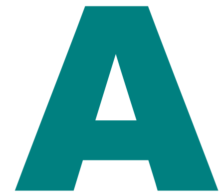
Public Document Pack

HILLINGDON
LONDON



Pensions Committee

Date:	**WEDNESDAY, 7 DECEMBER 2016**
Time:	**7.00 PM**
Venue:	**COMMITTEE ROOM 5 - 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)
Tony Eginton (Labour Lead)
Peter Davis
Beulah East

Published: Tuesday, 29 November 2016

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

This Agenda is available online at:
http://modgov.hillingdon.gov.uk/ieListMeetings.aspx?CId=125&Year=2012

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 for residents and visitors

Travel and parking

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.

Accessibility

For accessibility option regarding this agenda please contact Democratic Services. For those hard of hearing an Induction Loop System is available for use in the various meeting rooms.

Attending, reporting and filming of meetings

For the public part of this meeting, residents and the media are welcomed to attend, and if they wish, report on it, broadcast, record or film proceedings as long as it does not disrupt proceedings. It is recommended to give advance notice to ensure any particular requirements can be met. The Council will provide a seating area for residents/public, an area for the media and high speed WiFi access to all attending. The officer shown on the front of this agenda should be contacted for further information and will be available at the meeting to assist if required. Kindly ensure all mobile or similar devices on silent mode.

Please note that the Council may also record or film this meeting and publish this online.

Emergency procedures

If there is a FIRE, you will hear a continuous alarm. Please follow the signs to the nearest FIRE EXIT and assemble on the Civic Centre forecourt. Lifts must not be used unless instructed by a Fire Marshal or Security Officer.

In the event of a SECURITY INCIDENT, follow instructions issued via the tannoy, a Fire Marshal or a Security Officer. Those unable to evacuate using the stairs, should make their way to the signed refuge locations.

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.
2. To review the Statement of Investment Principles and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
8. To authorise the admission of other bodies to the Fund.
9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.
12. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

Agenda

CHAIRMAN'S ANNOUNCEMENTS

1	Apologies for Absence	
2	Declarations of Interest in matters coming before this meeting	
3	Minutes of the meeting - 21 September 2016	1 - 4
4	To confirm that items marked Part I will be considered in public and those marked Part II will be considered in private	

PART I - Members, Public and Press

5	Valuation Results - Presentation by Hymans Robertson	
6	Draft Funding Strategy Statement	5 - 50
7	Investment Strategy and Fund Manager Performance	51 - 70
8	Pensions Administration Report	71 - 72

PART II - Members Only

9	Investment Strategy and Fund Manager Performance	73 - 102
10	Pension Fund Risk Register	103 - 110

Agenda Item 3

Public Document Pack

HILLINGDON
LONDON

Minutes

PENSIONS COMMITTEE

21 September 2016

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

	Committee Members Present: Philip Corthorne (Chairman) Michael Markham (Vice-Chairman) Peter Davis Tony Eginton (Labour Lead) Beulah East **Officers Present**: Paul Whaymand, Nancy Le Roux, Tunde Adekoya, Sian Kunert, Ken Chisholm, Mark Braddock **Advisors Present**: Scott Jamieson and David O'Hara	
12.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* All Members were present.	
13.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* None, but noted the interests already declared with Democratic Services.	
14.	**MINUTES OF THE MEETING -15 JUNE 2016** *(Agenda Item 3)* The public minutes of the meeting held on 15 June 2016 were agreed as a correct record.	
15.	**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)* Items for both public and private discussion were agreed as set out on the agenda.	
16.	**EXTERNAL AUDITOR REPORT ON THE PENSION FUND ACCOUNTS** *(Agenda Item 5)* A representative from the Council's External Auditors, Ernst & Young, updated Members on the audit of the 2015/16 Pension Fund Accounts. The Chairman indicated his disappointment that there was still outstanding work required on the Accounts and that the Committee were unable to see the final version and opinion.	

	Ernst & Young updated Members on the delay and their findings, in particular that there were no material errors on the accounts and that they soon were expected to provide an unqualified opinion, following Director review. Members of the Committee discussed aspects of the draft External Auditors report, and in light of the delay in securing Committee sign-off, Councillor Philip Corthorne moved amended recommendations, which were seconded and agreed. The Committee's resolution would enable formal sign-off of the Accounts, after the meeting, under delegated authority. **RESOLVED:** **That the Committee:** 1. **Note the initial auditor's findings on the audit of the Pension Fund accounts for 2015/16.** 2. **Delegate authority to the Corporate Director of Finance to sign the Pension Fund accounts on completion of the audit in consultation with the Chairman, with the final version being circulated to all Committee Members for information.** 3. **To approve the Fund Annual Report for publication.**	
17.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *(Agenda Item 6)* Scott Jamieson, Advisor to the Committee, provide a comprehensive update to Members on the affect of Brexit on the current investment strategy as a result of the June referendum decision to exit the European Union. Members discussed the wider economic issues which could or could not have an impact upon the Pension Fund, including liabilities linked to inflation. Mr David O'Hara, Advisor to the Committee, then outlined advice on a change in Fund Manager for the Pension Fund's passive equity and bond investments, and then discussed with Members present the proposed use of those funds and their reinvestment. During discussion, Councillor Eginton raised concerns about exposure to passive equities. The Chairman then put the recommendations outlined in the report to the vote, which were seconded and agreed, though in voting noted that Councillor Eginton did not vote in support of Recommendation 2. **RESOLVED:** **That the Pensions Committee:** 1. **Agree to the change of Fund Manager for its passive equity and bond investments from State Street to Legal and**	

General;
2. **agree to liquidate the GMO mandate;**
3. **assuming that recommendation 2 is agreed, consider the proposal for the use of those funds and agree to reinvest into a mix of passive funds;**
4. **note the rebalancing of property investments;**
5. **discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
6. **delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group; and**
7. **agree the proposed changes to the Statement of Investment Principles.**

18. **2016 ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT - UPDATE** *(Agenda Item 7)*

The Committee reviewed a report updating them on the triennial revaluation of the Pension Fund, noting that the Actuary would attend the December meeting of the Committee to present the results for the whole fund.

Members also noted that as part of this process, each Administering Authority was required to publish and maintain a Funding Strategy Statement (FSS) and would consult with all Fund employers prior to finalising the strategy at Pension Committee in December. Officers indicated that this would be the first valuation carried out under a new governance framework, set out under Section 13 of Public Service Pensions Act.

Members were advised that under section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113, the Local Government Pension Scheme Advisory Board has been created which would encourage best practice, increase transparency and coordinate technical and standards issues.

RESOLVED:

That the Committee note the information provided.

19. **PENSIONS ADMINISTRATION REPORT** *(Agenda Item 8)*

The Committee received an update on Pension Fund Administration, the project to transfer Administration to Surrey County Council and the draft Administration Strategy for consultation with other employers in the Fund

Members noted the recent mistakes with regard to the issuing of Pensions Statements by the current provider and praised the considerable efforts by Hillingdon Finance staff to resolve them, in particular Mr Chisholm.

It was noted that the new statements provided by Surrey County Council administration of the fund would be easier to understand. The Chairman then put the recommendations in the report to the vote, which were duly

	seconded and agreed, **RESOLVED:** **That the Pensions Committee:** **1. Note the progress on the transfer of Administration;** **2. Review the latest administration performance figures;** **3. Note the latest information in respect of early retirements;** **4. Approve the Administration Strategy.**	
20.	**PART II MINUTES - 15 JUNE 2016** *(Agenda Item 9)* The private minutes of the meeting held on 15 June were agreed as a correct record. *The minutes relating to this item were not made public because it was considered in the private part of the meeting and contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12A to the Local Government (Access to Information) Act 1985 as amended.*	
21.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *(Agenda Item 10)* In reviewing and making decisions on Item 6 on the agenda (minute 17), Members considered exempt information on the Investment Strategy and Fund Manager performance. *The information relating to this item was not made public because it was considered in the private part of the meeting and contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12A to the Local Government (Access to Information) Act 1985 as amended.*	
22.	**PENSION FUND RISK REGISTER** *(Agenda Item 11)* Members reviewed a report identifying the main risks to the Pension Fund, which enabled them to monitor and review matters going forward. **RESOLVED:- That the Pensions Committee considered the Risk Register and the measures being taken to mitigate the identified risks.** *The information relating to this item was not made public because it was considered in the private part of the meeting and contained information relating to the financial or business affairs of any particular person (including the Authority holding that information) and the public interest in withholding the information outweighed the public interest in disclosing it (exempt information under paragraph 3 of Part 1 of Schedule 12A to the Local Government (Access to Information) Act 1985 as amended.*	
	The meeting, which commenced at 7.00 pm, closed at 8.07 pm.	

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

Draft Funding Strategy Statement

Contact Officers	Nancy Leroux, 01895 250353
Papers with this report	Appendix A

SUMMARY

The Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is:

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

This report provides some background to the development of this FSS and seeks approval from Pension Committee to consult on the contents with Fund employers.

RECOMMENDATIONS

It is recommended that Pensions Committee agree the draft Funding Strategy Statement for consultation with scheme employers, subject to minor drafting clarifications which are colour highlighted.

INFORMATION

This draft FSS has been prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. It is investment returns which help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits. Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

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

There are also regulatory requirements for an FSS, which are detailed Appendix A of the FSS.

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

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

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

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

London Borough of Hillingdon Pension Fund

DRAFT Funding Strategy Statement

November 2016

Contents

DRAFT Funding Strategy Statement — PAGE

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	9
4	Funding strategy and links to investment strategy	22

Appendices

Appendix A – Regulatory framework	24
Appendix B – Responsibilities of key parties	28
Appendix C – Key risks and controls	30
Appendix D – The calculation of Employer contributions	35
Appendix E – Actuarial assumptions	38
Appendix F – Glossary	40

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It will be effective from 23 March 2017.

1.2 What is the London Borough of Hillingdon Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stabilitiy of employers contributions, and
- transparency of processes.

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

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

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

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

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

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

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

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact pensions@hillingdon.gov.uk .

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Costs of ill-health early retirements are covered in 3.7 and 3.8.

.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

it may take longer to reach their funding target, all other things being equal. Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary. Section 3.4 onwards deals with various other funding issues which apply to all employers.

Page 19

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies (TAB)**	
Sub-type	**Local Authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Standard**	**Pass-Through**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, as per letting authority
Primary rate approach	(see Appendix D – D.2)						The contribution rate set for pass-through arrangements let by the London Borough of Hillingdon is 26% of pay. This rate may change at the absolute discretion of the London Borough of Hillingdon and the Admin. Authority.
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	As per letting authority.
Maximum time horizon – Note (c)	25 years	20 years	20 years	20 years	FWL	Outstanding contract term or FWL, whichever is shorter	As per letting authority
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll	None
Treatment of surplus	Covered by stabilisation	Preferred approach: contributions kept at primary rate. However,		Preferred approach: contributions kept at primary rate. However, secondary		Set secondary contributions to	As per letting authority

	arrangement	secondary rate reductions may be permitted by the Admin. Authority.		rate reductions may be permitted by the Admin. Authority.		target 100% funding level by contract end date.	
Probability of achieving target – Note (e)	At least 70% subject to management of downside risk.	75%	75%	75%	75%	75%	N/A
Phasing of contribution changes	Covered by stabilisation arrangement	3 years subject to Administering Authority Discretion - Note (e)	None - Note (e)	None -Note (e)	None - Note (e)	None – Note (e)	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis will be due from the TAB. The Letting Authority will be liable for future	Participation is assumed to expire at the end of the contract. The Letting Authority will be liable for any cessation debt, future deficits and contributions arising.

			deficits and contributions arising after the cessation date.	

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

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Employer	Year Ending 31 March 2018	Year Ending 31 March 2019	Year Ending 31 March 2020	Thereafter
London Borough of Hillingdon	No increase	No increase	+1% of pay	Max increase +1% in any year Max decrease of -1%

				in any year

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

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

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

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

Note (h) (New Admission Bodies)

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

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

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

The Fund also allows the adoption of a simple pass through approach to lettings/outsourcings in some situations. This refers to an arrangement where the letting employer retains responsibility for liabilities on all of the service earned by members (both transferring past service and service accrued during the contract period) and the contractor is only liable to pay an agreed contribution plan and there is no potential termination payment. Additionally the contractor has no defined benefit pension liability in the LGPS, only a responsibility to pay the agreed contributions. Therefore, the contractor should have no need to prepare a defined benefit pension disclosure for their accounts in respect of LGPS liabilities in the Fund. The contribution rate payable by the contractor will be calculated by the Fund actuary prior to the start of the contract.

Whilst the contractor will not be liable for defined benefit pension liabilities, they will be responsible for additional pension costs arising through factors that would be within its own control. These typically relate to strains arising due to: excessive salary growth; early payment of benefit on unreduced terms; and augmentation of benefit. All risk sharing arrangements will be fully documented in the services contract.

The Admission Agreement may ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor will typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to the contract commencement; and
- redundancy and early retirement decisions.

The London Borough of Hillingdon has a standard pass-through contribution rate of 26% of pay for contracts let by London Borough of Hillingdon. This rate applies to contracts which cover less than 300 staff and is available at the absolute discretion of the London Borough of Hillingdon.

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

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

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

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

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

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the

right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

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

Schools, under the control of the Council, are generally pooled with their funding Council. This does not apply to Academies or specialist or independent schools.

Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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

3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

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

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

3.6 Non ill health early retirement costs

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

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

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

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged. There is then no need for monitoring of allowances.

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

3.9 Employers with no remaining active members

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

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

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the investment performance quarterly and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS will be issued to all participating employers in January for comment;

b) Comments will be requested within 30 days;

c) Following the end of the consultation period the FSS will be updated where required and then agreed at Pensions Committee on 22 March 2017, following which it will be published.

A3 How is the FSS published?

The FSS is published on the website at [CLIENT URL] and copies are made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

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

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

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate

Risk	Summary of Control Mechanisms
	contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular

Risk	Summary of Control Mechanisms
	intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% per annum at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar view on life expectancy as was taken at the previous valuation.

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

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong

as its guarantor's.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Primary contribution rate The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

Profile The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

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

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

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Investment Strategy and Fund Manager Performance (Part I)

Contact Officers	Sian Kunert, 01895 556578 Scott Jamieson David O'Hara, KPMG
Papers with this report	Northern Trust Performance Report

SUMMARY

This report provides an overview of fund performance and asset allocation as at 30 September 2016 as well as an update on recent investment decisions and progress of the London CIV.

The total size of the fund is £890m at 30 September 2016 an increase from £845m at the end of last quarter.

The overall investment return of the fund in the quarter was 5.96%, giving rise to relative out-performance of the benchmark by 0.77%.

Included with this report is the Northern Trust performance report and in Part II there is an update on each Fund Manager and detailed current market backdrop. These papers all form background reading to inform Committee and to aid discussion.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
2. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**
3. **Note the follow up activity to previous investment decisions and progress in the development of the London CIV.**

INFORMATION

1. Fund Performance

Over the last quarter, the Fund returned 5.96% against the fund benchmark of 5.16% resulting in an outperformance for the quarter. The value of the Fund increased by £45m bringing the fund balance to £890m as at 30 September 2016.

Period of measurement	Fund Return %	Benchmark %	Absolute Performance
Quarter	5.96	5.16	+0.80
1 Year	17.19	15.78	+1.41

3 Year	9.00	8.59	+0.41
5 Year	10.22	9.56	+0.66
Since Inception (09/1995)	7.07	6.94	+0.13

The most notable outperformance on investments in the quarter were produced by the LCIV Ruffer DGF fund and UK Value Equities held by UBS, with the biggest underperformance by Newton Global Income Equities.

Outperformance over a one year rolling period of 17.19% compared to the benchmark of 15.78%, is in part from the over performance of Ruffer and Macquarie.

During the quarter £7.6m was withdrawn from Newton to fund the rebalancing of property investments as outlined in the September Committee, increasing the holding in AEW. Income distributions through Private Equity and M&G were used to fund the committed investment in Infrastructure, bringing the total funding of Macquarie to 73% of the total value committed on inception in September 2010.

2. Market and Financial climate overview

The quarter ending September 2016 saw a sharp rebound in UK equities following the initial downward reaction to the Brexit vote. This was partly as a result of the stimulus package announced by the Bank of England, which included reducing the base rate to an historic low of 0.25%, increasing its purchase of gilts by £60bn and introducing and additional £10bn purchase of corporate bonds. Markets also acknowledged the triggering of Article 50, the legal mechanism for withdrawing a member state from the EU, would not take place until March 2017, after which there would be a further two years of negotiations before for the UK would leave the EU.

Despite the negative economic forecasts post Brexit, the economy has performed better than expected. The first estimate Q3 GDP showed the UK economy grew by 0.5% over the quarter and 2.3% year-on-year. The UK labour market has also improved, with the September figures showing the highest employment rate since comparable records began in 1971 and unemployment at its lowest rate since September 2005.

The weakening of sterling was the major contributor in the rise of CPI inflation, with the twelve month figure increasing by 0.4% to 1.0%. Forecasts are for CPI to continue to rise, reaching 2.5% in 2019, however as this will primarily be due to the temporary effect of sterling depreciation, the Monetary Policy Committee are unlikely to increase interest rates.

Overseas, the US economy and its labour market show steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The FTSE World was up 8.3% over the quarter, returning 31.2% for the year. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

3. Investment Strategy

Historically, the strategic objectives of the Fund have been contained within the Statement of Investment Principles (SIP). However, the new LGPS Investment Regulations, effective from 1 November 2016, replaces the requirement for the Fund to have a SIP and instead they must develop an Investment Strategy Statement (ISS), by 1 April 2017. Work to develop the ISS is well underway and will be completed over the coming months and a draft brought to Committee for approval in March 2017. As part of the development of the Investment strategy to meet the required return from the 2016 Valuation, a review of the strategic asset allocation will be needed. It is timely therefore to remind Committee of the current asset allocation.

4. Asset Allocation

As Committee are aware, asset allocation is the responsibility of the Pension Committee and will continue to be the key strategic tool for the Committee to manage the fund to obtain the return targets as required in the Funding Strategy Statement.

The assets of the fund are currently invested across 13 different Fund Managers in a range of passive and active mandates including a mix of liquid and illiquid allocations to reflect the funds long term horizon.

Current Asset Allocation by asset class

	Market Value As at 30 Sep 2016	**Allocation**
	£'000	**%**
ASSET CLASS		
UK Equities	191,370	21.5
UK Fixed Interest Gilts	2,705	0.3
UK Corporate Bonds	15,317	1.7
UK Index Linked Gilts	45,861	5.1
Corporate Bonds (Global)	38,823	4.4
Overseas Equities	65,551	7.4
Global Equities	127,020	14.3
Property	104,671	11.8
DGF/Absolute Returns	162,851	18.3
Private Equity	29,631	3.3
Infrastructure	25,001	2.8
Private Credit	65,725	7.4
Cash & Cash Equivalents	15,610	1.7
Totals	**890,135**	**100.0**

Current Asset Allocation by manager

FUND MANAGER	ASSET CLASS	Market Value As at 30 Sep 2016 £'000	Actual Asset Allocation %
ADAMS STREET	Private Equity	19,035	2.1
LGT	Private Equity	10,555	1.2
AEW	Property	39,784	4.5
GMO	DGF/Absolute Returns	61,076	6.8
JP MORGAN	Corporate Bonds (Global)	38,823	4.4
LONDON CIV	DGF/Absolute Returns	101,775	11.4
M&G	Private Credit	37,371	4.2
MACQUARIE	Infrastructure	25,001	2.8
NEWTON	Global Equities	127,020	14.3
PERMIRA	Private Credit	28,354	3.2
SSGA	UK Equities	80,834	9.1
	UK Fixed Interest Gilts	2,705	0.3
	UK Corporate Bonds	15,317	1.7
	UK Index Linked Gilts	45,861	5.2
	Overseas Equities	65,551	7.4
UBS EQUITIES	UK Equities	110,536	12.4
	Property	22	0.0
	Private Equity	41	0.0
	Cash & Cash Equivalents	2,971	0.3
UBS PROPERTY	Property	64,864	7.3
	Cash & Cash Equivalents	4,288	0.5
Non Custody	Cash & Cash Equivalents	8,350	0.9
		890,135	**100.0**

NB: Asset Market Valuation is at BID price, as per accounting requirements, which differs from the NT Performance pack within this report which is measured at MID price.

5. Investment decision updates

At September Pensions Committee it was agreed to transition the passive mandate to Legal and General Investment Managers (LGIM) from Statestreet (SSgA) to benefit from reduced fees as negotiated through the buying power of the LCIV. This transition was completed successfully on 31 October 2016.

Pensions Committee also agreed in September to liquidate the GMO mandate and reinvest in a mix of passive funds. The Investment strategy group have agreed a balance of passive funds in which to move the GMO funds to invest at a lower cost than the premium of investing in the current DGF in the current economic market. Now the LGIM

passive mandate has been established the GMO mandate will follow into assets under management by LGIM.

6. LCIV update

The London CIV (LCIV) currently has five sub funds open with assets under management (AUM). These consist of two global equity funds (Allianz and Baillie Gifford) and three Diversified growth Funds (DGF)/Absolute Return funds (Ruffer, Pyrford and Baillie Gifford). The Hillingdon Pension Fund currently invests in Ruffer with current CIV holdings totalling £102m at 30 September 2016. An additional subfund, the London CIV NW Real Return sub-fund managed by Newton, will open in December 2016. The CIV are also working on launching 3 further funds in the new year which will be global equity quality managed by Newton, UK equity managed by Majedie and Global equities managed by Longview.

The LCIV have also carried out intensive work over the past year in looking to bring passive mandates under management within the LCIV, negotiating fees with LGIM and Blackrock on behalf of the funds. However due to legal and technical complications, the passive managers are not coming within the LCIV structure for the time being. The Hillingdon LGIM Passive mandate has put the fund closer to pooling as although the investment will remain outside of the ACS structure, LGIM will provide the LCIV with an overarching report on all of the London Fund holdings that have the negotiated CIV rates. This will ensure we are complaint with the pooling agenda and government requirements at this stage, resulting management and reporting regarding these funds carried out within the pool. Passive holdings across the London Boroughs totals approximately £7.5bn.

Further, the LCIV is working on a number of projects looking at various other assets classes. The first major project has been to carry out a full procurement exercise to appoint a range of Global Equity managers to cover the suite of strategies the London Boroughs want to invest within. Global Equities is the largest asset allocation for LGPS funds with 25% (7.5bn) of assets invested across London in this asset class. As a result the LCIV team along with representatives from boroughs and investment advisers have been reviewing and scoring over 200 submissions and meeting 58 managers through clarification interviews over the past month to recommend managers for each of the strategies for the sub fund mandates. Within Global Equity the Hillingdon Fund currently invests in Global Income Equities as a strategy with £127m under management with Newton as at 30 September 2016. The LCIV will start with launching around 3 sub funds initially within Global Equities due to the resources required to carry out the due diligence, legal, regulatory and operational requirements to open these funds. More sub funds will follow shortly after; as a result the LCIV are looking for guidance from the boroughs over the prioritisation of strategies to focus on the sub funds where assets will come under management funding the mandates.

The next steps for the LCIV are looking at income generation for funds in a low yielding environment to meet the requirements many funds are faced with of negative cashflows and to tie in with funding return requirements resulting from the 2016 triennial valuation. The LCIV are working with the Investment Advisory Committee to consider a range of fixed income and cashflow generating products the funds might want to access later next year.

This page is intentionally left blank

London Borough of Hillingdon

Investment Risk & Analytical Services

September 30, 2016

Table of Contents

Section 1. London Borough of Hillingdon 3

1.1. Client Commentary 3

1.2. Client Commentary (cntd) 4

1.3. Executive Summary 5

1.4. Investment Hierarchy 6

1.5. Investment Hierarchy(2) 7

1.6. Market Value Summary - Three Months 8

1.7. Historical Performance 9

1.8. Benchmark Composition 13

Section 2. Appendix 14

2.1. Disclaimer(s) 14

Client Commentary

Total Scheme Commentary

As the quarter drew to a close OPEC agreed the first production cut in 8 years, boosting crude prices and energy stocks as well as oil exporting emerging markets. Overall it was a better quarter for equity markets, especially the US and Europe; while "Brexit Bounce" was hailed as the reason that UK equity markets ended Q3 ahead of their levels on referendum day despite the widely predicted catastrophe. Manufacturing continues to drag on the economy despite the falling exchange rate and a rebound in August. The UK unemployment rate fell to 4.9%, down from 5.5% over 1 year. UK Technology massively outperformed the other sectors over quarter three and the last year. Telecoms was the worst sector over 3 months and Financials gained least over one year. The FTSE All Share was up 7.8% over the third quarter and is now ahead over one year by 16.8%. The Fed was split 7-3 but left rates unchanged, although they look set to rise by the year end. Hiring and wage growth both lagged in August and growth in the Services sector dropped to its lowest in 6 years. US imports from China dropped during the quarter in a worrying turn for the main source of growth for emerging markets. Globally, Technology gained most value over both the quarter and the year, while Utilities lost most over the third quarter. The FTSE World was up by 8.3% (GBP) over quarter three 2016 and returned 31.2% (GBP) over the year. While the JP Morgan Government Bond Index returned 3.08% for the quarter and the Barclays Global Aggregate index returned 3.75%.

Against this backdrop the London Borough of Hillingdon returned 5.96% which leads to an outperformance of 77 basis points against the Total Plan benchmark of 5.16%. In monetary terms this is a growth in assets of £50.4 million and the value of the combined scheme now stands at £896.6 million as at 30th September 2016. This period £7.6 million was disinvested from the Newton global equity mandate and placed with AEW UK, while £2.5 million of distributions from Private Equity and M&G was transferred to Macquarie and the Cash Account. Looking further into the analysis the results seen were driven by selection effects, the most notable being Ruffer's impact of 67 bps, with UBS UK Equity adding a further 34 bps, this was partly offset by Newton, detracting -26 bps. While within allocation, there is a negative impact the most significant being underweight State Street Gilts, while overweighting Premira.

Continuing on from the a good start to 2016 the Scheme is ahead of the benchmark by 1.21% over the rolling one year period, coming from a return of 17.19% against the benchmark of 15.78%. The largest impact once again comes from selection in Ruffer (+1.19%) coupled with Macquarie (+0.54%), although these are slightly offset by the negative effects in Adam Street (-34 bps) and Premira (-21 bps). Similar to the quarter allocation has a negative impact coming from underweighting State Street Gilts and Newton, while overweighting Premira. While over the longer periods, the Scheme continues to outperform, producing a return of exactly 9% over three year versus 8.59%, while for 5 years we see figures of 10.22% versus 9.56% per annum. Then since inception in September 1995, the Fund remains ahead of target by 12 basis points with an annualised return of 7.07% against 6.94%.

Manager Commentary

AEW UK

In the latest period AEW UK Property wiped out all the previous quarter's absolute gains by returning -2.25%, relatively this is a -2.93% underperformance when compared to the IPD UK PPFI All Balanced Funds index figure of 0.70%. However, with positive absolute returns in every other period since inception and only three quarters in the red on a relative basis, growth ahead of benchmark is seen in all longer periods. For the rolling one year a return of 5.89% against the benchmark of 4.76% translates as a 1.07% relative return. Then in the short period since inception in June 2014, the fund return is 10.92%, leading to an outperformance of 0.57% when compared to the IPD figure of 10.29%.

GMO Global

In the third quarter the GMO Global mandate produced both it's highest absolute and relative returns with a growth of 3.16% leading to an outperformance of 2.99% when measured against the OECD CPI G7 (GBP) Index figure of 0.16%. This feeds into the full year numbers, with figures of 4.83% versus 0.98%, this generates an outperformance of 3.81%. However, driven by the Q3 2015 results, in the short period since the start of November 2014 when the fund incepted, a return of -0.47% against the benchmark of 0.63% leads to a shortfall of -1.10%.

JP Morgan

During the latest quarter JP Morgan produced their best figures since the first period of investing in Q1 2012 with growth of 3.08% leading to an outperformance of 2.15% when compared to the 0.91% target for the 3 Month LIBOR + 3% p.a. Coupled with the good results in the previous periods, longer time periods are all ahead of target, they exhibit outperformance of 5.29% and 0.72% over the one and three years respectively. While since November 2011 their return of 4.18% is 51 basis points above the target return of 3.64% on an annualised basis.

London CIV Ruffer

This quarter the London CIV Ruffer portfolio produced a 6.21% return, compared to the LIBOR 3 Month GBP figure of 0.16%, this demonstrates the highest relative return this period of 6.05%. This is now four consecutive quarters of positive absolute and relative returns, meaning the one year period exhibits a growth of 11.68% against the target of 0.61%. Then with only 2 quarter's in the red in the last four years, outperformance remains in the longer periods. This is seen in a three year return of 6.71% versus 0.57% increasing to 7.41% against 0.66% over five years, culminating in since inception (May 2010) figures of 6.66% versus 0.68% per annum, which translates as a relative return of 5.94%.

Client Commentary (cntd)

Manager Commentary

M&G Investments

Over the last three months M&G posted a return of 1.40%, this is 31 basis points above the 3 Month LIBOR +4% pa target of 1.09%. Driven by the previous quarter's good result, all longer periods are ahead of target, leading to one year figures of 6.53% against 4.55%. Over the three and five year the account registers figures of 6.80% vs 4.56% and 6.44% vs 4.64% respectively; since inception (May 2010) return falls slightly to 5.95% pa whilst the benchmark is 4.68% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 6.66% opposed to the comparator of 4.43%.

Macquarie

In the latest quarter, Macquarie produced a growth of 4.71%, against the 0.85% for the 3 Month LIBOR +3% pa translates as an outperformance of 3.83%. With nine consecutive quarters of positive absolute and relative returns the one year return of 29.59% beats the target of 3.55% by 25.15%, the highest relative return over this period. Then while three and five years remain ahead, they fall below the target since inception (September 2010), a shortfall of -0.30%, derived from a return of 3.35% against the target of 3.67%. Although the since inception Internal Rate of Return for this portfolio jumps to 13.12%, which is ahead of the benchmark figure of 3.58%.

Newton

In the third quarter of 2016 Newton produced a return of 6.93%, although this was a relative return of -1.74% when compared to the 8.83% seen for the FTSE World Index +2%. Driven by the good results seen in Q1, they still post outperformance of 3.69% over one year, this is generated from the highest absolute return of the period at 38.33% against 33.41%. Although with nine underperforming quarters over the last twelve the three year return falls just short with figures of 15.87% versus 16.02%; then since inception in January 2013, the fund return of 14.94% falls short of the yardstick of 15.54% by -51 basis points.

Private Equity

Over the latest period private equity assets show positive absolute returns, LGT continued their 3 year run of growth with a figure of 5.93%, while Adam Street posted 6.15%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. Over one and three years they both exhibit some of the highest returns (only matched by Macquarie and UBS Property), Adam Street posts 18.16% and 21.32%, while LGT is 32.51% and 17.39% respectively. While over five years both see a slight fall with Adam Street at 14.41%, while LGT posts 12.29%. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.24% pa, while LGT sees a slight dip to 10.43%.
At present no benchmark has been applied to these mandates.

Manager Commentary

Premira Credit

The Premira Credit Fund saw growth for the first time in 2016, meaning their 4.23% return compares favourably with the 3 Month LIBOR +4% p.a. target of 1.13% over the quarter, and the 3.39% seen for the year to date. Driven by the Q4 2015 results, the one year is well below target with figures of -6.94% versus 4.55%. However, comparable analysis will only be seen over a longer period, since the start of December 2014 when the fund incepted, the fund posts a return of 9.89%, while the benchmark shows 4.48%.

SSGA

The passive SSGA portfolio produced a quarterly return of 8.39%, 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 22.17% return, which falls -7 basis points short of the target, while over 3 years the return drops back to 9.66% pa which is just -4 basis points behind the benchmark. Since inception (November 2008) a return of 11.95% pa which exactly matches the benchmark, the passive nature is also demonstrated by the R squared and beta figures of 1, while the tracking error is just 0.22.

State Street Gilts

In the latest quarter the State Street Gilts mandate produced the highest absolute return seen this period, standing at 12.91%, just -2 basis points down on the FTSE Index Linked Gilts 15+ years Index. Then in the short period since the inception of the fund on the 4th March 2016, produce a return of 30.05%, which is -8 basis points below the index.

UBS

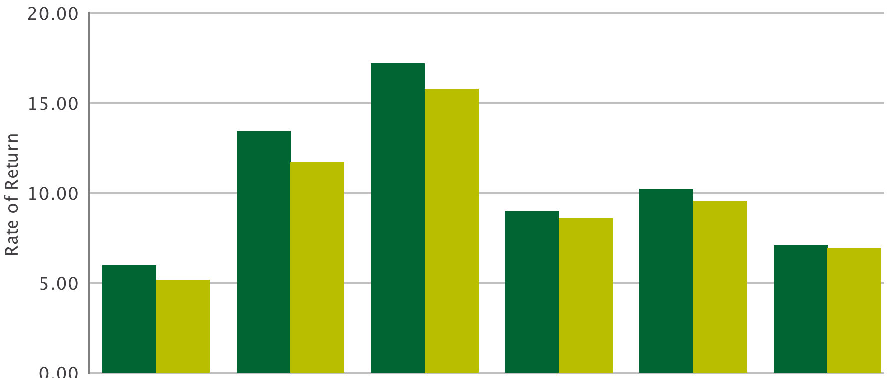
During Q3 the UBS UK Equity investments returned of 10.73% compared to the FTSE All Share figure of 7.78%, generating an outperformance of 2.74%. Looking into the attribution analysis, selection was the main driver with all but one sector showing positive effects, the most notable being the 0.79% from Basis Materials; within allocation, the slight positive impact came from overweighting Basis Materials (0.78%), however this effect was negated by also overweighting Oil & Gas (-0.49%). This feeds into the rolling one year, with figures of 20.28% vs 16.82% leading to a relative return of 2.96%. This is attributable to both allocation and selection, again the biggest impacts come from both overweighting Basis Materials (1.91%) and selection in the sector (1.79%); while the largest negative impact came from stock-picking in Financials (-0.81%). UBS fall short over the three year period, but then due to the previous good results, especially in 2013, maintain outperformance over the longer time periods, translating as a since inception return of 9.97% versus 8.80% on an annualised basis.

UBS Property

Over the latest period the UBS Property assets fell for the second consecutive quarter with a figure of -1.11%, which against the IPD UK PPFI All Balanced Funds index figure of -0.70%, translates as a relative return of -0.42%. With the previous good run of results, high absolute returns staying ahead of the IPD target remain over the longer periods, peaking over the three year with a return of 13.39% against 11.35%. Then since inception, in March 2006, the fund return falls to 3.38% per annum while the benchmark shows 3.15%, translating as an outperformance of 22 basis points.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	5.96	13.45	17.19	9.00	10.22	7.07
Index	5.16	11.72	15.78	8.59	9.56	6.94

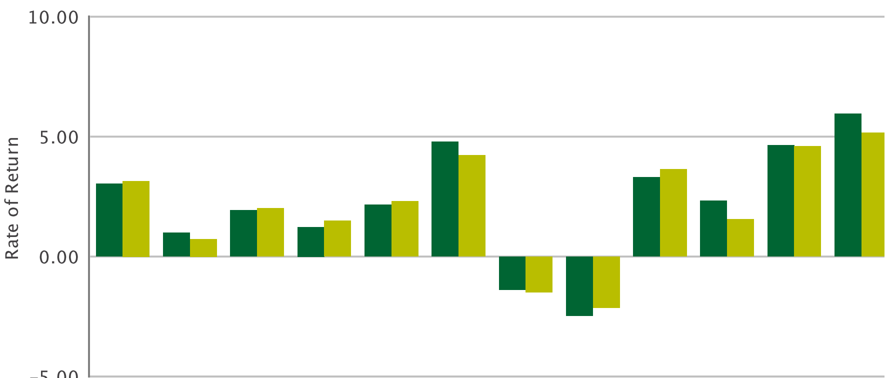
Index: Total Plan Benchmark

Risk Statistics	3 Yrs	5 Yrs
Return	9.00	10.22
Index Return	8.59	9.56
Excess Return	0.42	0.66
Standard Deviation	4.93	5.34
Index Standard Deviation	4.82	5.09
Tracking Error	1.09	1.09
Information Ratio	0.38	0.60
Sharpe Ratio	1.69	1.76
Index Sharpe Ratio	1.65	1.72
Sortino Ratio	-	3.16
Treynor Ratio	8.35	9.14
Jensen's Alpha	0.40	0.39
Relative Volatility (Beta)	1.00	1.03
R Squared	0.95	0.96

Index: Total Plan Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)
Category: Total Fund Gross of Fees.

Page 61

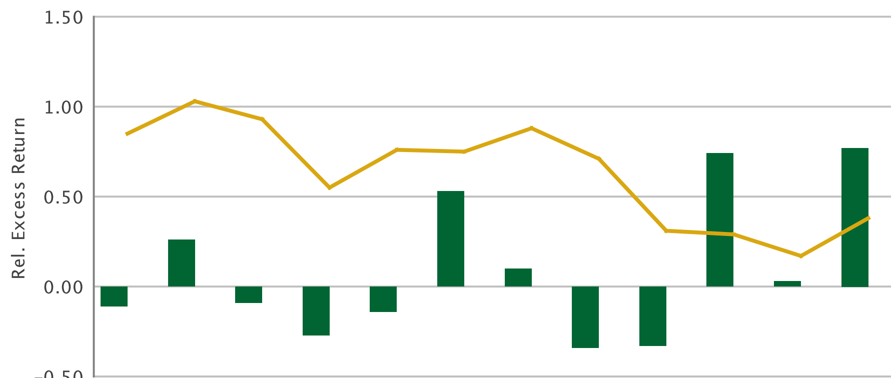
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16
Fund	3.04	0.99	1.93	1.23	2.16	4.78	-1.39	-2.48	3.30	2.32	4.64	5.96
Index	3.15	0.73	2.02	1.50	2.30	4.23	-1.49	-2.14	3.64	1.56	4.60	5.16

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16
3M R.Excess	-0.11	0.26	-0.09	-0.27	-0.14	0.53	0.10	-0.34	-0.33	0.74	0.03	0.77
3Y R.Excess	0.85	1.03	0.93	0.55	0.76	0.75	0.88	0.71	0.31	0.29	0.17	0.38

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months			Year to Date			One Year		
			Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess
London Borough of Hillingdon	**896,605,688**	**100.00**	**5.96**	**5.16**	**0.77**	**13.45**	**11.72**	**1.55**	**17.19**	**15.78**	**1.21**
Total Plan Benchmark											
AEW UK	**45,137,548**	**5.03**	**-2.25**	**0.70**	**-2.93**	**2.94**	**1.91**	**1.02**	**5.89**	**4.76**	**1.07**
LBH22 AEW Benchmark											
GMO Global	**61,075,639**	**6.81**	**3.16**	**0.16**	**2.99**	**3.40**	**1.36**	**2.00**	**4.83**	**0.98**	**3.81**
LBH23 GMO Global											
JP Morgan	**38,822,913**	**4.33**	**3.08**	**0.91**	**2.15**	**8.44**	**2.71**	**5.58**	**9.10**	**3.62**	**5.29**
LBH15 BM JP Morgan BM											
London CIV Ruffer	**102,365,365**	**11.42**	**6.21**	**0.15**	**6.05**	**10.40**	**0.46**	**9.89**	**11.68**	**0.61**	**11.01**
LBH11 Ruffer Benchmark											
M&G Investments	**41,202,749**	**4.60**	**1.40**	**1.09**	**0.31**	**6.29**	**3.39**	**2.80**	**6.53**	**4.55**	**1.90**
LBH10 3 Month Libor GBP +4%Pa											
Macquarie	**25,013,473**	**2.79**	**4.71**	**0.85**	**3.83**	**25.01**	**2.64**	**21.79**	**29.59**	**3.55**	**25.15**
LBH14 Macquarie Libor +3%											
Newton	**127,019,877**	**14.17**	**6.93**	**8.83**	**-1.74**	**25.46**	**22.97**	**2.02**	**38.33**	**33.41**	**3.69**
LBH19 FTSE World Index +2%											
Premira Credit	**29,402,350**	**3.28**	**4.23**	**1.09**	**3.10**	**4.23**	**3.39**	**0.81**	**-6.94**	**4.55**	**-10.99**
LBH24 Premira											
SSGA	**182,451,958**	**20.35**	**8.39**	**8.42**	**-0.03**	**16.89**	**17.00**	**-0.09**	**22.17**	**22.26**	**-0.07**
LBH07 SSGA Benchmark											
State Street Gilts	**27,969,143**	**3.12**	**12.91**	**12.93**	**-0.02**	-	-	-	-	-	-
LBH25 FTSE Index Linked											
UBS	**113,602,022**	**12.67**	**10.73**	**7.78**	**2.74**	**17.54**	**12.38**	**4.59**	**20.28**	**16.82**	**2.96**
LBH04 UBS Benchmark											
UBS Property	**70,107,135**	**7.82**	**-1.11**	**-0.70**	**-0.42**	**-0.29**	**0.49**	**-0.78**	**6.90**	**3.31**	**3.48**
LBH06 UBS Property Benchmark											
Adam Street	**19,034,640**	**2.12**	**6.15**	-	-	**17.90**	-	-	**18.16**	-	-
LGT	**10,558,250**	**1.18**	**5.93**	-	-	**26.57**	-	-	**32.51**	-	-

Investment Hierarchy(2)

Account/Group -% Rate of Return	Three Years			Five Years			Inception to Date			
	Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	Inception Date
London Borough of Hillingdon	9.00	8.59	0.38	10.22	9.56	0.60	7.07	6.94	0.12	30/09/1995
Total Plan Benchmark										
AEW UK	-	-	-	-	-	-	10.92	10.29	0.57	30/06/2014
LBH22 AEW Benchmark										
GMO Global	-	-	-	-	-	-	-0.47	0.63	-1.10	31/10/2014
LBH23 GMO Global										
JP Morgan	4.34	3.59	0.72	-	-	-	4.18	3.64	0.51	08/11/2011
LBH15 BM JP Morgan BM										
London CIV Ruffer	6.71	0.57	6.11	7.41	0.66	6.71	6.66	0.68	5.94	28/05/2010
LBH11 Ruffer Benchmark										
M&G Investments	6.80	4.56	2.14	6.44	4.64	1.72	5.95	4.68	1.21	31/05/2010
LBH10 3 Month Libor GBP +4%Pa										
Macquarie	16.73	3.56	12.72	3.84	3.64	0.19	3.35	3.67	-0.30	30/09/2010
LBH14 Macquarie Libor +3%										
Newton	15.87	16.02	-0.13	-	-	-	14.94	15.54	-0.51	24/01/2013
LBH19 FTSE World Index +2%										
Premira Credit	-	-	-	-	-	-	9.89	4.48	5.17	30/11/2014
LBH24 Premira										
SSGA	9.66	9.71	-0.04	11.95	12.02	-0.07	11.95	11.96	-0.00	30/11/2008
LBH07 SSGA Benchmark										
State Street Gilts	-	-	-	-	-	-	30.05	30.15	-0.08	04/03/2016
LBH25 FTSE Index Linked										
UBS	6.10	6.59	-0.45	13.30	11.05	2.03	9.97	8.80	1.07	31/12/1988
LBH04 UBS Benchmark										
UBS Property	13.39	11.35	1.84	9.12	7.94	1.09	3.38	3.15	0.22	31/03/2006
LBH06 UBS Property Benchmark										
Adam Street	21.32	-	-	14.41	-	-	6.24	-	-	31/01/2005
LGT	17.39	-	-	12.29	-	-	10.43	-	-	31/05/2004

Category: **Total Fund Gross of Fees**

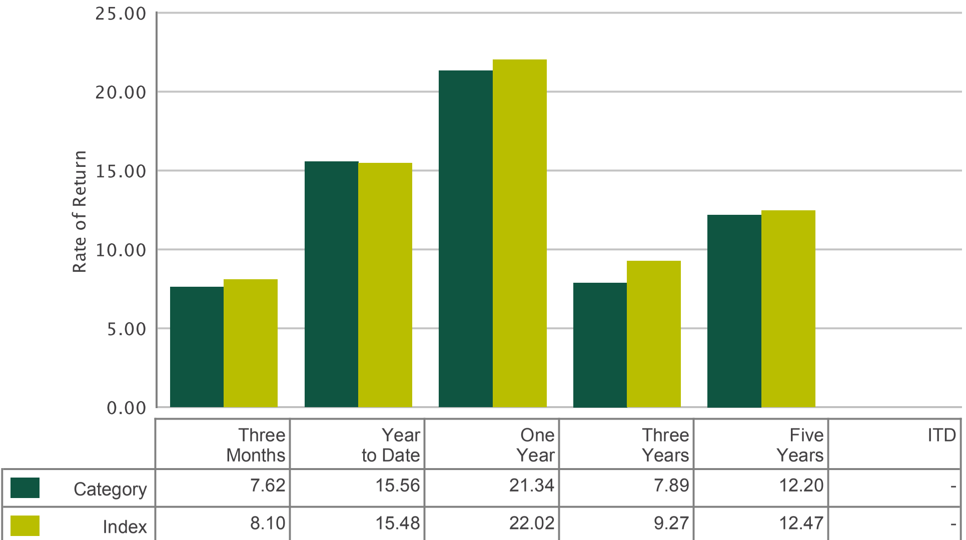
Market Value Summary - Three Months

Account/Group	30/06/2016 Market Value	Net Contribution*	Income	Fees	Appreciation	30/09/2016 Market Value
London Borough of Hillingdon	**846,165,489**	**-3,125**	**3,342,207**	**3,125**	**47,101,117**	**896,605,688**
Adam Street	19,148,428	-1,243,134	0	0	1,129,347	19,034,640
AEW UK	37,148,140	7,666,000	577,961	0	-254,553	45,137,548
Cash & Other Assets	1,278,087	1,523,754	554	0	40,231	2,842,625
GMO Global	59,206,319	0	0	0	1,869,320	61,075,639
JP Morgan	37,664,475	0	0	0	1,158,438	38,822,913
Kempen	5,648	-289,367	289,367	0	-5,648	0
LGT	10,861,970	-916,592	109	0	612,763	10,558,250
London CIV Ruffer	96,381,312	-0	1,818	0	5,982,236	102,365,365
M&G Investments	40,966,002	-332,759	815	0	568,691	41,202,749
Macquarie	22,601,659	1,321,620	-365	0	1,090,560	25,013,473
Newton	125,965,781	-7,620,000	93	0	8,674,003	127,019,877
Premira Credit	28,209,967	0	924,816	0	267,567	29,402,350
SSGA	168,335,825	0	0	0	14,116,133	182,451,958
State Street Gilts	24,772,180	0	0	0	3,196,963	27,969,143
State Street transition a/c	126,575	-108,815	-8,012	0	-9,749	0
UBS	102,593,396	0	895,567	0	10,113,059	113,602,022
UBS Property	70,899,026	-3,125	659,483	3,125	-1,448,249	70,107,135
UBS Tactical	700	-706	0	0	6	0

Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments. Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

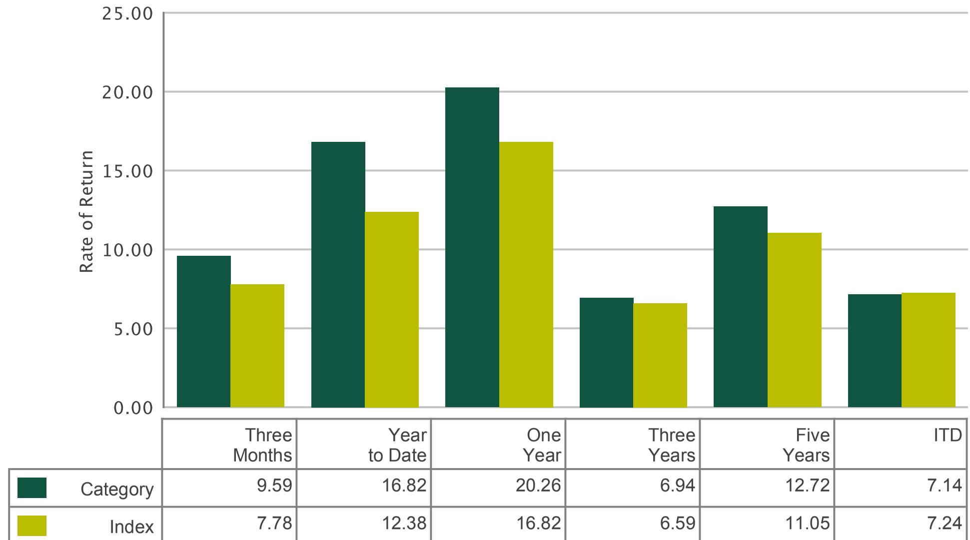
Historical Performance

EQUITY



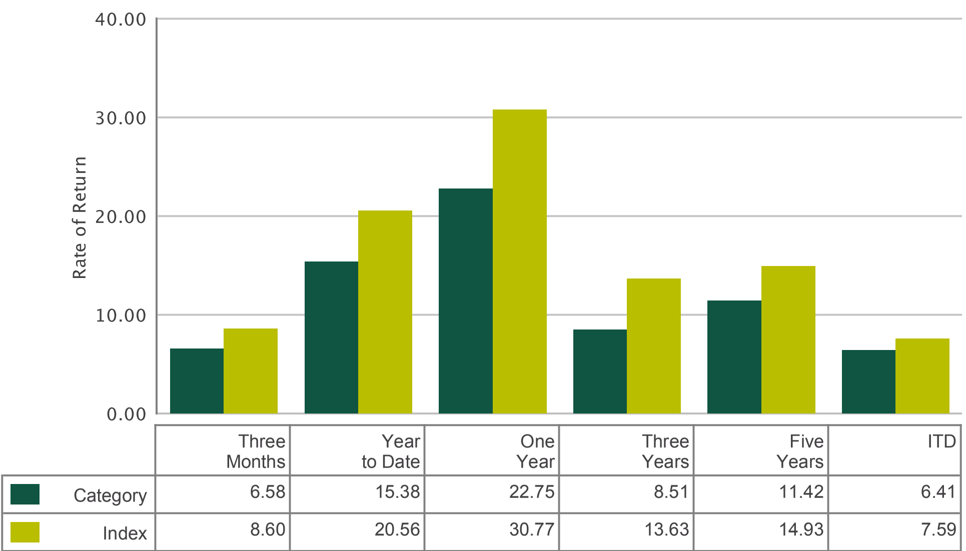
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.62	15.56	21.34	7.89	12.20	-
Index	8.10	15.48	22.02	9.27	12.47	-

UNITED KINGDOM



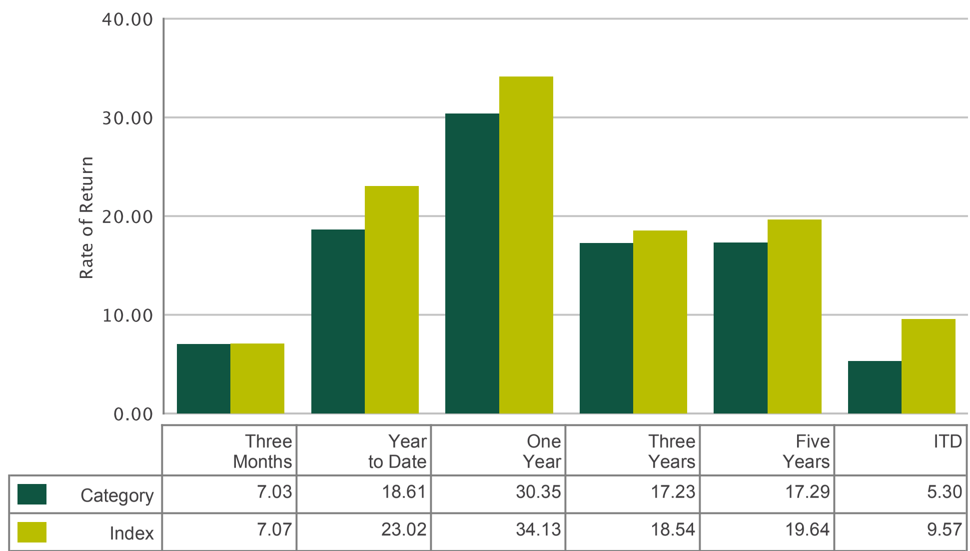
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	9.59	16.82	20.26	6.94	12.72	7.14
Index	7.78	12.38	16.82	6.59	11.05	7.24

OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.58	15.38	22.75	8.51	11.42	6.41
Index	8.60	20.56	30.77	13.63	14.93	7.59

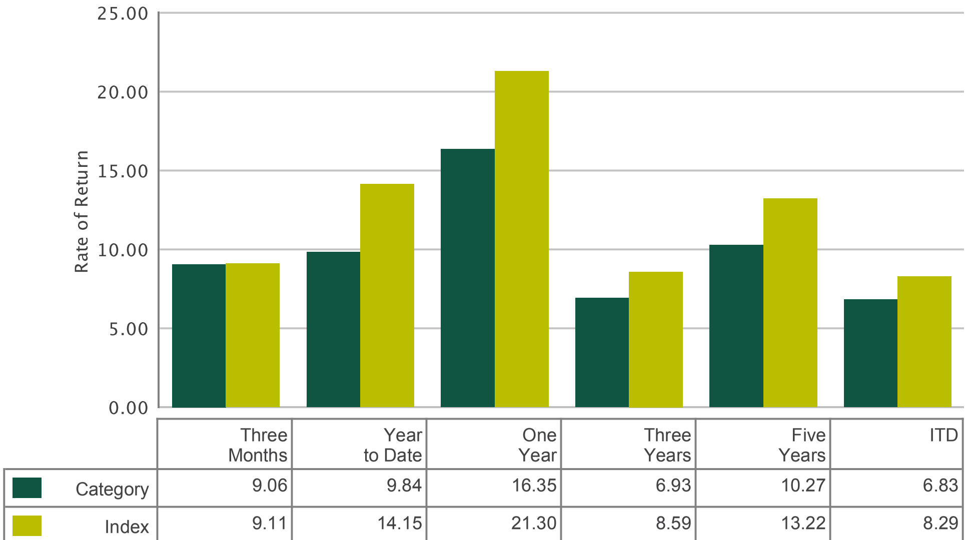
NORTH AMERICA



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.03	18.61	30.35	17.23	17.29	5.30
Index	7.07	23.02	34.13	18.54	19.64	9.57

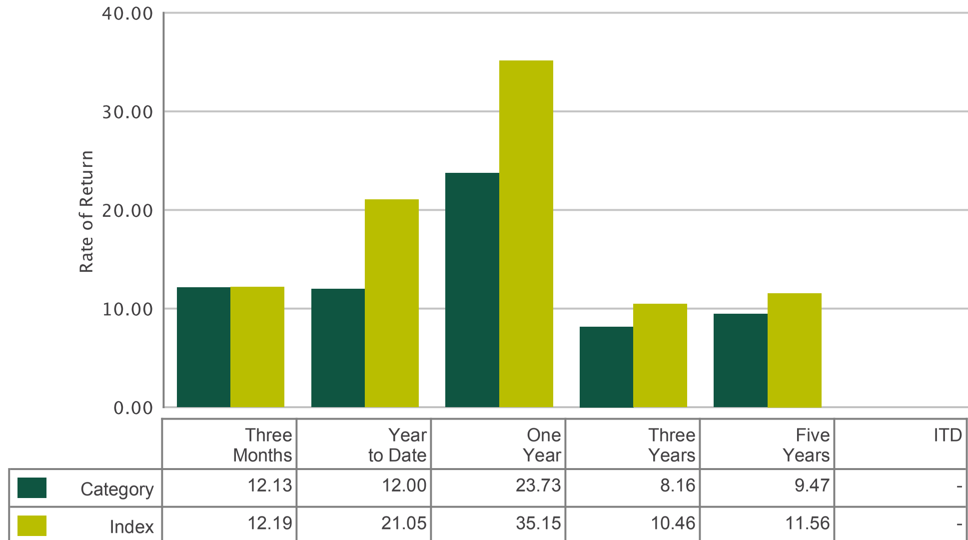
Historical Performance

EUROPE EX UK



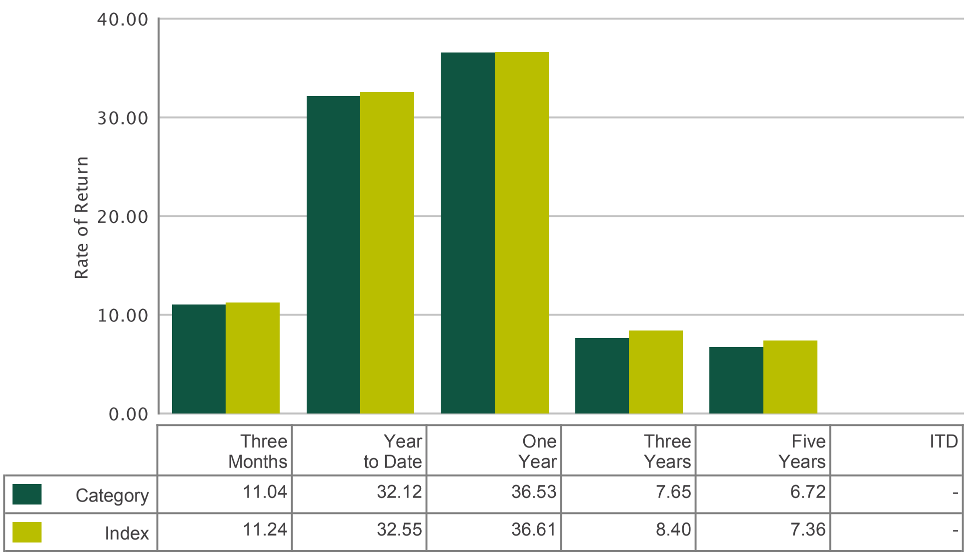
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	9.06	9.84	16.35	6.93	10.27	6.83
Index	9.11	14.15	21.30	8.59	13.22	8.29

ASIA PACIFIC INC JAPAN



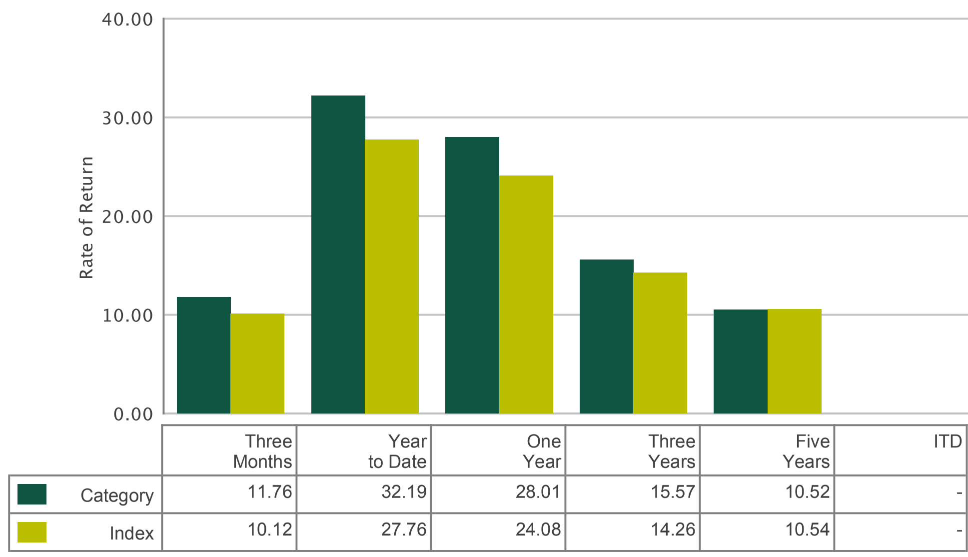
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	12.13	12.00	23.73	8.16	9.47	-
Index	12.19	21.05	35.15	10.46	11.56	-

EMERGING MARKETS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	11.04	32.12	36.53	7.65	6.72	-
Index	11.24	32.55	36.61	8.40	7.36	-

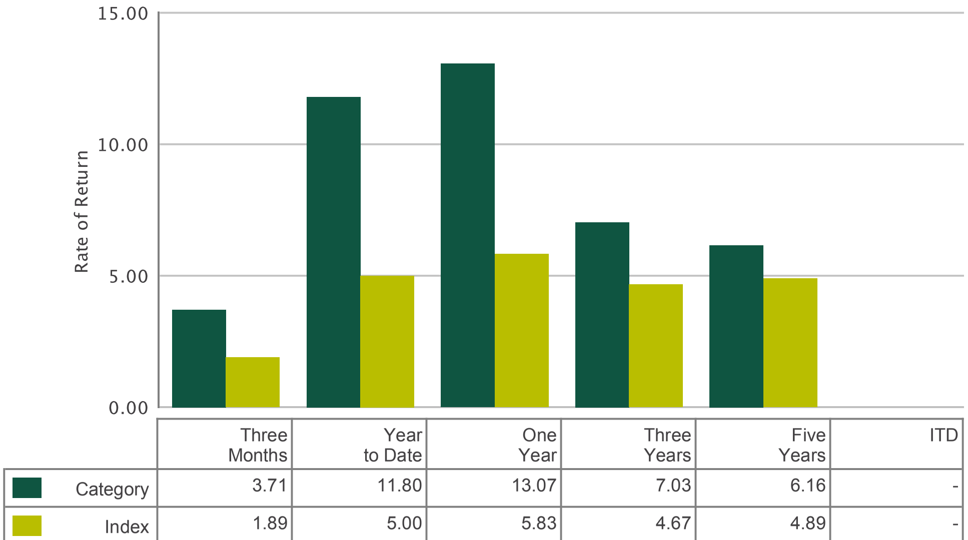
INDEX LINKED GILTS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	11.76	32.19	28.01	15.57	10.52	-
Index	10.12	27.76	24.08	14.26	10.54	-

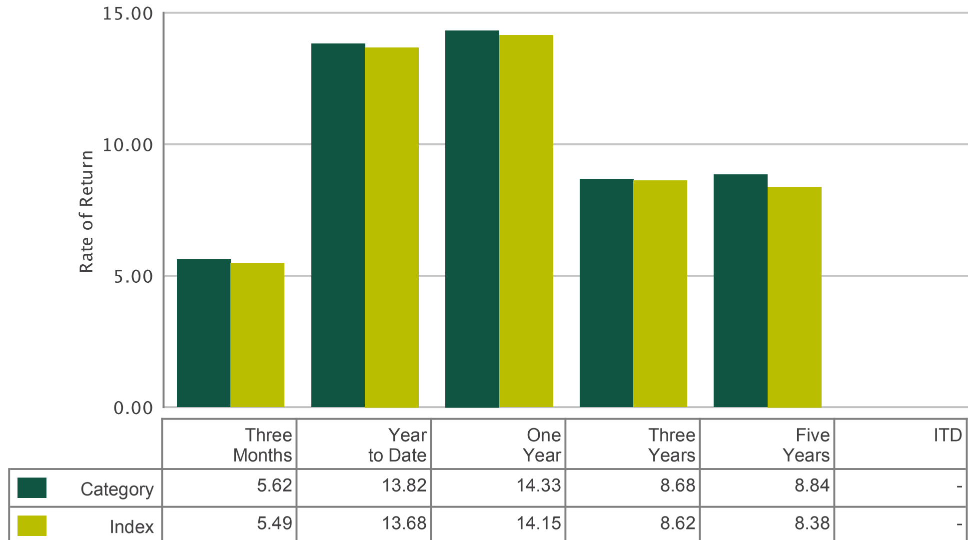
Historical Performance

FIXED INCOME



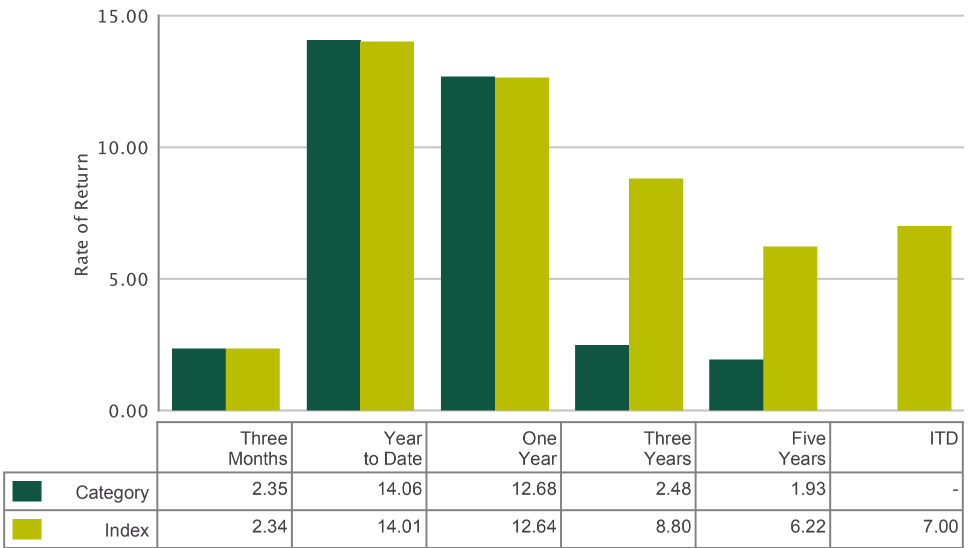
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.71	11.80	13.07	7.03	6.16	-
Index	1.89	5.00	5.83	4.67	4.89	-

CORPORATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.62	13.82	14.33	8.68	8.84	-
Index	5.49	13.68	14.15	8.62	8.38	-

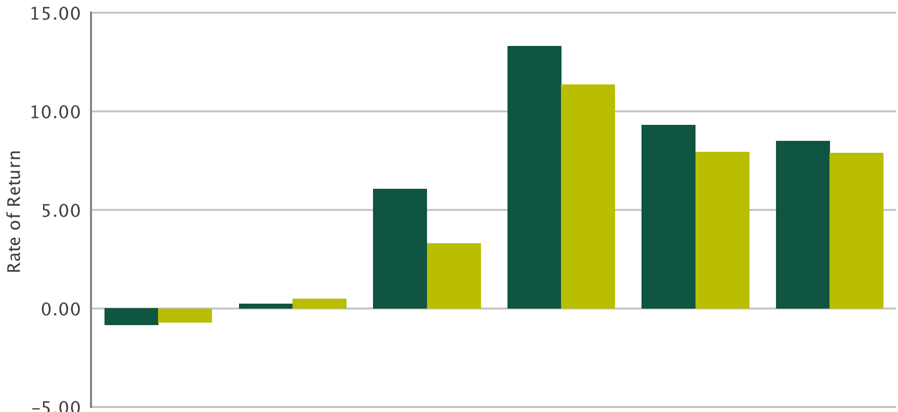
GOVERNMENT BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.35	14.06	12.68	2.48	1.93	-
Index	2.34	14.01	12.64	8.80	6.22	7.00

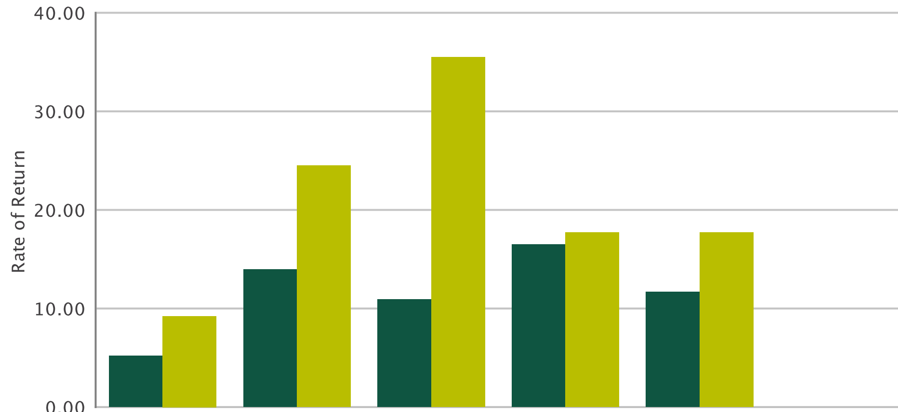
Historical Performance

REAL ESTATES



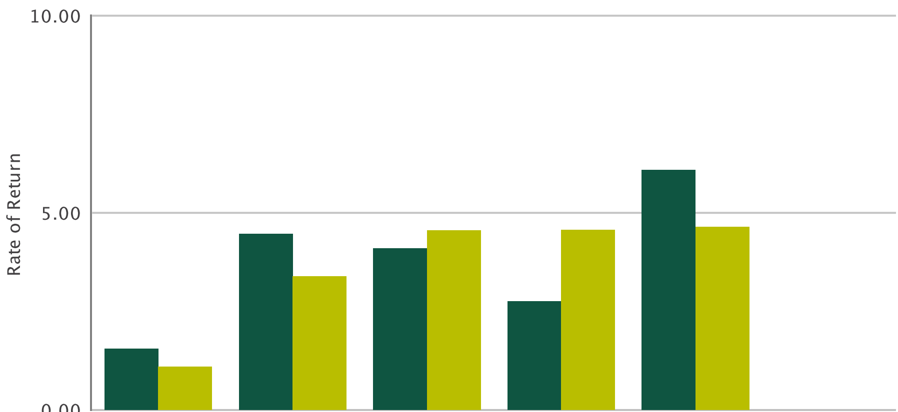
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.84	0.24	6.07	13.31	9.30	8.49
Index	-0.70	0.49	3.31	11.35	7.94	7.88

PRIVATE EQUITY



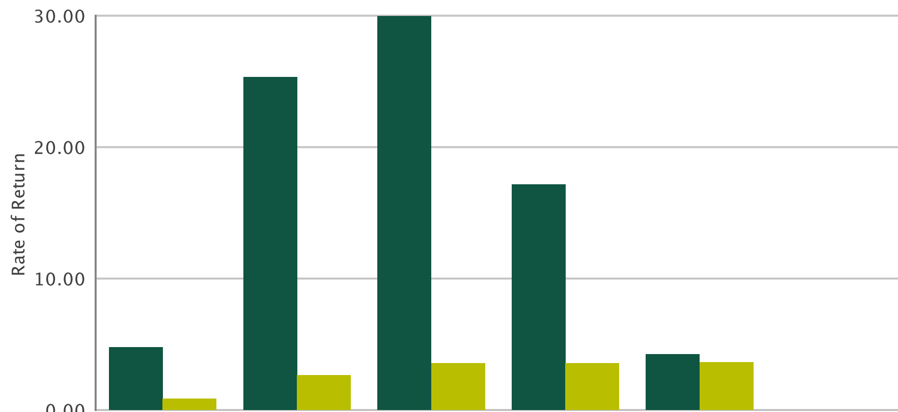
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.20	13.97	10.94	16.49	11.70	-
Index	9.23	24.49	35.50	17.70	17.70	-

HEDGE FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.55	4.46	4.10	2.76	6.08	-
Index	1.09	3.39	4.55	4.56	4.64	-

INFRASTRUCTURE



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.75	25.34	29.96	17.17	4.23	-
Index	0.85	2.64	3.55	3.56	3.64	-

Benchmark Composition

Total Plan Benchmark

24.2	FTSE All Share
2.3	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
14.1	FTSE World Index +2%
1.9	FTSE Index Linked Gilts
1.7	BC Sterling Aggregate 100mm Non Gilts
0.3	FTSE All Stock Index
10.3	IPD UK PPFI All Balanced Funds Index
6.0	LIBOR 3 Month + 3%
11.9	LIBOR 3 Month
4.7	MSCI All Countries World Index
4.3	FTSE Index Linked Gilts 15+ Years
8.6	OECD CPI G7 (GBP) Index
4.7	LIBOR 3 Month + 4%

AEW UK

100.0 IPD UK PPFI All Balanced Funds Index

GMO Global

100.0 OECD CPI G7 (GBP) Index

JP Morgan

100.0 LIBOR 3 Month + 3%

M&G Investments

100.0 LIBOR 3 Month + 4%

Macquarie

100.0 LIBOR 3 Month + 3%

Newton

100.0 FTSE World Index +2%

Permira Credit

100.0 LIBOR 3 Month + 4%

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
10.0	FTSE Index Linked Gilts
8.5	ML Sterling Non-Gilts
3.0	FTSE All World All Emerging
1.5	FTSE Gilts All Stocks

State Street Gilts

100.0 FTSE Index Linked Gilts 15+ Years

UBS

100.0 FTSE All Share

UBS Property

100.0 IPD UK PPFI All Balanced Funds Index

Disclaimer(s)

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc.("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc.("S&P") and is licensed for use by The Northern Trust Corporation and its wholly owned subsidiaries. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

The Dow Jones Wilshire Indexes are calculated, distributed and marketed by Dow Jones & Company, Inc. pursuant to an agreement between Dow Jones and Wilshire and have been licensed for use. All content of the Dow Jones Wilshire Indexes © 2005 Dow Jones & Company, Inc. & Wilshire Associates Incorporated.

Standard and Poor's including its subsidiary corporations ("S&P") is a division of the McGraw-Hill Companies, Inc. Reproduction of S&P Index Alerts in any form is prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P sources, S&P or others, S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P gives not express or implied warranties, including, but not limited to, any warranties or merchantability or fitness for a particular purpose or use. In no event shall S&P be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of S&P Index Alerts.

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.

FTSE ® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data.

The Merrill Lynch Indices are used with permission. Copyright 2007, Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. The Merrill Lynch Indices may not be copied, used, or distributed without Merrill Lynch's prior written approval.

The Citi Index data is provided to you on an "AS IS" basis and you agree that use of the index data is at your sole risk. Citi Index makes no representations or warranties, express or implied, to you or any other person or entity, including without limitation any warranty of merchantability, originality, suitability or fitness for a particular purpose of the index data or any other matter and no warranty is given that the index data will conform to any description thereof or be free of omissions, errors, interruptions or defects. 4. In no event shall Citi Index be liable to you or any other person or entity for any direct, incidental, indirect, special or consequential damages (including, without limitation, lost profits or revenues, loss of data, loss of use or claims of third parties), arising out of or in any manner in connection with your use of (or inability to use) the index data, whether or not you have been advised of, or otherwise might have anticipated the possibility of, such damages. Without limitation on the foregoing, you acknowledge that the index data may be incomplete or condensed, is for information purposes only and is not intended as, and shall not be construed to be, an offer or solicitation with respect to the purchase or sale of any security. All opinions and estimates provided constitute judgments as of their respective dates and are subject to change without notice. Such data, information, opinions and estimates are furnished as part of a general service, without regard to your particular circumstances, and Citi Index shall not be liable for any damages in connection therewith. Citi Index is not undertaking to manage money or act as a fiduciary with respect to your accounts or any of your managed or fiduciary accounts and you acknowledge and agree that the index data does not and shall not serve as the primary basis for any investment decisions made with respect to such accounts.

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.

Pensions Administration Report	

Contact Officers	Nancy Leroux & Ken Chisholm, 01895 250847
Papers with this report	

This report is for information and provides an update on the administration of the London Borough of Hillingdon Fund of the LGPS.

RECOMMENDATIONS

It is recommended that Pensions Committee notes the update report.

Pension Administration Service

Pension administration is now fully under the management of Surrey County Council and the project to transition is nearing completion. It was a very well managed process and already significant improvements in customer service are apparent.

New processes and procedures have been established a good working relationship developed between the Surrey team and the small Hillingdon team. Early signs look promising for the future. The first pensioner payroll in November was completed on time and with few errors. Once the service settles down, regular performance reporting will be brought to Committee.

There is, however, a legacy issue which both teams are working closely on to resolve - the backlog of the 2,200 case on hold in the Capita system. These cases were not disclosed by Capita and did not come to light until after the transfer. These cases are currently being reviewed to determine they are progressed in priority order. In the main they relate to outstanding transfers; deferred benefit calculations and personal detail changes such as addresses. Any interest found to be due will be reclaimed from Capita.

Administration Performance

As mentioned above, the first performance report on the Surrey service will be brought to Committee in March. As Hillingdon Officers have access to the Surrey system, all performance data will be verified and we will ensure that relevant detail is provided to Committee.

The final months of the capita contract continued around 98% on the measured task, but as Committee are aware the relevance of that figure has been somewhat miss-leading. Up to the end of the contract, Capita had still failed to improve the performance on sending 'condolence letters', only recording 56% in September.

Early Retirement Statistics

The table below shows the number of employees, by category, who's LGPS benefits have been put into payment. In the case of redundancy and efficiency this relates to employees over 55 years of age. The earliest age a scheme member can retire voluntarily is age 55. As can be seen the number of early voluntary retirements remains at a high level.

	Redundancy	Efficiency	Ill Health	Voluntary over 55
2012/13	23	0	6	14
2013/14	50	0	3	45
2014/15	23	0	8	52
2015/16	19	0	6	68
2016/17 2nd Quarter	34	0	3	55

FINANCIAL IMPLICATIONS

There are no financial implications this report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

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

Document is Restricted

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.

Document is Restricted

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.

Document is Restricted

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 10

Document is Restricted

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.

Document is Restricted

This page is intentionally left blank