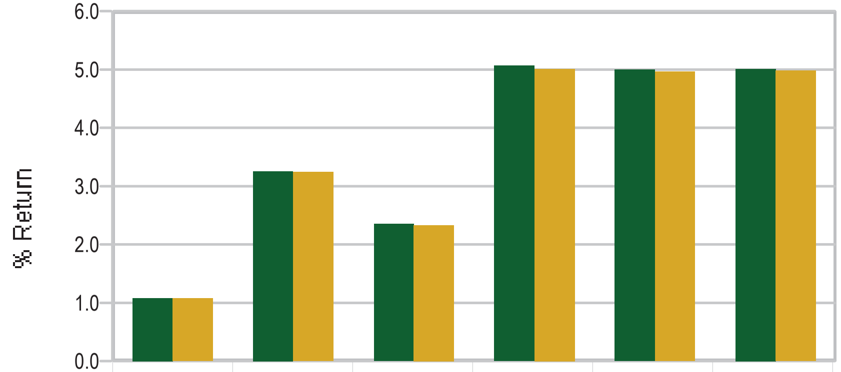
SSGA

Emerging Markets Equity



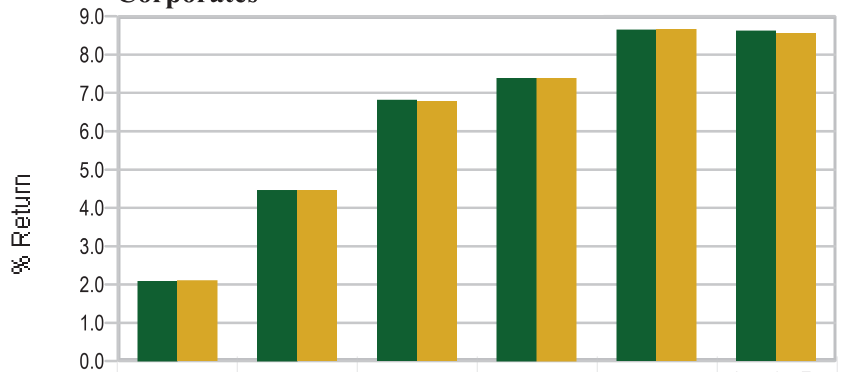
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	4.85	4.04	1.00	-2.35	8.51	14.11
B'Mark	4.96	4.18	1.20	-2.16	8.68	14.17

Government Bonds



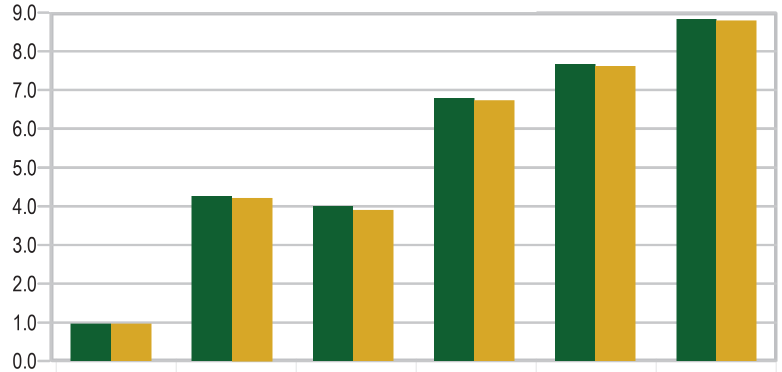
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	1.08	3.26	2.35	5.06	5.00	5.01
B'Mark	1.08	3.25	2.33	5.01	4.97	4.98

Corporates



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.09	4.46	6.82	7.39	8.65	8.63
B'Mark	2.10	4.47	6.77	7.39	8.66	8.56

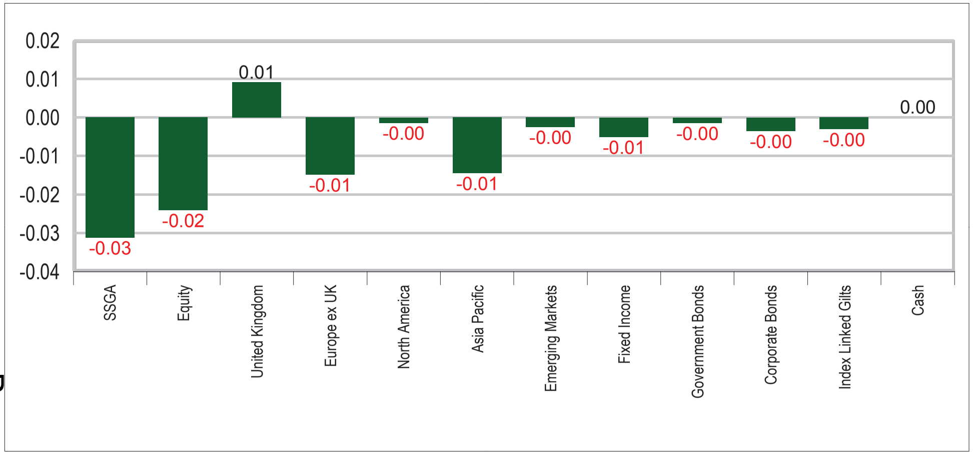
Index Linked Gilts



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.97	4.25	3.99	6.79	7.67	8.83
B'Mark	0.97	4.22	3.90	6.72	7.61	8.78

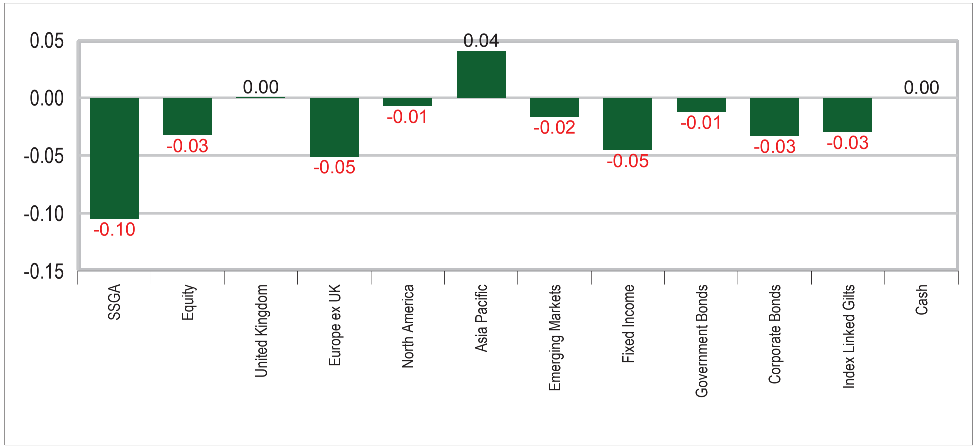
SSGA

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA	2.09	2.12	-0.03	-0.02	-0.02	-0.03
Equity	2.24	-	2.24	-0.01	-0.02	-0.02
United Kingdom	2.27	2.24	0.03	-0.01	0.01	0.01
Europe ex UK	-0.14	0.01	-0.14	0.00	-0.02	-0.01
North America	2.88	2.89	-0.02	0.00	-0.00	-0.00
Asia Pacific	3.19	3.27	-0.08	-0.01	-0.01	-0.01
Emerging Markets	4.85	4.96	-0.11	0.00	-0.00	-0.00
Fixed Income	1.94	-	1.94	-0.00	-0.00	-0.01
Government Bonds	1.08	1.08	0.00	-0.00	0.00	-0.00
Corporate Bonds	2.09	2.10	-0.00	-0.00	-0.00	-0.00
Index Linked Gilts	0.97	0.97	0.00	-0.00	0.00	-0.00
Cash	-	-	0.00	0.00	0.00	0.00

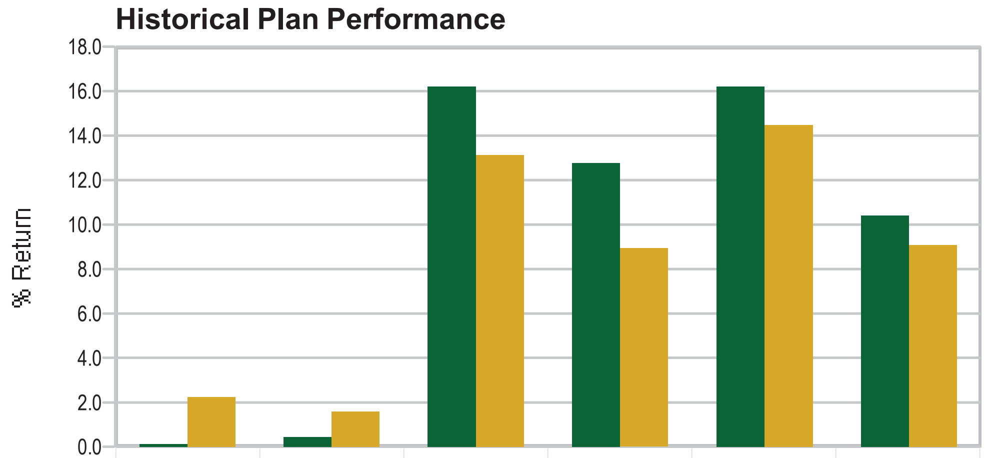
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
SSGA	10.04	10.16	-0.10	-0.10	-0.00	-0.10
Equity	11.29	-	11.29	-0.02	-0.02	-0.03
United Kingdom	13.18	13.12	0.05	-0.02	0.02	0.00
Europe ex UK	16.57	16.93	-0.30	-0.02	-0.03	-0.05
North America	10.94	11.02	-0.07	0.00	-0.01	-0.01
Asia Pacific	1.77	1.69	0.07	0.03	0.01	0.04
Emerging Markets	0.99	1.20	-0.20	-0.01	-0.01	-0.02
Fixed Income	6.14	-	6.14	-0.05	0.00	-0.05
Government Bonds	2.35	2.33	0.02	-0.01	0.00	-0.01
Corporate Bonds	6.82	6.77	0.04	-0.04	0.00	-0.03
Index Linked Gilts	3.99	3.90	0.09	-0.04	0.01	-0.03
Cash	-	-	0.00	0.00	0.00	0.00

UBS

Historical Plan Performance

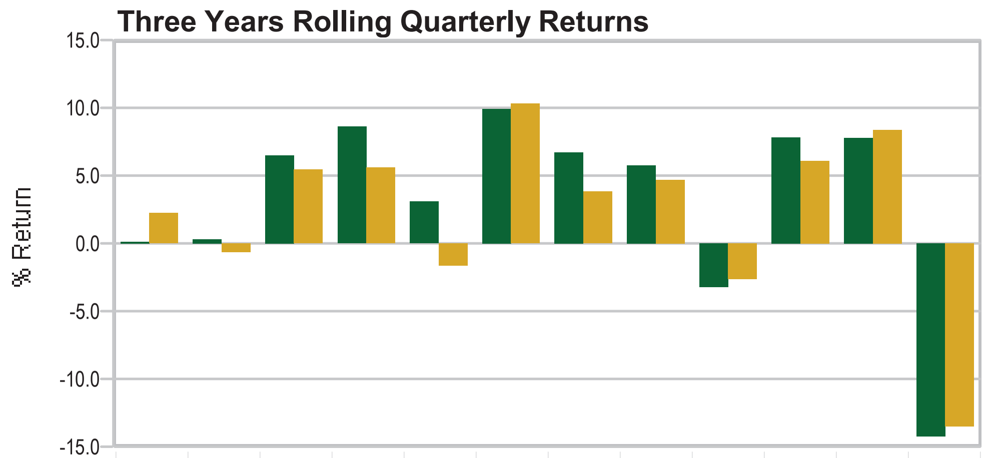


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.13	0.45	16.20	12.76	16.21	10.41
Benchmark	2.24	1.59	13.12	8.92	14.48	9.09

Risk Statistics - 3 years

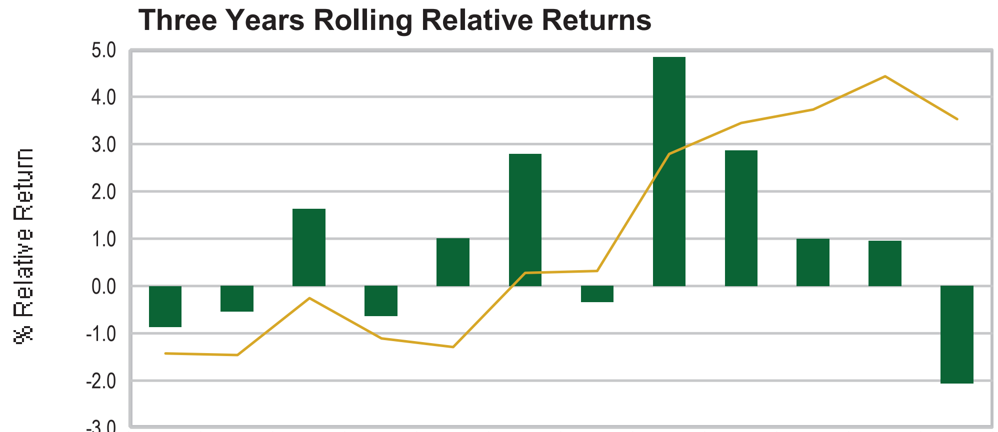
	Fund	B'mark
Performance Return	12.76	8.92
Standard Deviation	12.94	12.05
Relative Return	3.53	
Tracking Error	3.59	
Information Ratio	1.07	
Beta	1.03	
Alpha	3.39	
R Squared	0.92	
Sharpe Ratio	0.91	0.66
Percentage of Total Fund	15.8	
Inception Date	Dec-1988	
Opening Market Value (£000)	115,870	
Net Investment £(000)	0	
Income Received £(000)	1,384	
Appreciation £(000)	-1,234	
Closing Market Value (£000)	116,020	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	0.13	0.32	6.51	8.61	3.10	9.94	6.73	5.75	-3.25	7.84	7.80	-14.25
Benchmark	2.24	-0.63	5.46	5.58	-1.66	10.32	3.82	4.70	-2.63	6.10	8.39	-13.50

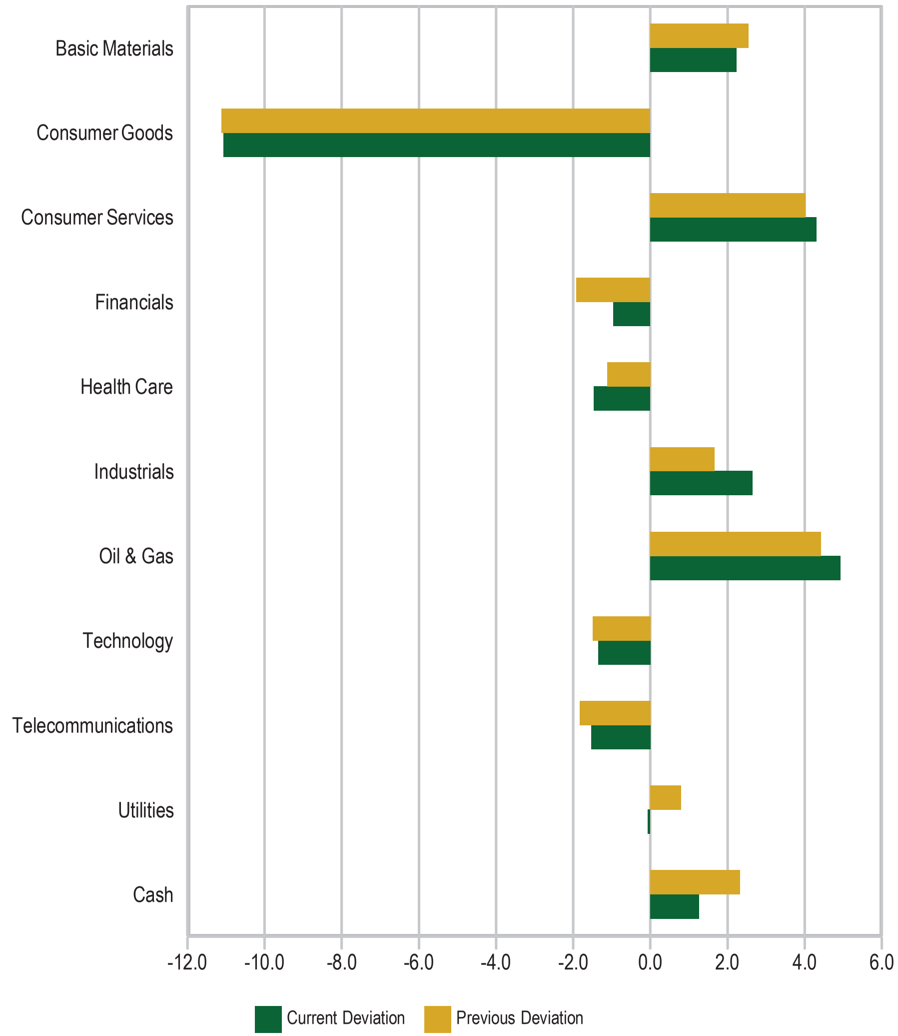
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-0.87	-0.54	1.63	-0.64	1.01	2.80	-0.35	4.84	2.87	0.99	0.96	-2.06
3Y Relative	-1.43	-1.46	-0.26	-1.11	-1.29	0.28	0.32	2.79	3.44	3.73	4.43	3.53

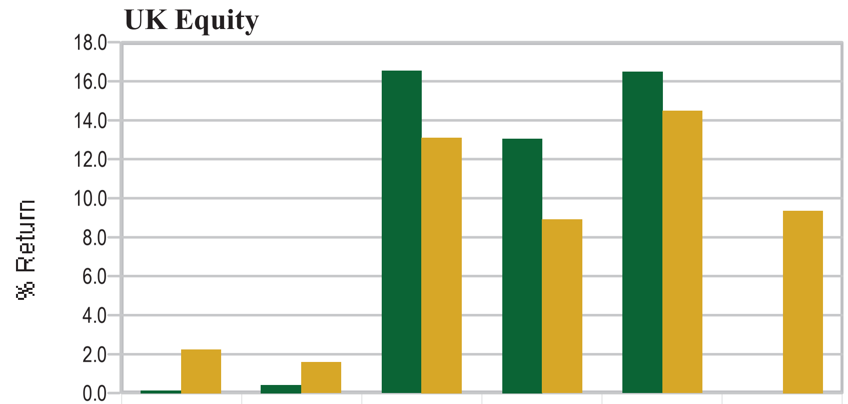
UBS

By Sector



	Current Quarter	Previous Quarter	Current Benchmark	Current Deviation	Previous Benchmark	Previous Deviation
Basic Materials	10.07	10.73	7.84	2.23	8.19	2.54
Consumer Goods	3.00	2.74	14.06	-11.06	13.85	-11.11
Consumer Services	14.77	14.98	10.47	4.30	10.97	4.02
Financials	23.08	22.17	24.04	-0.96	24.09	-1.92
Health Care	7.06	6.70	8.52	-1.47	7.82	-1.12
Industrials	12.62	12.14	9.97	2.65	10.47	1.66
Oil & Gas	20.53	18.99	15.61	4.92	14.57	4.42
Technology			1.35	-1.35	1.50	-1.50
Telecommunications	2.80	2.91	4.34	-1.54	4.75	-1.84
Utilities	3.74	4.59	3.80	-0.06	3.80	0.79
Cash	1.26	2.32		1.26		2.32

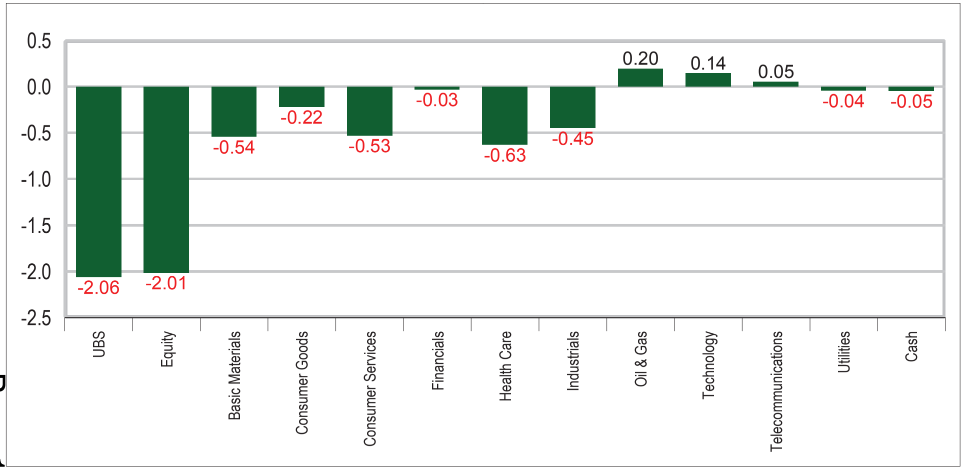
UBS



	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.14	0.42	16.52	13.05	16.48	-
B'Mark	2.24	1.59	13.12	8.92	14.48	9.36

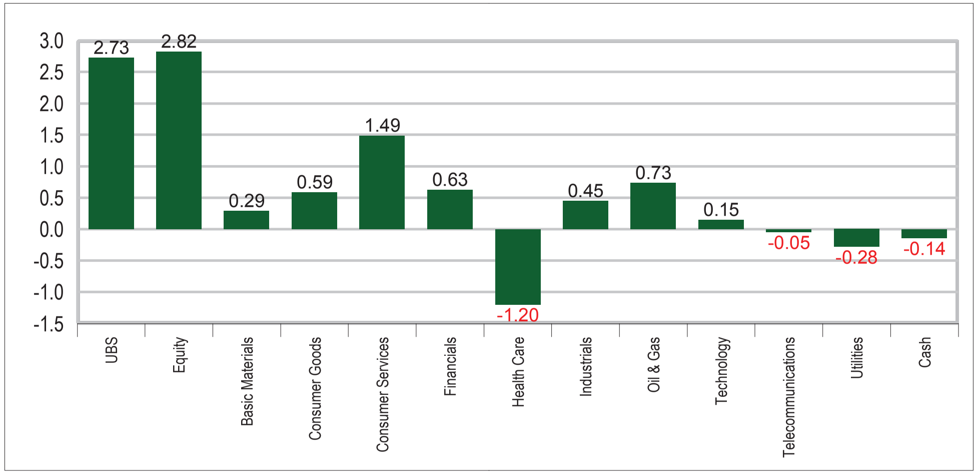
UBS

Relative Contribution - Three Months



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	0.13	2.24	-2.06	0.03	-2.09	-2.06
Equity	0.14	2.24	-2.05	0.08	-2.09	-2.01
Basic Materials	-5.34	-0.84	-4.55	-0.07	-0.47	-0.54
Consumer Goods	1.80	3.76	-1.89	-0.17	-0.05	-0.22
Consumer Services	-4.02	-1.56	-2.50	-0.16	-0.37	-0.53
Financials	0.42	0.57	-0.15	0.01	-0.04	-0.03
Health Care	2.28	10.46	-7.40	-0.08	-0.55	-0.63
Industrials	-5.59	-2.67	-3.00	-0.09	-0.36	-0.45
Oil & Gas	9.17	9.98	-0.74	0.34	-0.14	0.20
Technology	-	-7.52	8.13	0.14	0.00	0.14
Telecommunications	-7.11	-4.71	-2.52	0.12	-0.07	0.05
Utilities	2.79	4.20	-1.36	0.02	-0.06	-0.04
Cash	-0.12	-	-0.12	-0.05	0.00	-0.05

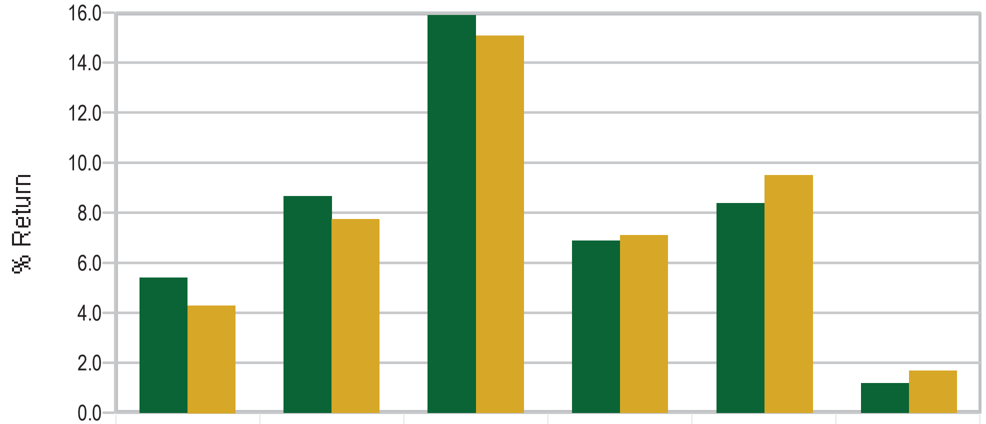
Relative Contribution - One Year



	Return	Benchmark	Relative Return	Asset Allocation	Stock Selection	Relative contribution
UBS	16.20	13.12	2.73	0.85	1.80	2.73
Equity	16.45	13.12	2.95	1.00	1.80	2.82
Basic Materials	20.28	17.79	2.11	0.07	0.22	0.29
Consumer Goods	33.38	10.29	20.94	0.40	0.18	0.59
Consumer Services	19.32	11.97	6.56	0.16	1.32	1.49
Financials	10.19	7.35	2.65	0.07	0.56	0.63
Health Care	7.74	26.21	-14.64	-0.11	-1.09	-1.20
Industrials	16.86	11.65	4.67	-0.05	0.50	0.45
Oil & Gas	20.72	17.22	2.98	0.25	0.48	0.73
Technology	-	10.01	-9.10	0.11	0.03	0.15
Telecommunications	9.21	12.47	-2.90	0.01	-0.06	-0.05
Utilities	1.34	11.17	-8.84	0.06	-0.34	-0.28
Cash	0.96	-	0.96	-0.14	0.00	-0.14

UBS Property

Historical Plan Performance

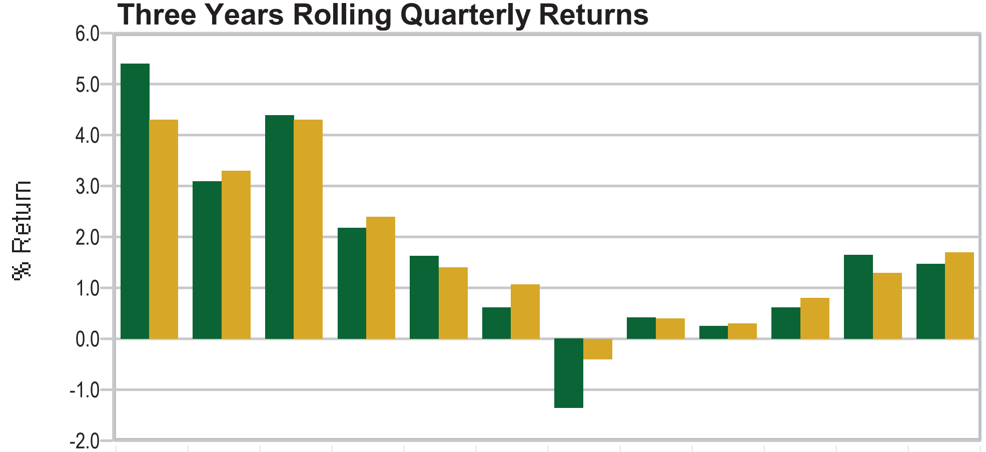


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.40	8.66	15.90	6.89	8.38	1.19
Benchmark	4.30	7.74	15.07	7.10	9.51	1.69

Risk Statistics - 3 years

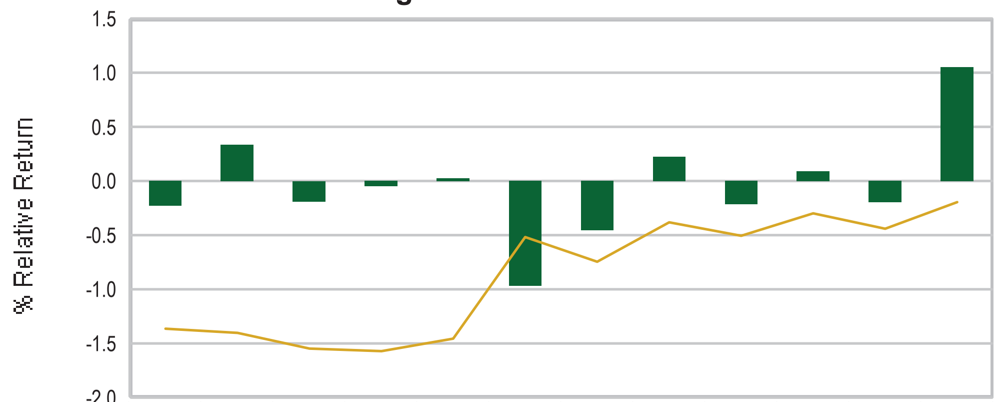
	Fund	B'mark
Performance Return	6.89	7.10
Standard Deviation	2.58	1.76
Relative Return	-0.20	
Tracking Error	1.47	
Information Ratio	-0.14	
Beta	1.20	
Alpha	-1.34	
R Squared	0.70	
Sharpe Ratio	2.30	3.48
Percentage of Total Fund	7.9	
Inception Date	Mar-2006	
Opening Market Value (£000)	55,040	
Net Investment £(000)	8	
Income Received £(000)	467	
Appreciation £(000)	2,505	
Closing Market Value (£000)	58,020	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	5.40	3.09	4.39	2.18	1.63	0.61	-1.36	0.43	0.25	0.61	1.64	1.47
Benchmark	4.30	3.30	4.30	2.40	1.40	1.07	-0.40	0.40	0.30	0.80	1.30	1.70

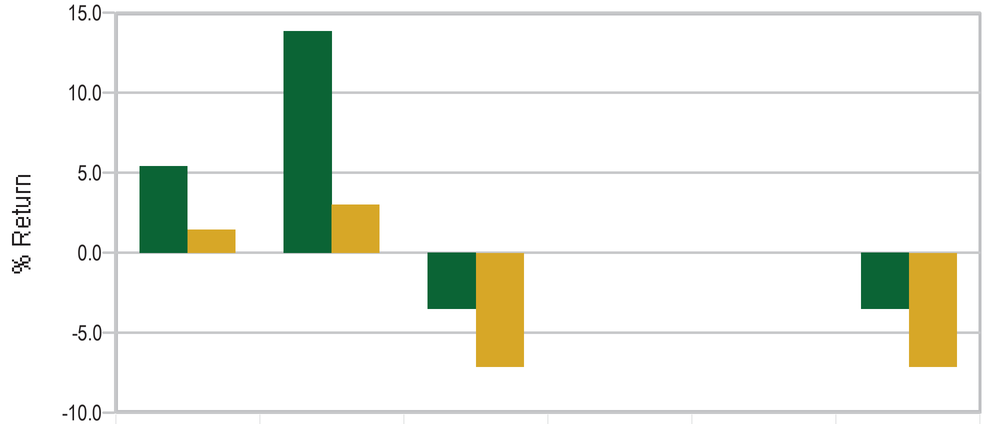
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-0.23	0.34	-0.19	-0.05	0.03	-0.97	-0.46	0.22	-0.22	0.09	-0.20	1.05
3Y Relative	-1.36	-1.40	-1.55	-1.57	-1.46	-0.52	-0.74	-0.38	-0.51	-0.30	-0.44	-0.20

UBS Tactical

Historical Plan Performance

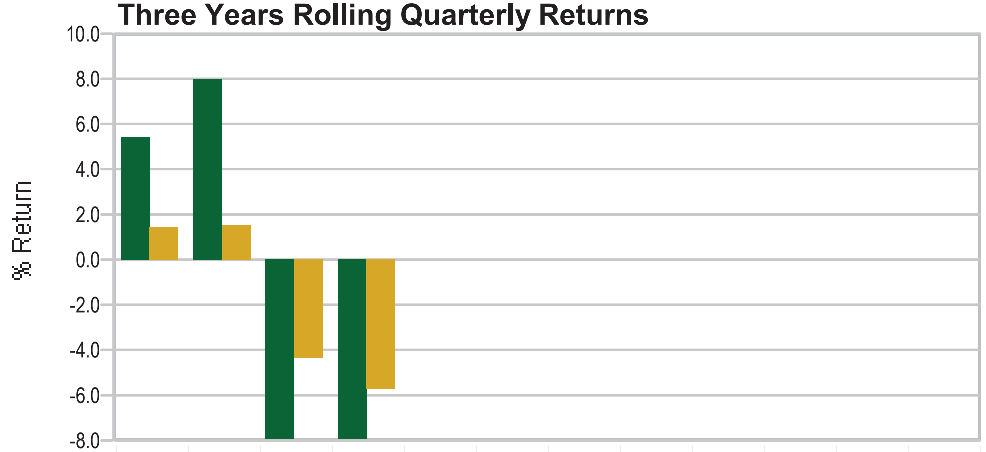


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	5.42	13.86	-3.50	-	-	-3.50
Benchmark	1.46	3.02	-7.11	-	-	-7.11

Risk Statistics - 3 years

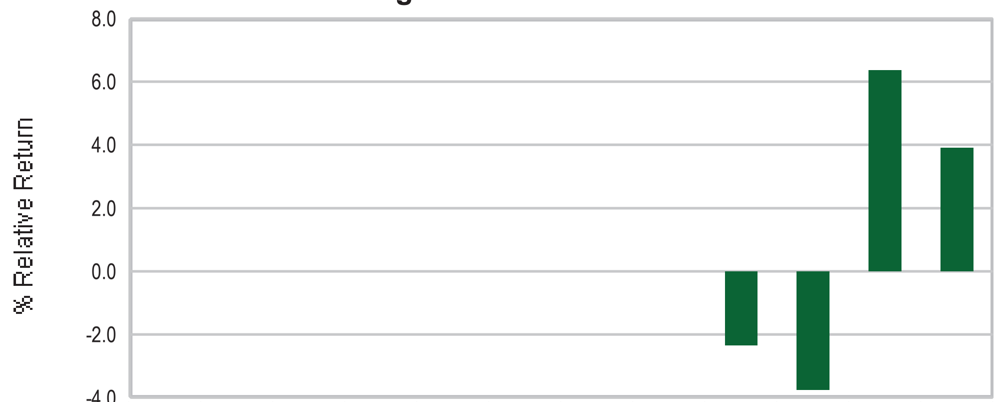
	Fund	B'mark
Performance Return	-	
Standard Deviation	-	
Relative Return	-	
Tracking Error	-	
Information Ratio	-	
Beta	-	
Alpha	-	
R Squared	-	
Sharpe Ratio	-	
Percentage of Total Fund	1.8	
Inception Date	Jun-2013	
Opening Market Value (£000)	12,873	
Net Investment £(000)	0	
Income Received £(000)	17	
Appreciation £(000)	681	
Closing Market Value (£000)	13,571	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	5.42	8.01	-7.93	-7.94	-	-	-	-	-	-	-	-
Benchmark	1.46	1.54	-4.34	-5.74	-	-	-	-	-	-	-	-

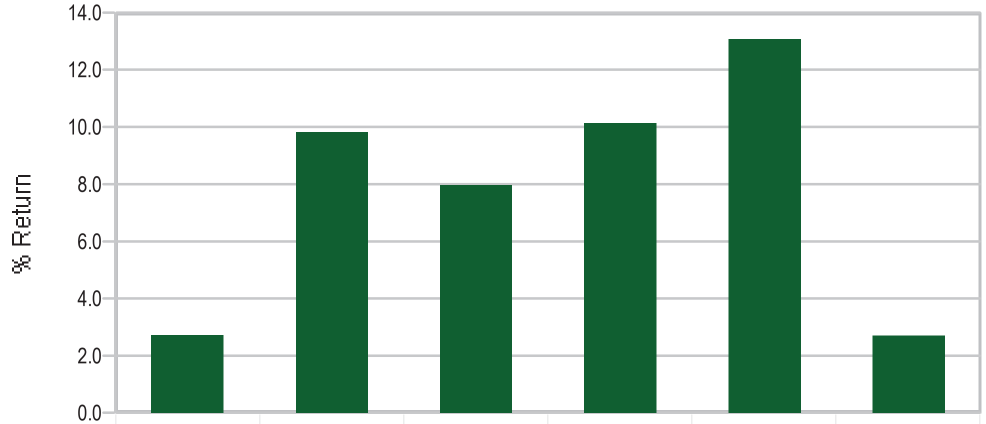
Three Years Rolling Relative Returns



	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
3M Relative	-	-	-	-	-	-	-	-	-2.33	-3.76	6.37	3.91
3Y Relative	-	-	-	-	-	-	-	-	-	-	-	-

Adam Street

Historical Plan Performance



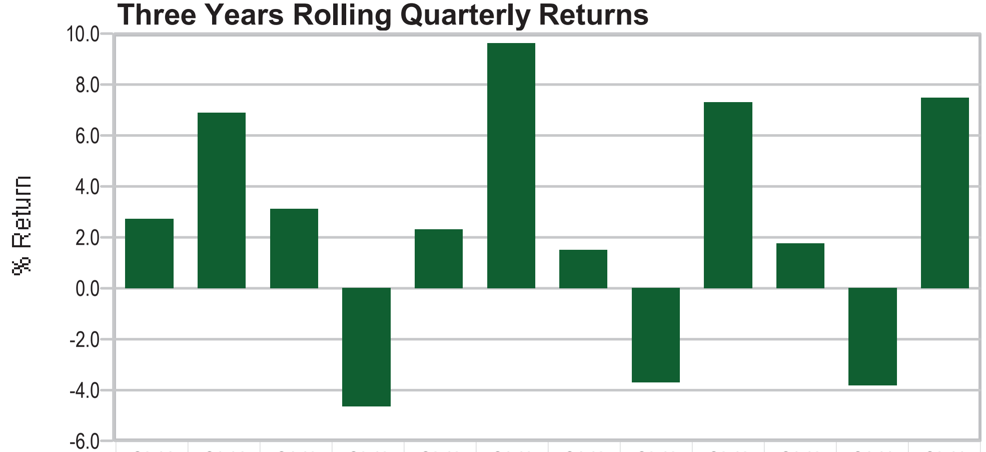
	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	2.72	9.81	7.96	10.14	13.08	2.70

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	10.14	
Standard Deviation	9.64	
Relative Return	0.13	
Tracking Error	9.64	
Information Ratio	0.01	
Beta	4.14	
Alpha	-23.51	
R Squared	0.00	
Sharpe Ratio	0.95	
Percentage of Total Fund	2.9	
Inception Date	Jan-2005	
Opening Market Value (£000)	21,199	
Net Investment £(000)	-800	
Income Received £(000)	0	
Appreciation £(000)	566	
Closing Market Value (£000)	20,966	

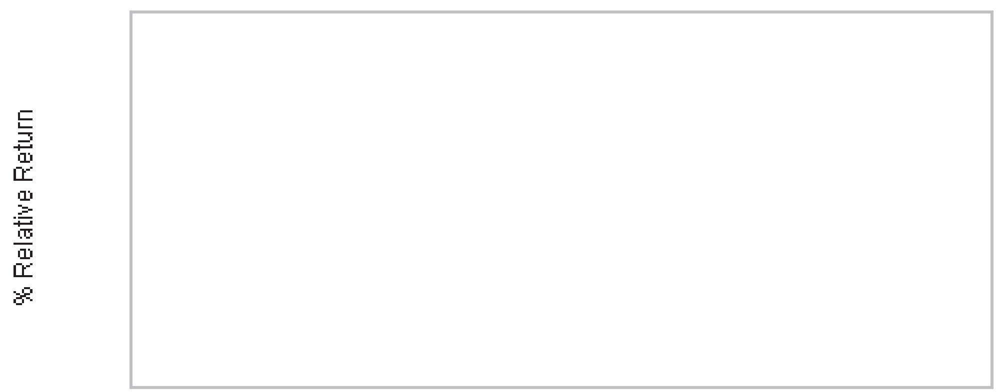
Page 117

Three Years Rolling Quarterly Returns



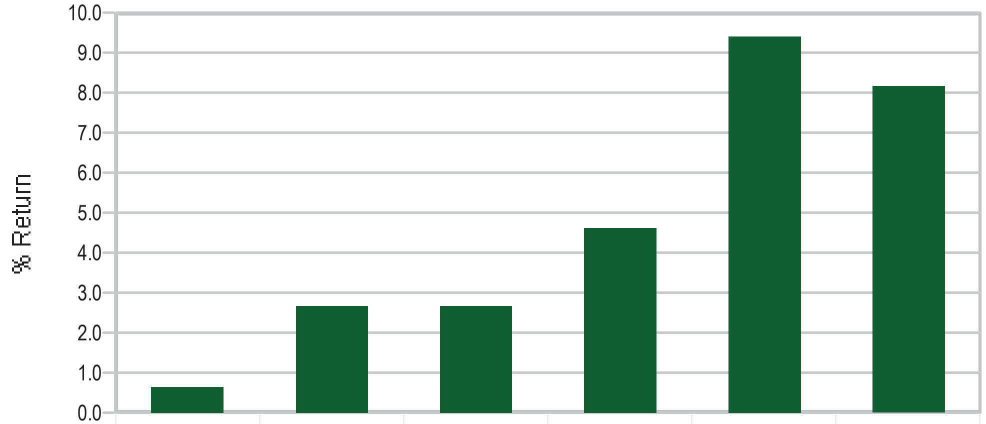
	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	2.72	6.90	3.11	-4.65	2.32	9.62	1.51	-3.70	7.29	1.76	-3.83	7.48

Three Years Rolling Relative Returns



3M Relative
3Y Relative

Historical Plan Performance

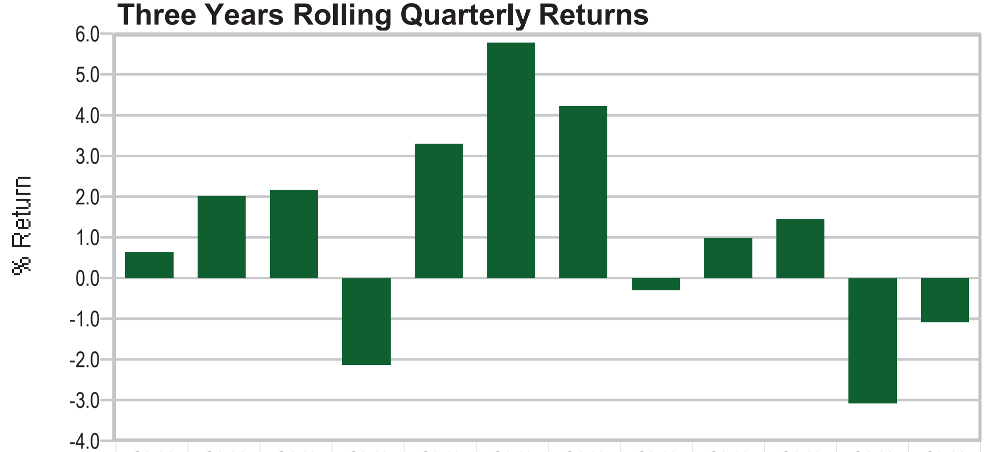


	Three Months	Year To Date	One Year	Three Years	Five Years	Inception To Date
Fund	0.64	2.67	2.67	4.61	9.40	8.15

Risk Statistics - 3 years

	Fund	B'mark
Performance Return	4.61	
Standard Deviation	6.01	
Relative Return	-3.62	
Tracking Error	9.96	
Information Ratio	-0.39	
Beta	0.25	
Alpha	1.81	
R Squared	0.21	
Sharpe Ratio	0.61	
Percentage of Total Fund	2.1	
Inception Date	May-2004	
Opening Market Value (£000)	15,776	
Net Investment £(000)	-823	
Income Received £(000)	0	
Appreciation £(000)	104	
Closing Market Value (£000)	15,058	

Three Years Rolling Quarterly Returns



	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11
Fund	0.64	2.01	2.17	-2.13	3.30	5.78	4.22	-0.30	0.99	1.45	-3.07	-1.10

Three Years Rolling Relative Returns

3M Relative
3Y Relative

Page 118

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.

All MSCI equity characteristic results except for Dividend Yield, Price to Book Value, Price to Cash Earnings and Price Earnings Ratio were calculated by The Northern Trust Company.

IRS CIRCULAR 230 NOTICE: To the extent that this message or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. For more information about this notice, see
http://www.northerntrust.com/circular230
Please note that this report has been prepared using best available data. This report may also contain information provided by third parties, derived by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction - Northern Trust assumes no responsibility for the accuracy, timeliness or completeness of any such information. If you have questions regarding third party data or direction as it relates to this report, please contact your Northern Trust relationship team.

LOCAL AUTHORITY UNIVERSE

QUARTER 2 2014

The following summary is based on 81 funds with a total Market Value of £165,184m.

FINAL

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	63.1	62.5	1.9	2.7	1.9	2.7	11.1	9.6
GLOBAL POOLED INC UK	5.9	5.9	2.1	2.7	2.1	2.7	9.8	9.6
UK EQUITIES	24.3	23.8	1.5	2.2	1.5	2.2	13.9	13.1
OVERSEAS EQUITIES	32.9	32.8	2.2	2.4	2.2	2.4	9.2	10.4
North America	11.7	11.6	2.3	2.9	2.3	2.9	11.5	11.0
Europe	8.6	8.3	-0.1	0.0	-0.1	0.0	14.7	16.3
Japan	3.1	3.2	4.3	4.3	4.3	4.3	-0.2	-1.7
Pacific (ex Japan)	3.2	3.2	2.9	2.0	2.9	2.0	4.4	4.1
Emerging Markets	5.4	5.5	4.3	5.0	4.3	5.0	5.0	1.2
Global ex UK	1.0	1.0	2.3	2.4	2.3	2.4	12.3	10.4
TOTAL BONDS	16.4	16.5	1.4	-	1.4	-	4.0	-
U.K. BONDS	9.3	9.4	1.7	1.1	1.7	1.1	5.5	2.3
OVERSEAS BONDS	2.4	2.5	0.4	1.9	0.4	1.9	-2.7	5.1
INDEX LINKED	3.7	3.6	1.3	1.0	1.3	1.0	4.0	3.9
POOLED BONDS	0.9	1.1	1.6	-	1.6	-	4.7	-
TOTAL CASH	2.9	3.1	0.2	0.1	0.2	0.1	0.9	0.4
ALTERNATIVES	7.0	7.1	1.5	-	1.5	-	4.2	-
Total Private Equity	3.8	3.8	1.4	-	1.4	-	4.2	-
Total Hedge Funds	2.0	2.1	0.8	-	0.8	-	4.3	-
Other Alternatives	1.2	1.2	3.1	-	3.1	-	3.5	-
TOTAL POOLED MULTI ASSET	3.1	3.1	1.7	-	1.7	-	6.2	-
TOTAL EX-PROPERTY	92.6	92.4	1.8	2.0	1.8	2.0	9.0	8.7
TOTAL PROPERTY	7.4	7.6	4.1	5.1	4.1	5.1	13.3	17.6
TOTAL ASSETS	100.0	100.0	2.0	2.2	2.0	2.2	9.3	9.2

STATE STREET GLOBAL SERVICES.

This page is intentionally left blank

LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 June 2014

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**		June 14
Crown Private Equity European Buyout Opport.	10,938	1.49	9,194	1.25	8,836	1.20	358	0.05	8.00
Crown Global Secondaries Plc (US$)	1,755	0.24	1,532	0.21	1,368	0.19	163	0.02	5.23
Crown Private Equity European Fund	4,004	0.55	3,569	0.49	2,220	0.30	1,349	0.18	8.00
Crown Private Equity European Buyout Opport. II	8,007	1.09	5,777	0.79	2,218	0.30	3,559	0.48	5.07
Crown Asia-Pacific Private Equity Plc (US$)	1,755	0.24	1,560	0.21	719	0.10	840	0.11	7.55
Crown European Middle Market II plc	3,203	0.44	1,782	0.24	825	0.11	958	0.13	10.22
Crown Global Secondaries II Plc (US$)	1,287	0.18	1,038	0.14	785	0.11	253	0.03	21.68
TOTAL(S) LGT CAPITAL PARTNERS	**30,948**	**4.21**	**24,452**	**3.33**	**16,972**	**2.31**	**7,481**	**1.02**	
									Mar 14
ADAMS STREET PARTNERS	**£**	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
Adam Street Partnership Fund - 2005 US Fund	8,188	1.12	7,463	1.02	4,270	0.58	3,193	0.43	8.37
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,509	0.48	3,248	0.44	1,863	0.25	1,385	0.19	7.90
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,632	0.36	2,344	0.32	1,034	0.14	1,309	0.18	8.00
Adam Street Partnership 2006 Direct Fund	877	0.12	853	0.12	185	0.03	669	0.09	7.63
Adam Street Partnership Fund - 2006 US Fund, L.P	5,264	0.72	4,671	0.64	2,569	0.35	2,103	0.29	8.89
Adams Street Direct Co-Investment Fund, L.P.	1,755	0.24	1,676	0.23	604	0.08	1,071	0.15	5.24
Adams Street Partnership 2007 Direct Fund LP	292	0.04	273	0.04	118	0.02	155	0.02	12.63
Adams Street Partnership - 2007 Non -US Fund	1,023	0.14	788	0.11	203	0.03	584	0.08	9.55
Adams Street Partnership - 2007 US Fund	1,608	0.22	1,385	0.19	769	0.10	616	0.08	13.70
Adams Street Partnership - 2009 US Fund	877	0.12	511	0.07	128	0.02	383	0.05	19.46
Adams Street Partnership - 2009 Direct Fund	175	0.02	157	0.02	44	0.01	113	0.02	28.99
Adams Street Direct Co-Investment Fund II.	1,462	0.20	917	0.12	473	0.06	444	0.06	41.46
Adams Street 2009 Non-US Emerging Mkt Fund	175	0.02	105	0.01	0	0.00	105	0.01	3.97
Adams Street Partnership 2009 Non-US Developed Market	526	0.07	246	0.03	35	0.00	211	0.03	15.55
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**28,365**	**3.86**	**24,638**	**3.36**	**12,295**	**1.67**	**12,343**	**1.68**	

FUND VALUE	**734,312**	
COMMITMENT STRATEGY	64,252	8.75%
TO ACHIVE INVESTMENT	36,716	5.00%
CURRENT INVESTMENT BOOK COST	19,823	2.70%
CURRENT INVESTMENT MARKET VALUE	38,974	5.31%

This page is intentionally left blank

Portfolio overview – Q2 2014

- 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 0.66x to 0.69x
- Total portfolio gains now amount to Euro 9.8million, being Euro 19.1 million of NAV less Euro 9.3 million of net invested capital
- The USD strengthened slightly by 0.67% against the Euro in the period which had a small positive effect on portfolio performance

Q2 2014			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	25.4	-17.6	7.8	15.7	7.9	0.69	1.31	78%	24%
Euro equivalent Dollar Exposure @	1.3691	USD / Euro	6.0	5.2	-3.6	1.6	3.4	1.8	0.70	1.36	86%	26%
Total Exposure (in Euro millions)			**38.6**	**30.5**	**-21.2**	**9.3**	**19.1**	**9.8**	**0.69**	**1.32**	**79%**	**24%**
Q1 2014	1.3784		38.6	30.0	-19.7	10.4	19.5	9.1	0.66	1.30	78%	27%
Q4 2013	1.3780		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%

Q2 figures as of 30 June 2014

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

This page is intentionally left blank

London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2014

Market Update

The private equity markets continued to be strong during the first quarter of 2014, continuing the trend of 2013. This continued strong performance contrasts with public equity markets, which were generally flat in the first quarter after a very strong 2013.

As in 2013, the dominant theme in the private equity markets is the high level of liquidity generated by General Partners (GPs) in all subclasses on a global basis. The strong public equity markets have fostered a significant increase in IPO activity. In addition, very strong debt markets have led to a surge in recapitalizations for many buyout fund portfolio companies.

Global investors are again allocating money to private equity. Venture capital fundraising in the first quarter was solid, with 81 firms raising $10 billion, compared to $22 billion from 269 firms during 2013.

In spite of some weakness in the technology sector in the public equity markets during the first quarter, there were 38 venture capital-backed Initial Public Offerings (IPOs), just over half the number for the whole of last year (74).

Portfolio Statistics as of March 31, 2014

All in USD	Inception Date	Committed / Subscription	Drawn / Subscription	Total Value / Drawn	IRR Since Inception Gross*	IRR Since Inception Net	Public Market	1Q14 Gross IRR	1Q14 Net IRR
Total Hillingdon Portfolio	**02/2005**	**100%**	**86%**	**1.35**	**9.10%**	**6.77%**	**6.22%**	**5.83%**	**5.15%**
2005 Subscription	02/2005	100%	91%	1.34x	8.23%	6.18%	5.71%	2.91%	2.67%
2006 Subscription	01/2006	100%	89%	1.31x	8.44%	6.09%	6.34%	5.96%	5.04%
2007 Subscription	01/2007	100%	83%	1.37x	12.26%	9.03%	8.53%	6.22%	5.24%
2009 Subscription	01/2009	100%	54%	1.29x	19.77%	12.29%	15.09%	4.31%	3.46%
Direct Co-Investment Fund	09/2006	100%	96%	1.26x	5.24%	3.78%	3.83%	8.88%	8.68%
Co-Investment Fund II	01/2009	100%	63%	1.97x	41.46%	34.25%	14.21%	22.90%	21.49%

Notes:
- Since Inception figures in GBP are: 11.10% (Gross) and 8.60% (Net). Q1 2014 figures in GBP are: 5.16% (Gross) and 4.49% (Net).
- The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI World Index.

Portfolios Are Well Positioned

Our venture capital funds have performed quite well over the last several quarters. This trend is also true in our direct venture capital growth equity portfolio, where the majority of our companies are very healthy, with strong operating metrics. A number in fact are very well positioned for future success, with six S1s on file for IPOs as of the end of the first quarter. Year to date we have had a total of eight direct venture / growth equity portfolio companies go public.

Our US and Developed Markets Buyout and Co-Investment performance is also solid, driven by the strong IPO and debt markets referred to above.

Within our Secondary portfolio we are pleased with investment performance as measured by both IRR and distributions. While it has been a challenging market environment for new transactions, we believe the market outlook is favoring our investment strategy.

Co-Investment Fund II

During the second quarter of 2014, there were no new investments in the Adams Street Co-Investment II Fund ("Fund II"). As of June 30, 2014 there are 21 investments in Fund II and the Fund is 74% committed.

Final Thoughts

We sincerely appreciate your support and continued confidence in Adams Street Partners. As always, if you have questions, or would like additional information about any of our investment programs, please contact us.

This page is intentionally left blank

ADMINISTRATION REPORT

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	

SUMMARY

This report provides an update on the outsourced Pensions Administration contract, the latest pension administration performance data, and early retirements in the first quarter of 2014/15. Performance targets were agreed as part of the service level agreement with Capita and conform to national targets set for England and Wales.

RECOMMENDATIONS

It is recommended that Pension Committee:

1. **Note the ongoing Officer action in relation to the Capita Pensions Administration contract.**
2. **Review the latest administration performance statistics.**
3. **Note the latest information in respect of early retirements.**
4. **Revision of designated decision makers in the award of Death Grant payments.**

1. UPDATE ON THE PENSIONS ADMINISTRATION CONTRACT

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. The Framework contained performance levels expected to be delivered. These levels have declined over the last year, and data quality issues have also been raised.

Previous reports to Pensions Committee have highlighted officers concerns with the management of this contract by CEB and the ongoing actions being taken to address the issues.

Since the last Pensions Committee, officers have visited CEB's offices on 5 occasions to discuss performance, offer help and advice on operational matters, and an improvement plan has been developed and agreed. During this time, CEB lost one member of staff from the Hillingdon contract, who has since been replaced. In addition they now have approval to increase their staffing levels, which should help their overall performance.

The quality of data held by Capita remains a concern. CEB produced comparison reports against the data held and the original data transferred from Hillingdon which has identified errors in the transferred data. They are working closely with their IT department to amend and update records. To date 1,100 records have been checked and amended where necessary.

As part the agreed improvement plan, 85% of all pension records should have been check and amended by 31 October 2014. They have guaranteed to issue annual benefit statements to all current scheme members by the end of September. The number of resultant query's on benefit statement will provide evidence to Officers on the quality of the review of pension records.

Over the last 3 months CEB's performance has varied greatly on reported tasks and Officers are working with CEB to ensure a stable and acceptable level of performance is attained, and maintained by our target date of December 2014. The improvement in performance is not limited to the reported tasks, but all the administration duties CEB have to perform under the contract. It had been expected that scheme member access to the CEB online system would have been live by now, but this has also not gone to plan. There seem to be recurring issues with capita's IT systems and function, which is a major concern.

To ensure speedier identification of underperformance going forward weekly performance reports are now being developed with CEB, which will be monitored and recorded.

Administration Performance Information

Performance has been 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%. An overall performance measure for the six months to June 2014 is detailed below, which shows fluctuating performance, consistent with experience being seen in closer working with the CEB administration team.

January 2014	88.19%	April 2014	93.43%
February 2014	84.25%	May 2014	89.71%
March 2014	89.71%	June 2014	74.48%

Over the 1st quarter of 2014/15, the overall average performance was 85.87% per month, which was down 1.5% on the previous quarter. This was due mainly to the poorer performance recorded in June 2014. Performance on a monthly basis has been very erratic, with monthly performance ranging from 45.03% to 93.43% over the last 11 months.

Details of performance by area are shown in the table attached. The performance in respect of sending condolence letters continues to be an area of concern however the underlying performance may not be as poor as the figures indicate. There is a weakness in CEB's internal process when deaths are reported directly to their payroll and required information is not being recorded. This causes a delay in obtaining the details of the next of kin is in some cases. Hillingdon have followed up on this issue and helped CEB to create a better working process to resolve this issue.

Within the framework agreement, CEB allowed for 100% performance against agreed tasks. As this level of performance has not been achieved, monthly fees have been reduced by the maximum allowable under the contract, resulting in a rebate of 10% of the monthly management contract charge. Since April 2014 the total underperformance rebate is £3,739.

2. EARLY RETIREMENT STATISTICS

The table below shows the number of employees, by category, where LGPS benefits have been put into payment. In the case of redundancy and efficiency this relates to members 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	**50**	**0**	**3**	**45**
2014/2015 - to 30.06.14	**2**	**0**	**2**	**18**

3. DEATH GRANT AUTHORISATIONS

Under the Local Government Pension Scheme Regulations 2013, the Administering Authority may, at its absolute discretion, pay any death grant to or for the benefit of the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependant of the member. When a Death Grant is due, a report is produced by the in-house pensions team, with a recommendation on who should receive the death grant. In normal circumstances this would be to a surviving Spouse or Children of the deceased. The recommendation is then passed to 3 senior officers for their approval. As a majority of these cases are non-contentious, it is proposed that in future only 2 senior officers need to agree the recommendation. Where there is a more contentious situation, legal advice would be sought. Pensions Committee are also being asked to approve a revised list of post holders authorised to make these decisions. The proposed post holders are:

- Corporate Director of Finance
- Deputy Director, Strategic Finance
- Head of Human Resources
- Chief Accountant

FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	ACTION REQUIREMENTS	APRIL 2014		MAY 2014		JUNE 2014	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	9	100	6	100	10	20
Actual Retirement Benefits	3 Days	32	90.63	17	100	18	100
Letter notifying Dependants Benefits	5 Days	11	63.64	2	50	n\a	n\a
Process Refund	10 Days	21	100	18	83.33	6	66.67
Transfers in Actual	10 Days	4	100	2	100	n/a	n/a
Transfers in quote	10 Days	7	71.43	5	100	n/a	n/a
Answer General Letter	5 Days	150	96.00	99	94.95	37	62.16
Calc/Notify Deferred	15 Days	29	95.55	12	83.33	7	42.86
Estimate of Retirement Benefits	5 Days	25	88.88	15	66.67	9	2.22
Transfers Out Quote	5 Days	3	100	3	66.67	3	66.67
Transfers Out Actual	9 Days	7	85.71	1	100	1	0.0
New Entrants	20 Days	52	96.15	24	83.33	54	100
Added Years	10 Days	n/a	n\a	n/a	n\a	n/a	n/a

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	ACTION REQUIREMENTS	JULY 2014		AUG 2014		SEP 2014	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	11	27.27	12	8.33		
Actual Retirement Benefits	3 Days	23	100	21	100		
Letter notifying Dependants Benefits	5 Days	n/a	n\a	1	100		
Process Refund	10 Days	11	54.55	8	37.50		
Transfers in Actual	10 Days	1	100	1	100		
Transfers in quote	10 Days	1	0	2	50		
Answer General Letter	5 Days	56	76.79	48	58.33		
Calc/Notify Deferred	15 Days	19	47.37	18	33.33		
Estimate of Retirement Benefits	5 Days	14	35.71	23	47.83		
Transfers Out Quote	5 Days	n/a	n\a	2	0		
Transfers Out Actual	9 Days	n/a	n\a	n/a	n\a		
New Entrants	20 Days	24	95.83	7	71.43		
Added Years	10 Days	n/a	n\a	n/a	n\a		

Local Government Pension Scheme Consultations

Contact Officers	Nancy Leroux Tel: 01895 250353
Papers with this report	None

INFORMATION

Implementation of Local Pension Boards

Regulations are being laid to require Administering Authorities of LGPS Funds to establish Local Pension Boards by 1st April 2015, as part of central government's overhaul of public sector pensions as detailed in the Public Sector Pensions Act 2013. The intention of these regulations is to increase governance over administration of LGPS funds, mirroring the set up in private pension schemes. The local Pension Board will be a non-decision making body and will, in effect, undertake more of a scrutiny function.

The Head of Democratic Services is undertaking some work to determine a process to establish a local Pension Board; the work to be undertaken by such a local Pension Board and how that relates to the work of the current Pensions Committee and Investment Sub Committee; and to develop a proposal for developing a Pension Board in Hillingdon. It is anticipated that these changes will be prepared in time to go to Council in November for approval.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Agenda Item 9

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank