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Pensions Committee

Date: **MONDAY, 25 SEPTEMBER 2017**

Time: **6.00 PM**

Venue: **COMMITTEE ROOM 3 - 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)
Peter Davis
Beulah East
Tony Eginton

Published: Friday, 15 September 2017

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

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Pensions Committee Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.
2. To review the Investment Strategy Statement 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 agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.
5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.
6. 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.
7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
8. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
9. 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..
10. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
11. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
12. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.
13. 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

PART I - Members, Public and Press

PART II - Members Only

Pensions Committee

14 June 2017

Meeting held at Committee Room 5- Civic Centre, High Street, Uxbridge UB8 1UW

	Committee Members Present: Councillors Michael Markham (Vice-Chairman - In the Chair), Peter Davis, Beulah East, Tony Eginton and Susan O'Brien. **Apology:** Councillor Philip Corthorne (Councillor Susan O'Brien substituting). **Also Present:** David O'Hara (Advisor). **Pensions Board Members:** Councillor John Morse. **LBH Officers Present:** Tunde Adekoya, Sian Kunert, Nancy Le Roux and Khalid Ahmed.	
3.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** Councillor Tony Eginton declared a Non-Pecuniary Interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion on the item.	
4.	**MINUTES OF THE MEETINGS HELD ON 22 MARCH AND 11 MAY 2017** Agreed as accurate records.	
5.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** It was agreed that Agenda Items 7 and 8 would be considered in private.	
6.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** Consideration was given to a report which provided Members with an overview of fund performance as at 31 March 20017, an update on recent investment decisions and progress on the London CIV. The Committee was informed that the total size of the fund was £956m at 31 March 2017 which was an increase from £931m at the end of the last quarter. This represented an overall investment return over the quarter of 2.88% which was a relative underperformance of the benchmark by 0.26%.	

	Discussion took place on the Fund performance and Members were informed that the most notable attributer to the underperformance on investments had been Newton and Private Equity with a positive swing from GMO shortly before these funds had been disinvested. Outperformance over a one year rolling programme had been 1.55% ahead of the benchmark, with the largest contributions from UBS UK Equity and Ruffer Funds. The GMO mandate had been terminated and transferred into a passive portfolio. Members were reminded that that excess cash had been invested into the JP Morgan bond portfolio which had been agreed by this Committee at its meeting in March. In Part II of the agenda, discussion took place on possible options for future investment strategies as well as the performance of individual Fund Managers. Discussion took place on the uncertainties in the market and the overall financial climate and Members agreed not to make any decisions in relation to the investment strategy at this stage. An update was also provided on the progress of the London CIV. **RESOLVED:** **(1) That the Committee discussed and noted the performance update and asked that officers submit a further report to the next meeting on options which were available in respect of future investments in view of the current financial climate.** **(2) That the follow up activity to previous decisions and progress in the development of the London CIV be noted and a further report be submitted to the next meeting of the Committee.**	
7.	**PENSIONS ADMINISTRATION REPORT** The Committee was provided with an update on the administration of the London Borough of Hillingdon Fund of the Local Government Pension Scheme, both in relation to Surrey, and internally at Hillingdon. In addition, consideration was given to a draft Communications Strategy for the Pension Fund. Members were informed that Surrey was struggling to cope with the volume of issues which had been transferred from Surrey. Steps were being taken to increase staffing to clear the backlog of data and outstanding workloads which had been inherited from Capita. The Committee was informed that Uxbridge College would be merging with Harrow College from 1 August 2017 with increased contributors into the Hillingdon Pension Fund. Discussions were still ongoing.	

	Discussion took place on the Communications Strategy and suggested amendments were made which included in the Mission Statement replacing the term "customer focused" in the first bullet point, to "stakeholder focused". In addition, in relation to the Communication Aims and Objectives, the final bulleting should read "Annually evaluate the effectiveness of communications and shape future communications appropriately". **RESOLVED:** **(1) That, subject to the amendments outlined above, approval be given to the Communications Strategy for the London Borough of Hillingdon Pension Fund.**	
8.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee was provided with a report, prepared by KMPG, on investments held by the fund. **RESOLVED:** **(1) That the information be noted, together with the performance of Fund Managers.**	
9	**PENSION FUND RISK REGISTER** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The report provided details of the main risks to the Pension Fund which enabled the Committee to monitor and review. **RESOLVED:** **(1) That the Committee considered the Risk Register and noted the measures which were being taken to mitigate the indentified risks.**	
	The meeting, which commenced at 7.00pm closed at 7.45pm	

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.

External Auditor Report on the Pension Fund Accounts

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	EY: Report on the financial statement audit for the year ended 31 March 2017 Pension Fund Annual Report 2016/17

SUMMARY

The attached draft report details the work of the External Auditor on the audit of the 2016/17 Pension Fund Accounts. The auditor has indicated that, subject to clearance of final points they expect to issue an unqualified audit opinion on the financial statements.

Also attached to this report is a draft of the Pension Fund Annual Report for 2016/17 for Committee approval for publication which includes the Pension Fund Accounts from page 33.

RECOMMENDATIONS

1. **To note the auditor's findings on the audit of the Pension Fund accounts for 2016/17.**
2. **To delegate authority to the Pension Committee Chairman to sign the Pension Fund accounts on completion of the audit.**
3. **To approve the Fund Annual Report for publication.**

BACKGROUND

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

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

The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, EY LLP, which must be completed by 30 September 2017.

Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Pension Fund Accounts also requires the approval of Pensions Committee. This report on the Pension Fund accounts will also be taken to Audit Committee on 27 September 2017.

SCOPE OF THE EXTERNAL AUDIT

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

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

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

COMMENT ON THE CONTENTS OF THE AUDITOR'S REPORT

The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and reports satisfactorily on the key audit risks. There are no uncorrected misstatements in the Pension Fund accounts. There are 3 changes to disclosure notes from the draft accounts to the final audited version; however these do not impact on the primary statements or the overarching position of the fund.

ANNUAL REPORT

The fund is required to produce an Annual Report and to publish by 1 December each year. The draft report for 2016/17, attached, contains information on the Fund's activities over the last year and is brought to Committee for consideration and approval to publish.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

London Borough of Hillingdon Pension Fund
Audit results report

Year ended 31 March 2017

Building a better working world

Private and Confidential

01 September 2017

Dear Committee Members

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 30 September 2017.

This report is intended solely for the use of the Pensions Committee and Audit Committee, other members of the Fund, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Tim Sadler

Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit Committee, the Pension Fund Committee, and other members of the Fund and management of London Borough of Hillingdon in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, the Pension Fund Committee, and other members of the Fund and management of London Borough of Hillingdon those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, the Pension Fund Committee, and other members of the Fund and management of London Borough of Hillingdon for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.

01 Executive Summary

Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the16 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £8.012m. We reassessed this using the actual year-end figures, which has increased this amount to £9.567m. The threshold for reporting audit differences has also increased from £6.077 m to £7.715 m for corrected misstatements. The basis of our assessment of materiality has remained consistent with prior years at 1 % of Net Assets.

Status of the audit

We have substantially completed our audit of London Borough of Hillingdon's Pension Fund financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- completion of subsequent events review
- review of the final version of the financial statements and annual report
- receipt of the signed management representation letter
- clearance of any outstanding review comments

Executive summary (continued)

Objections

We have not received any objections to the 2016/17 accounts from members of the public.

Audit differences

We currently have no unadjusted audit differences.

We have identified a number of audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of London Borough of Hillingdon Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Pension Fund Committee or the Audit Committee.

Executive summary (continued)

Other reporting issues

We have reviewed the information presented in the Annual Report for consistency with the audited financial statements and our knowledge of the Fund. We have no matters to report as a result of this work.

We have no other matters to report.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.
We did however note that as part of our review of the bank reconciliations that we were unable to comment upon the timeliness of the reconciliations as they were not dated. There was no clear evidence that they had been reviewed.
We would recommend that all reconciliations are signed off as dated and reviewed as evidence of timely review.

Independence

Please refer to Appendix B for our update on Independence.

02 Areas of Audit Focus

Audit issues and approach: Risk of Incorrect Valuation of Investments

Risk of Incorrect Valuation of Investments

What are our conclusions?

We have concluded our work in respect of this Significant Risk and have not identified any material errors.

What is the risk?

Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments, including Private Equity funds.

By their very nature these investments are more difficult to value and their valuation includes an element of judgement.

Significant Risk

What did we do?

Our approach to Investment Valuation included the following:

- We obtained third party confirmations for investment valuations from both the custodian and the investment manager;
- We obtained the latest audited accounts for these funds and reviewed any comments made by their auditors;
- We compared the valuations as at the date of the audited reports and as at 31 March 2017 and we investigated any unexpected fluctuations;
- We reviewed investment valuation policies used by Northern Trust on whose valuation the PF primarily relies;
- We obtained the latest available ISAE 3402 reports for the custodian and the investments managers and reviewed the controls environment in place around those policies.

Audit issues and approach: Management Override

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

What is the risk?

Risk of management override

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What did we do?

Our approach to Management Override included the following:

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rational for any significant unusual transactions.

Audit issues and approach: Pensions Administrator Transition

Pensions Administrator Transition

What are our conclusions?

As a result of the work performed we did not identify any material issues in respect of the transition.

What is the risk?

Pensions Administrator Transition

The Pension Fund changed the provider of pensions' administration services from Capita to Surrey County Council in year.

Given the size of the Fund and the number of members there is a risk that not all data was correctly transferred to the new administrator.

There is a further risk that, in the first few months as new administrator, procedures and controls may not yet been embedded and thus errors may be more likely to occur.

Significant Risk

What did we do?

Our approach to the transition of pensions administrator included the following:

- We reviewed the nature of the new agreement with Surrey County Council;
- We reviewed project planning documents and minutes in respect of the transition. This included reviewing correspondence from the external organisation (Aquila Heywood) who oversaw the data transfer;
- We completed analytical procedures to establish any deviations in membership numbers and values of benefits payments from expected values;
- We reviewed minutes of Pensions Committee meetings to understand any potential issues arising from the transition.
- We tested an extensive sample of benefits payments made to members back to supporting documentation and the system.

Audit issues and approach: Investment Manager Transitions

Investment Manager Transitions

What are our conclusions?

We have completed our work in this area and have not identified any material issues.

What is the risk?

Investment Manager Transitions

We understand the significant changes to investments are:

- Transfer of investment portfolio from State Street to Legal and General;
- Transfer of investment portfolio from Kempen to Newton;
- Transfer of investment portfolio from GMO to Legal and General;
- Transfer of the Ruffer portfolio into the London Collective Investment Vehicle

With any investment changes there is an audit risk that transactions may be omitted from the financial statements or not be reported fairly.

What did we do?

Our approach to investment manager transitions included the following:

- We reviewed the audit trail of these movements and proceeds and verified significant transactions to external audit evidence;
- We obtained adequate assurance to support that the changes have been accounted for and disclosed as expected;
- We obtained and reviewed the investment manager's contracts to understand the nature of the new investments, and any relevant audit risks
- We obtained external confirmations to support the investment valuation.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise:
the Fund Account,
the Net Assets Statement; and
the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Responsibilities of the Director of Finance set out on page 10, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Draft audit report (continued)

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and the amount and disposition of the fund's assets and liabilities as at 31 March 2017; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the London Borough of Hillingdon Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Draft audit report (continued)

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Tim Sadler (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Reading
25 September 2017.

The maintenance and integrity of the London Borough of Hillingdon web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

04 Audit Differences

Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £7.175m relating to Hillingdon Pension Fund in our summary of misstatements table below.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- In Note 15 (Fair Value) there was an adjustment between Level 1 and Level 2 in the Fair Value Hierarchy. The total transfer between these categories is as follows:
  2016/17: Level 1 £725.423m to £140.936m & Level 2 £114.916m to £699.403m.
  2015/16: Level 1 £592.570m to £176.478m & Level 2 £106.368 m to £522.459m.
  These are disclosure adjustments only and there is no impact on the primary statements.

- In Note 17 (Nature and Extent of Exposure to Risks Arising from Financial Instruments) the prior year table 'Assets exposed to currency risk' was amended from £8.512m to £139.996m. This error arose as a result of an error in one of the formula computation fields. This is a disclosure adjustment only and there is no impact on the primary statements.

- In Note 17 (Nature and Extent of Risks Arising from Financial Instruments) the amount for Bonds (Pooled Funds) was amended from £133.160m to £148.817m. This error was identified by officers. Officers identified an error in the classification of an asset by the custodian and restated this Note. This is a disclosure adjustment only and there is no impact on the primary statements.

There are currently no uncorrected misstatements.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Report

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2016/17 with the audited financial statements.

Financial information in the Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

We have nothing to report in respect of these areas.

06 Assessment of Control Environment

Assessment of control environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We did however note that as part of our review of the bank reconciliations that we were unable to comment upon the timeliness of the reconciliations as they were not dated. There was no clear evidence that they had been reviewed.

We would recommend that all reconciliations are signed off as dated and reviewed as evidence of timely review.

07 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee of UK clients. We have done this by:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan presented to the Audit Committee on 16 March 2017.
Significant findings from the audit	• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process	Audit Results Report presented to the Pension Fund Committee on 25 September 2017 and Audit Committee on 27 September.
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Significant corrected misstatements, in writing	Audit Results Report presented to the Pension Fund Committee on 25 September 2017 and Audit Committee on 27 September.

Appendix A

Required communications	What is reported?	Our Reporting to you: When and where
Fraud	▸ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Fund ▸ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▸ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	Significant matters arising during the audit in connection with the Fund's related parties including, where applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and/or regulations ▸ Difficulty in identifying the party that ultimately controls the entity	We have no matters to report.
Subsequent events	▸ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.	We have asked management and those charged with governance. We have no matters to report.
Other information	▸ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.	We have no matters to report.
External confirmations	▸ Management's refusal for us to request confirmations ▸ We were unable to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations.
Consideration of laws and/or regulations	▸ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▸ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.
Independence	Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information on the firm's general policies and processes for maintaining objectivity and independence Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	Audit Plan presented to the Audit Committee on 16 March 2017. Audit Results Report presented to the Pensions Committee on 25 September and Audit Committee on 27 September.

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 16 March 2017.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Pensions Committee on 25 September 2017 or at the Audit Committee on 27 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	TBC*	21,000	21,000

- Additional fee in respect of Significant Risks identified in Audit Plan. Proposed additional fee not yet determined. In line with the requirements of the Public Sector Audit Appointments Ltd (PSAA) any additional fee will need to be approved by the PSAA before being invoiced. We will discuss the additional fee with key officers before submitting this to the PSAA.

Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Receipt and checking of final version of the financial statements incorporating agreed audit adjustments	Receipt and checking of final version of the financial statements incorporating agreed audit adjustments	EY and management
Management representation letter	Receipt of signed management representation letter	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Clearance of any outstanding review comments	Team to work through remaining open review comments and close down	EY and management

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

25 September 2017

Tim Sadler
Executive Director
Ernst & Young LLP
19 Threefield Lane
Southampton
SO14 3QB

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Hillingdon Pension Fund (“the Fund”) for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2017, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Fund's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Fund.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings on the following dates: 14 June 2017 for the Pensions Committee and 29 June 2017 for the Audit Committee.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

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

F. Subsequent Events

1. As described in Note 24 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises The London Borough of Hillingdon Pension Fund Annual Report 2016/17.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Derivative Financial Instruments

1. We confirm the Fund’s statement of investment principles has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions.

2. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the Fund at the year end and the terms and conditions relating thereto.

3. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of ‘over the counter’ derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2017 and dated 28 April 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

J. Ownership of Assets

1. The Fund has satisfactory title to all assets appearing in the Net Asset Statement, and there are no liens or encumbrances on the Fund's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Fund has satisfactory title appear in the Net Asset Statement.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Purchase and Sales Commitments

1. Losses arising from purchase and sales commitments have been properly recorded and adequately disclosed in the financial statements.

2. At the year end, the Fund had no unusual commitments or contractual obligations of any sort which were not in the ordinary course of business and which might have an adverse effect upon the Fund (e.g., contracts or purchase agreements above market price; repurchase or other agreements not in the ordinary course of business; material commitments for the purchase of property, plant and equipment; significant foreign exchange commitments; open balances on letters of credit; purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices; losses from fulfilment of, or inability to fulfil, sales commitments, etc.).

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

L. Use of the Work of a Specialist

We agree with the findings of the specialists that we used to evaluate the valuation of investments and the classification of assets under fair value levelling requirements and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Management representation letter

London Borough of Hillingdon Management Rep Letter 2016-17

Management Rep Letter

Yours faithfully,

Paul Whaymand
Corporate Director of Finance

Cllr Philip Corthorne

Chairman of Pensions Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

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London Borough of Hillingdon Pension Fund Annual Report 2016/17

HILLINGDON
LONDON

www.hillingdon.gov.uk

CONTENTS

CHAIRMAN'S FOREWORD

By the end of 2016/17 the Fund had grown to a record level of just under £957 million and for the three years to March 2017 the Fund returned an annualised 9.96% overall. Membership of the scheme also continued to increase with an increase of 4% over the previous year. The scheme is however maturing with new contributions level with monies paid out in benefits. As a result, the cashflow of the Fund will continue to be a key focus for Committee over the coming months.

Monitoring the Fund's investments has kept Committee busy over the last 12 months, particularly looking at opportunities to invest via the London Collective Investment Vehicle (CIV). Last year we reported that the Council took the decision to join with the other 32 London Boroughs to form the CIV. The CIV was formally established as an Authorised Contractual Scheme (ACS) and is the vehicle through which all of the Fund's assets will be pooled, although it is expected to take 10 to 15 years to achieve this goal. Over this year, in addition to the investment in the London CIV Ruffer Fund, we also transitioned all passive holdings to the Legal & General Fund, managed via the CIV, generating significant fee savings for the Fund. As 31 March 2017 41% of the Fund's assets were held with the CIV. We have taken active participation in the development of the London CIV this past year with membership on the joint committee and on the Investment advisory committee.

The local Pension Board is now well established, having been in operation for two years. The key work of the Pension Board to date has related to improving Fund governance through refreshing and drafting policy documentation and in ensuring compliance with the Pension Regulator's code of practice. Pension Board have undertaken some significant pieces of work since inception including: development of a policy to Report Breaches of the Law; development of a refreshed Communication Strategy; supporting the development and introduction of an Administration Strategy; a review of an initial self assessment against Pension regulator's compliance checklist and agreement of actions for improvement; and maintaining a watching brief on the transition of Pensions Administration from Capita Employee Benefits to Surrey County Council.

In November, the new administration arrangements came into effect. Day-to-day administration is now undertaken by the pension team at Surrey County Council with whom we have a collaborative working arrangement. The transfer from Capita was a major project and it will take some time for the new arrangements to bed in and to reduce the backlog of work they transferred. However, early performance has been encouraging.

Cllr Philip Corthorne
Chairman Pensions Committee

FUND GOVERNANCE and STATUTORY INFORMATION

FUND GOVERNANCE

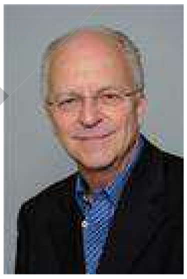
The London Borough of Hillingdon Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the regulations are set nationally, but the Fund is administered locally. As the Administering Authority, the London Borough of Hillingdon has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Pensions Committee ('the Committee'), which is the formal decision making body for the Fund. The Corporate Director of Finance has delegated authority for the day to day running of the Fund. The local Pension Board ('the Board') was established in 2015 to assist the scheme manager in securing compliance with regulations relating to the governance and administration within the requirements set by the Pension Regulator.

Pension Committee

The Pension Committee consists of five Councillor Members. During 2016/17 these were:

Councillor
Philip Corthorne
(Chairman)

Councillor
Michael Markham
(Vice-Chairman)



Councillor
Peter Davis

Councillor
Tony Eginton
(Labour Lead)

Councillor
Beulah East

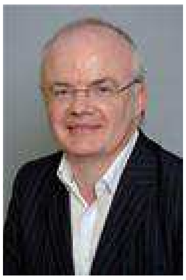
The Committee meets quarterly to discuss investment strategy, legislative changes and developments that may affect the fund, and to review the performance of the Fund Managers and the Fund Administrators. Committee training has been incorporated into these quarterly meetings to ensure that Committee Members maintain their knowledge and skills at a sufficient level to enable them to discharge their duties in relation to the Fund.

Local Pension Board

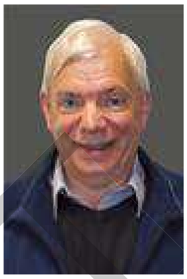
The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee meets on a quarterly basis. The members of the Board during 2016/17 were:

Employer Representatives:

Councillor
David Simmonds
(Chairman)



Councillor
Alan Chapman
(Vice-Chairman)



Councillor
John Morse

Scheme Member Representatives:

Venetia Rogers	Active Member
Andrew Scott	Active Member
Roger Hackett	Retired Member

The Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee complies effectively and efficiently with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice.

Corporate Director of Finance

Paul Whaymand in his role of Corporate Director of Finance has delegated responsibility for the day-to-day running of the Pension Fund.

FUND MANAGEMENT and ADVISORS

The work of the Committee is supported by a number of officers, advisors and external managers.

Officers Responsible for the Fund

The Strategic Finance team ensures that both the Committee and Board receive relevant advice on investment strategy, monitoring of the performance of the fund and on administration matters, in addition to undertaking the accounting duties of the Fund.

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

Scheme Administration

Administration of the scheme was contracted out to Capita Employee Benefits (CEB) until 31st October 2016. From 1st November 2017, Surrey County Council provide the pensions administration under delegated authority for the London Borough of Hillingdon. Surrey maintains pension scheme membership records and calculates benefits.

Email: myhelpdeskpensions@surreycc.gov.uk
Telephone: 020 8213 2802
Address: Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston upon Thames, KT1 2DN

Fund Custodian and Performance Monitoring

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

Northern Trust
50 Bank Street
Canary Wharf
LONDON
E14 5NT

Fund Actuary

The Fund's actuary is Hymans Robertson

Catherine McFadyen FFA
Hymans Robertson LLP
20 Waterloo Street
GLASGOW
G2 6DB

Fund Managers

Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2016/17 the Fund used the following external managers:

Fund Manager
Adam Street Partners
AEW UK
GMO Investments (Defunded February 2017)
JP Morgan Asset Management
Kempen International Investments (Defunded June 16)
Legal & General Investment Management (Funded October 2016)
London CIV (Funded June 2016)
LGT Capital Partners
M&G Investments (Direct Investment)
Macquarie Investment
Newton Investment Management
Permira LLP
Ruffer LLP (Assets Transferred to management under London CIV June 2016)
State Street Global Advisors (Defunded October 2016)
UBS Global Asset Management

Advisors to the Fund

The Fund's Investment Advisor is KPMG who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

David O'Hara
Director
Investment Advisory
Tax & Pensions
KPMG LLP (UK)
191 West George Street
GLASGOW
G2 2LJ

In addition the Fund has an Independent Advisor - Scott Jamieson.

The Fund has also appointed AON Hewitt to provide support on governance arrangements to the Board.

Aon Hewitt
25 Marsh Street
BRISTOL
BS1 4AQ

Legal Services

Legal support to the Fund is provided in-house by the Council. The Council's Borough Solicitor is Raj Alagh.

Auditor

The Fund's external auditor, appointed by the Public Sector Audit Appointments (PSAA) is Ernst & Young.

Ernst & Young LLP
Wessex House
19 Threefield lane
SOUTHAMPTON
SO14 3QB

Banker

Banking services are provided to the Fund by the Council's banker Lloyds.

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

AVC Provider

The Fund's provider for additional voluntary contributions is Prudential.

Prudential AVC Customer Services
Prudential
CRAIGFORTH
FK9 9UE

OVERVIEW OF THE SCHEME

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The scheme move to a career average revalued earning (CARE) scheme, from a final salary scheme in 2014 as a result of the Local Government Pension Scheme Regulations 2013. In 2016/17 the regulations surrounding investments were amended with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Hillingdon is the Administering Authority for the Fund. Pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. The benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. Contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2016/17 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined. The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014. It should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining Scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

Contracting Out Status (with effect from 1 April 2002 until 5 April 2016) - The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions - A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. This is run separately to the Hillingdon Pension Fund. Further details are available from the Prudential Pensions Connection Team on 0800 032 6674.

REGULATIONS

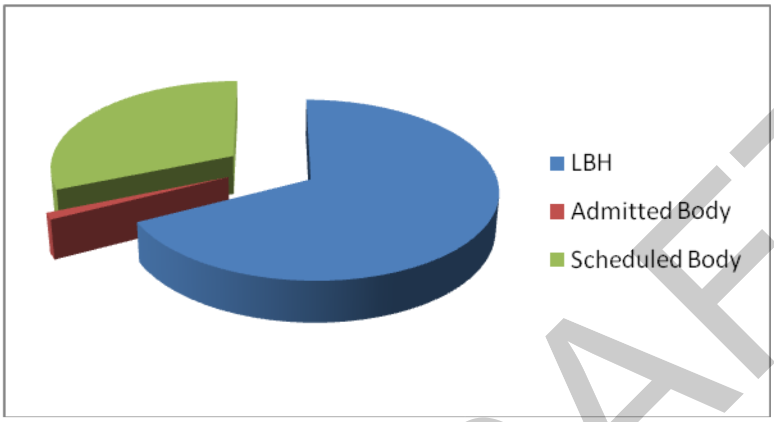
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

FUND MEMBERSHIP

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

Active Membership

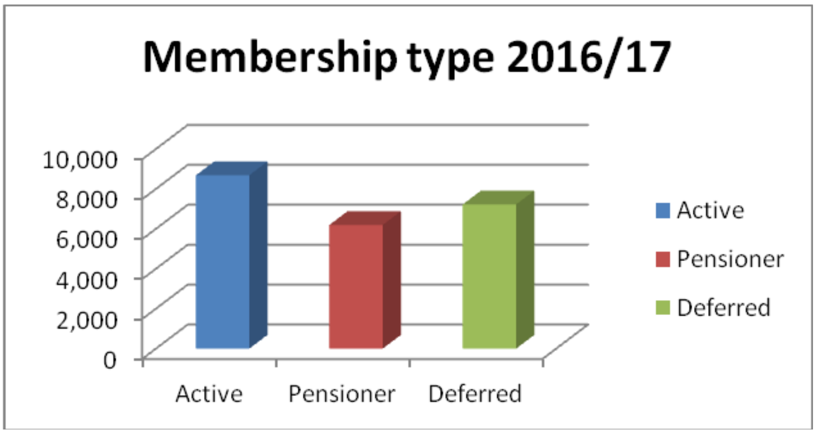
As at 31 March 2017 there were 8,684 members actively contributing to the Fund. The diagram below shows a breakdown by employer type:



General Scheme membership

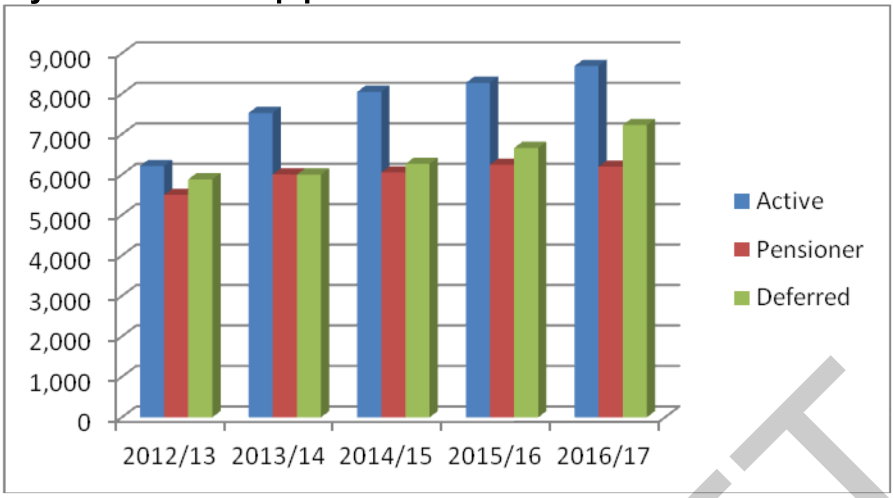
Membership of the scheme is split between
- Active members - those still contributing to the scheme;
- Deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme; and
- Pensioner members - who are both former active members now drawing their benefits and dependents of former active members.

The membership of the scheme analysed over the relevant membership profile is shown below:



As can be seen from the following chart, active membership continued to grow over the last financial year. Active membership increased by 417 and overall scheme membership increased year-on-year by 4% to 22,103 scheme members. The membership profile over the last five years is shown below:

5 year membership profile

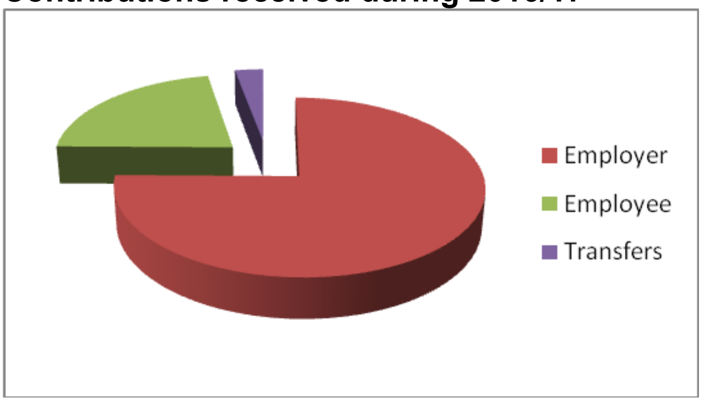


CONTRIBUTIONS

Total contributions (including transfers) into the Fund during 2016/17 amounted to £42.7m compared to £42.0m for the previous year. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund actuary and the rates that applied during 2016/17 were set from the 2013 valuation.

The chart below shows the split between employee and employer contributions and transfers. Employers contributed 75% of total contributions during 2016/17.

Contributions received during 2016/17



The current employer contribution rates and the total contributions paid by each Employer in 2016/17 are shown in the table below.

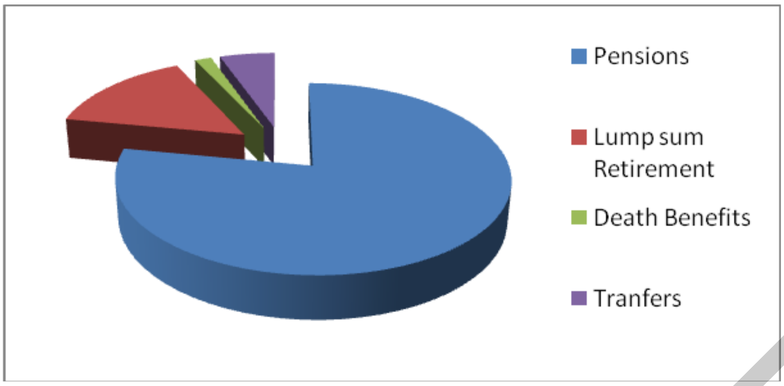
Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	23,466,357.17	21.1
Barnhill Academy	Scheduled Body	280,409.68	23.4
Belmore Academy	Scheduled Body	163,852.36	22.8
Bishop Ramsey Academy	Scheduled Body	285,594.52	26.3
Bishopshalt Academy	Scheduled Body	306,635.48	29.6
Charville Academy	Scheduled Body	223,312.76	35.7
Coteford Academy	Scheduled Body	122,188.71	27.4
Cowley St. Laurence School	Scheduled Body	137,851.53	24.8
Cranford Park Academy	Scheduled Body	266,123.40	28
Douay Martyrs Academy	Scheduled Body	246,241.09	30.3
Eden Academy	Scheduled Body	179,990.69	25.1
Global Academy	Scheduled Body	15,421.48	17.3
Grangewood School	Scheduled body	287,326.29	25.1
Guru Nanak Academy	Scheduled Body	299,972.02	21.2
Harefield Academy	Scheduled Body	210,292.66	19
Heathrow Aviation	Scheduled Body	49,750.22	22.1
Haydon Academy	Scheduled Body	341,671.18	22.2
Hillingdon Primary School	Scheduled Body	178,321.74	22.5
John Locke Academy	Scheduled Body	51,242.52	17.7
Lake Farm School	Scheduled Body	79,410.51	18.1
Laurel Lane Academy	Scheduled Body	118,568.13	24.8
London Housing Consortium	Scheduled Body	214,757.21	21.1
Moorcroft School	Scheduled Body	212,440.31	25.1
Nanaksar Primary School	Scheduled Body	32,708.65	15.3
Northwood Academy	Scheduled Body	100,091.89	21.7
Park Federation	Scheduled Body	69,283.56	18.1
Pentland Field School	Scheduled Body	207,831.93	25.1
Pinkwell School	Scheduled Body	226,360.97	24.3
QED - Queensmead School	Scheduled Body	19,321.38	21.8
Queensmead Academy	Scheduled Body	259,189.68	24.3
Rosedale Hewens Academy	Scheduled Body	277,105.88	24.5
Ruislip High School	Scheduled Body	218,986.81	21.5
Ryefield Primary School	Scheduled Body	166,969.15	21.1
Skills HUB	Scheduled Body	116,614.87	36.9
St. Matthews Primary School	Scheduled Body	124,791.02	24.8
St. Martins primary School	Scheduled Body	28,595.90	24.8
Stockley Academy	Scheduled Body	160,121.93	19.4
Swakeleys Academy	Scheduled Body	200,601.71	24
Uxbridge College	Scheduled Body	915,450.15	17.8
Uxbridge Academy	Scheduled Body	281,081.51	21.5
Vyners Academy	Scheduled Body	236,939.06	28.7
Willows Academy	Scheduled Body	36,796.19	27.3
Wood End Academy	Scheduled Body	236,904.27	24.5
Young Peoples Academy	Scheduled Body	92,254.85	28.6
Bellrock	Admitted Body	38,182.92	29
Braybourne Facilities	Admitted Body	6,698.18	29.3
Churchill (was Mitie Cleaning)	Admitted Body	22,923.56	21
Cucina - Haydon Academy	Admitted Body	38,773.23	28.4
Greenwich Leisure	Admitted Body	88,414.44	16.8

Hayward facilities	Admitted Body	3,421.36	34.2
Heathrow Travel Care	Admitted Body	28,334.96	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	43,090.53	19.1
Kingdom Security	Admitted Body	13,398.88	26
Mitie Facilities Management	Admitted Body	25,416.62	21
Taylor Shaw	Admitted Body	35,171.14	24.7
Taylor Shaw (Caterlink)	Admitted Body	1,882.65	16.9
Taylor Shaw (Caterplus)	Admitted Body	18,153.03	31.1
Total		**32,109,594.52**	

BENEFITS

The benefits paid out from the Fund comprise annual pensions, lump sum retirement payments, death benefits and transfers to other funds. Total benefits paid out during 2016/17 amounted to £41.6m, a decrease of £0.9m compared to the previous year.

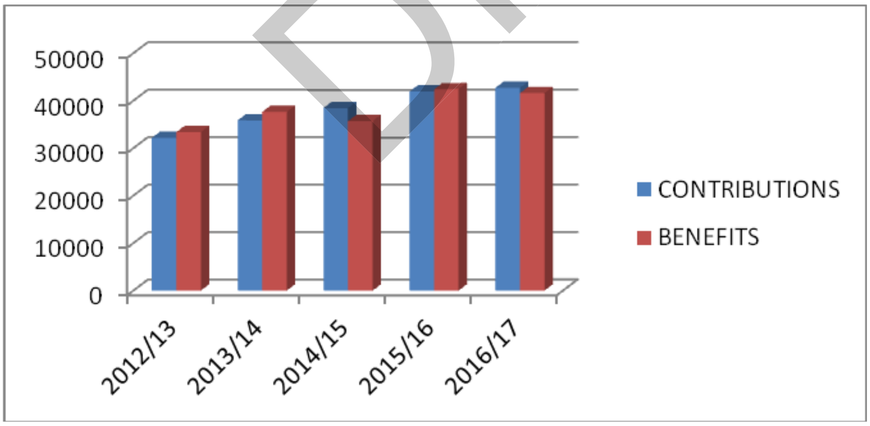
Benefits paid during 2016/17



CASHFLOW

Looking at the comparison between contributions received and benefits paid out over the last five years, it can be seen that while contributions received have continued to grow, benefits payments have also continued to grow, with varying differences over the years. Over the last year figure there was £1.1m more received in contributions than paid out in benefits.

Contributions Received against Benefits Paid



Management Expenses

Management expenses for 2016/17 were £8.4 million, an increase of £2.0 million compared to 2015/16. The majority if this increase is attributable to the big increase in market valuation of investment assets, which form the basis of investment fund management charges incurred by the fund. In 2016/17 the market value of investments appreciated by £138 million, thus incurring greater management fees.

Whilst the positive cash-flow in member dealings is currently favourable to the fund, cash-flow may become an increasing concern for the Committee in the next few years.

Existing strategies are in place to address these concerns, in form of a very defensive investment portfolio, including a number of income generating investments that will reduce the necessity to sell investments should there be a sustained cash-flow shortfall. The ongoing strategy will continue to focus on generating income to meet cash-flow requirements.

PERFORMANCE REVIEWS and REPORT of the FUND ACTUARY

INVESTMENT REVIEW

Market background for the year ended 31 March 2017

Economic Summary

The financial year has seen two political events which have more than surprised the markets. In June 2016 the UK voted to leave the European Union and then five months later, Donald Trump was elected the 45th President of the United States.

The former saw an instant fall in sterling and UK equity indices tumble. The Bank of England took immediate action to settle the markets by reducing interest rates and increasing quantitative easing. Following the initial reaction, UK equities steadily improved, making gains over the year; whilst economic growth figures continued to be positive, challenging the forecasts of the economists. The fall in sterling benefited exports and reinforced the service sector as tourists took advantage of their improved buying power. However inflation began to rise as the increased price of imports started to take hold. The Bank of England has said that it intends to look through any short-term inflationary pressure due to currency and hopes to hold interest rates at their historic lows in order to bolster the economy.

In November 2016 President Trump took office and with his promise of protectionism, the impact on economies around the world may still be profound. In the short-term however, markets have again been positive with investors seeing Trump's pro-business agenda favourably and inflows into US assets. His policy of lower taxes and higher public spending could see a sustained rise in US bond yields and with large bond maturities requiring refinancing, this will only add to the upward pressure.

Within Europe, economic growth as a whole was strong with recovering results being announced and equity returns reflecting this position. However with several government votes taking place and the populist agenda gaining ground, political upheaval may prove an obstacle to the region's continued improving position.

Key asset class information

In general, despite the political shocks, equity markets have delivered solid returns throughout the year. Global equities delivered annual returns of 26.11% with the FTSE All share (UK) providing returns of 21.95% and FTSE North America 34.97%. Other regions also had positive results with Europe (ex UK) up 28.31%, whilst Asia Pacific and Emerging Market indices showed gains of 34.68% and 35.58% respectively.

Other asset classes also showed gains throughout the year, albeit at subdued levels comported to equities, with the LB Hillingdon Fixed Income benchmark delivering 4.61% and Property benchmark showing 3.69%.

If one follows the consensus of a generally improving world economy, equities could continue to deliver positive returns, despite their current high valuation and headwinds through Brexit, European and Trump uncertainties. With increased borrowing requirements, yields on UK and US government bonds are likely to increase which may prove a difficult environment for bond traders. The biggest test for the UK economy will be its negotiations and exit from the EU, which is fraught with uncertainly and unchartered challenges.

Investment Strategy

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

Fund Managers

AEW were appointed in June 2014 with a direct property mandate to complement the existing pooled property investment strategy of UBS and generate premium returns commensurate with their investment cycle and strategy. AEW looks to build diversified portfolios of small lot commercial properties. Lot size is typically in the £3-5m range. Properties are located all over the UK with negligible exposure to London. The manager seeks to find properties that are well located and subject to strong tenant demand. The manager looks to add significant value through asset management e.g. re-positioning, refurbishing properties at lease expiry and has a bias to shorter leases because of the greater asset management opportunities that can arise. Efforts are focused on generating income for investors.

JP Morgan mandate, a corporate bond portfolio has been in place for just over 4 1/2 years and investments with the manager were switched from Strategic Bond Fund to the Global Bond Opportunities Fund, with higher rate of returns and same level of fees. The investment objective of the new fund is to achieve a return in excess of benchmark by investing in an unconstrained portfolio of debt securities and currencies and using financial derivative instruments where appropriate.

London CIV is a collective investment vehicle set up by all London boroughs in line with DCLG directive to pool investment assets of local authority pension funds strive to reduce cost of managing assets through economies of scale. As part of the process, the fund's mandate with Ruffer was transferred in July 2016 to be managed by the London CIV as a consolidated mandate with Ruffer, where the Council benefits from reduced fees. The plan is for all fund assets to be migrated into management by LCIV in the future and further reduce fund management costs. Ruffer is an Absolute Return manager and the Manager has two goals: not to lose money on a rolling 12 month basis and to grow funds at a rate higher than would be achieved by depositing in cash. The asset allocation is driven by two selections: those investments likely to deliver the required growth over the longer term ('Greed' assets) and those which should rise in response to conditions under which the Greed assets lose value ('Fear' assets). Historically Fear and Greed weightings have been broadly comparable.

LGIM - The manager was appointed in October 2016 to replace SSgA through partnership with the LCIV benefiting from lower negotiated fees to manage passive assets. Its aim is to capture benchmark returns by replicating the indices backing the assets.

M&G - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. As at the end of March 2017, all three invested funds were fully drawn down. The pension fund has already received more than the value of cash invested in the M&G Companies Fund, including promised returns on investment. Some returns have also been received from investments in the Debt opportunities fund, whilst the Debt Opportunities fund II has only just been fully invested in the financial year under review. Repayment of invested cash in all three funds should accelerate over the next year as they mature.

Macquarie - The mandate spans four regional funds – Europe, China, India and the US. Macquarie tends to pursue large scale projects often directly operating the assets invariably in partnership with local asset owners, wealthy individuals.
Since Inception of the portfolio, progress has been steady with allocation to all four funds are about 75% - 90% drawn-down. Returns on investments with this manager are expected to start coming back in the next year.

Newton was appointed in January 2013 with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable in excess of contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate any assets. The manager seeks to achieve increasing annual distributions together with long-term capital growth from investing predominantly in global securities. At purchase, stocks must have a yield at least 25% above the prevailing market yield. From the eligible subset, stocks are selected along a range of thematic lines e.g. those that should benefit from deleveraging within the broader economy. The manager adopts an unconstrained approach to stock selection which results in variances against the world equity index over shorter time periods. The fund has increased the total investments managed by Newton from consolidating the global equities income manage into one, disinvesting from Kempen in June 2016.

Permira were appointed in November 2014 and aims to deliver a superior return from lending directly to corporate borrowers. The manager will generally lend on a fully secured basis although may lend sparingly on a weaker basis. To augment the lending rate, Permira will generally secure arrangement fees in respect of each loan advanced. The manager will normally secure strong position or fully control the board of most companies it lends money. In June 2016 Pension Committee agreed to invest in a second direct lending strategy with, Permira Credit Solutions III.

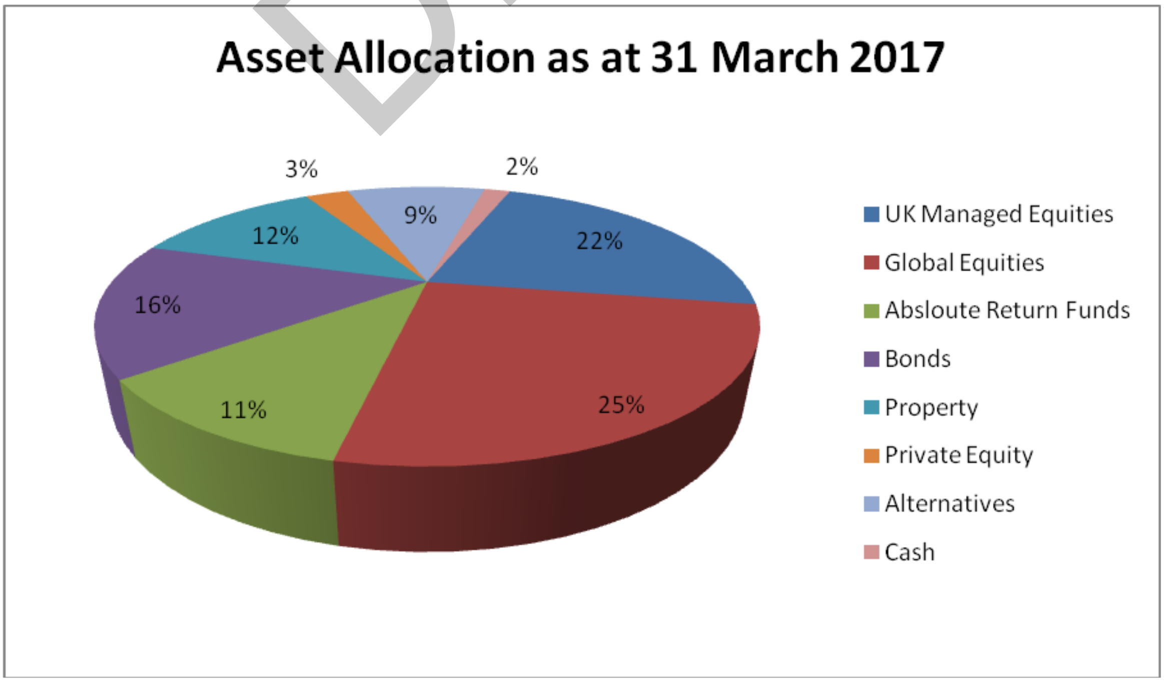
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 2.9% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification. The majority of the investments are being returned and should be wound down over the next three to five years. There are currently no plans to make further commitments to this asset class by the Pension Committee, but the decision could be reviewed if it meets the future strategic direction of the fund.

UBS manages UK equities using a value approach to stock selection. The manager's core belief is that success will come from adopting a robust investment and valuation approach applied consistently across the economic and stock market cycles.

UBS Property - The property mandate managed by UBS operates a fund of funds UK property structure. The manager has full discretion to invest in both its own in-house pooled property fund and those of other third party fund managers. The aim is to keep the portfolio investments diversified, thus mitigating concentration risks.

Fund Value and Asset allocation

At 31 March 2017 the total value of the pension fund investment assets and liabilities was £955,190k. The following diagram identifies the allocation by asset class:



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity investments during the year. The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2017.

INVESTMENT MANAGER	as at 31 March 2017		as at 31 March 2016	
	£'000	%	£'000	%
Adams Street	17,532	1.84	19,195	2.37
AEW UK	47,565	4.98	36,094	4.46
GMO	0	0.00	62,041	7.67
JP Morgan	54,622	5.72	36,603	4.53
Kempen	0	0	87,317	10.81
LGIM	287,498	30.10	0	0.00
LGT	9,596	1.00	10,887	1.35
M&G	22,447	2.35	39,150	4.84
London CIV	104,454	10.94	0	0.00
Macquarie	27,002	2.83	19,805	2.45
Newton	137,948	14.44	30,395	3.76
Permira	38,233	4.00	20,634	2.55
Ruffer	0	0	92,546	11.44
State Street (SSgA)	0	0	179,997	22.26
UBS Equities	130,119	13.62	97,271	12.03
UBS Property	68,499	7.17	71,112	8.79
Other	9,675	1.01	5,603	0.69
Total	**955,190**	**100.0**	**808,650**	**100.00**

Note: Includes other transition assets, pending trades and recoverable tax.

The largest five holdings in the fund as at 31 March 2017 were:

Top 5 Holdings	Market Value as at 31 March 2017 £000s	Percentage of Fund Value
BNY MELLON FD MNGR NEWTON GLOBAL INC X NET ACC	137,948	14.44%
LONDON LGPS CIV LT RF ABSOLUTE RETURN A GBP DI	104,454	10.94%
Legal & General Investments UK EQUITY INDEX (OFC)	87,081	9.12%
JPMORGAN ASSET MGM GLOBAL BOND OPPORTUNITIES X	54,622	5.72%
AEW UK Investment Management LLP AEW UK Core Property Fund A	47,565	4.98%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2017 £000s	Percentage of Fund Value
Royal Dutch Shell 'B'ord Eur0.07	9,858	1.03%
Bp Ord Usd0.25	9,669	1.01%
Hsbc Hldgs Ord Usd0.50(Uk Reg)	7,382	0.77%
Barclays Plc Ord Gbp0.25	6,673	0.70%
Glaxosmithkline Ord Gbp0.25	6,342	0.66%
Lloyds Banking Gp Ord Gbp0.1	5,891	0.62%
3i Group Ord Gbp0.738636	5,306	0.56%
Glencore Plc Ord Usd0.01	4,946	0.52%
Bae Systems Ord Gbp0.025	4,325	0.45%
Rio Tinto Ord Gbp0.10	4,154	0.43%

Investment Performance

Over the financial year under review, the fund grew by 18.46% ahead of the benchmark figure of 16.65%. For a 3 year period to 31 March 2017, the fund has outperformed with a return, exceeding the benchmark by 0.57% pa.

Performance by asset class

Performance	1 Year			3 Year		
Asset Class	Fund	B' mark	+/-	Fund	B' mark	+/-
UK Equities	22.96	26.11	(2.50)	9.27	10.92	(1.49)
Overseas Equities	19.94	32.94	(9.78)	9.96	16.23	(5.40)
Bonds	9.59	4.61	4.76	7.01	4.37	2.53
Index Linked Gilts	22.56	20.86	1.41	14.35	13.39	0.85
Private Equity	16.16	37.05	(15.24)	15.97	20.49	(3.75)
Property	1.82	3.69	(1.80)	11.64	10.18	1.33
Infrastructure	23.07	3.65	18.74	18.51	3.65	14.34
Private Credit	21.02	4.65	15.65	8.23	4.65	3.42
Total Portfolio	**18.46**	**16.65**	**1.55**	**9.96**	**9.34**	**0.57**

Performance by manager

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
Adams Street	20.58	37.05	(12.01)	20.18	20.49	(0.26)	6.58	-	-
AEW UK	5.78	5.15	0.59	-	-	-	10.96	10.02	0.86
JP Morgan	8.15	3.66	4.33	3.69	3.66	0.03	4.16	3.67	0.47
London CIV	12.48	0.65	11.76	7.32	0.66	6.61	6.48	0.87	5.56
LGIM	-	-	-	-	-	-	5.31	5.18	0.13
LGIM II	-	-	-	-	-	-	1.88	1.88	0.00
LGT Capital	22.80	37.05	(10.40)	18.13	20.49	(0.26)	10.52	-	-
Macquarie	22.41	3.65	18.11	18.28	3.65	14.12	3.96	3.70	0.25
M&G	18.62	4.65	13.35	10.04	4.65	5.15	7.20	4.71	2.38
Newton	25.83	35.16	(6.91)	17.43	18.54	(0.94)	15.30	17.10	(1.54)
Permira	9.58	4.65	4.71	-	-	-	10.02	4.61	5.18
UBS Equities	32.89	21.95	8.97	8.60	7.69	0.85	10.31	8.94	1.26
UBS Property	2.51	3.69	(1.14)	12.18	10.18	1.82	3.61	3.40	0.20
Total Portfolio	**18.46**	**16.65**	**1.55**	**9.96**	**9.34**	**0.57**	**7.23**	**7.07**	**0.15**

Note: Excess returns calculated using relative methodology.

Over the year, on investment performance, there was a relative excess return of 1.55% The biggest contributors to the excess return were Macquarie and M&G with 18.11% and 13.35% outperformance, whilst the biggest detractors were Adams Street and LGT with (12.01)% and (10.40%) underperformance. Overall, three year and since inception performance figures were 0.57% and 0.15% respectively above the set benchmarks.

Custody

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

Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. External investment managers are expected to undertake appropriate monitoring of underlying investments with regard to their policies and practices on all issues which could present a material financial risk to the long- term performance of the Fund such as corporate governance and environmental factors, integrating material ESG factors within its investment analysis and decision making.

Where the Fund invests on a segregated basis, it requests the exclusion of investment within the Tobacco sector as part of the mandate. The Fund will not pursue policies that are contrary to UK foreign policy or UK defence policy.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the seven principles is also published on the website.

Exercise of voting rights

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	8,718	83,901	75,607	8,294	-
Newton	607	1,983	1,219	728	36
LGIM	915	44,332	39,205	5,127	-

REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund ("the Fund")
Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 25 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there a better than 70% chance that the Fund will return to full funding over 25 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £810 million, were sufficient to meet 75% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £269 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.6 years	24.6 years
Future Pensioners*	24.0 years	26.5 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen

Catherine McFadyen FFA

For and on behalf of Hymans Robertson LLP
31 May 2017

Hymans Robertson LLP, 20 Waterloos Street, Glasgow, G2 6BD

SCHEME ADMINISTRATION REPORT

Administrators

Administration of the scheme is undertaken under delegated authority by the Pensions Team at Surrey County Council, who took over the administration from Capita Employee Benefits with effect from 1st November 2016. Surrey are responsible for:

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

Surrey and LB Hillingdon are working closely together to provide a full administration service covering the collecting, and reconciling of pension contributions, transfers of pension rights in to and out of the LGPS and deferred benefits, payment of pensions, calculations for retirements, re-employment, and death benefits.

The agreement with Surrey details agreed performance targets. However, due a backlog of work transferred from Capita Employee Benefits, formal performance monitoring did not commence until 1 April 2017.

Early Retirement

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

Type of Retirement	2012/13	2013/14	2014/15	2015/16	2016/17
Redundancy or Efficiency	23	50	23	19	63
Ill Health	6	3	8	6	5
Total	**29**	**53**	**31**	**25**	**68**

Complaints

The Council's complaints procedure is available to any person who wishes to make a suggestion or complaint about the service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Corporate Pensions Manager.

RISK MANAGEMENT

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS and is part of the ongoing decision making process of Committee. By identifying and managing risks the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated regularly and reported to Pension Committee on a quarterly basis. The key types of risk facing the Fund are explained briefly below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement.

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

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

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

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

FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

   - Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance;
   - Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
   - Approve the Pension Fund of Accounts

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code').

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

   - Selected suitable accounting policies and then applied them consistently;
   - Made judgements and estimates that were reasonable and prudent; and
   - Complied with the Local Authority Code.

   The Corporate Director of Finance has also:

   - Kept proper accounting records that were up to date; and
   - Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31st March 2017 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
{DATE}

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that these accounts were considered and approved by Pensions Committee at the meeting held on {DATE}.

Cllr Philip Corthorne
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)

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

We have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement and the related notes.

Respective responsibilities of the Director of Finance and the auditor

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

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

We also read the other information contained in the pension fund annual report and consider the implications for my report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of:

- Chairman's Foreword;
- Fund Governance and Statutory Information;
- Performance Reviews and the Report of the Fund Actuary;
- Policy Statements
-

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Tim Sadler (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
25 September 2017.

Pension Fund Accounts

FUND ACCOUNT

	Note	31 March 2017 £000's	31 March 2016 £000's
Contributions	*4*	41,466	39,268
Transfers In from other pension funds	*5*	1,241	2,744
		42,707	**42,012**
Less: Benefits	*6*	(39,353)	(39,776)
Less: Payments to and on account of leavers	*7*	(2,243)	(2,700)
		(41,596)	**(42,476)**
Net additions/(withdrawals) from dealings with members		**1,111**	**(464)**
Less: Management expenses	*8*	(8,385)	(6,353)
Net additions/(withdrawals) including fund management expenses		**(7,274)**	**(6,817)**
Return on investments			
Investment income	*9*	16,004	15,511
Profit and losses on disposal of investments and changes in market value of investments	*16B*	137,690	(707)
Net return on investments		**153,694**	**14,804**
Net Increase in the fund during the year		**146,420**	**7,987**
Net Assets at start of year		**810,287**	**802,300**
Net Assets at end of year		**956,707**	**810,287**

NET ASSETS STATEMENT

	Note	31 March 2017 £000's	31 March 2016 £000's
Investment Assets	*10*	955,190	808,967
Investment Liabilities	*11*	0	(317)
Total net investments		**955,190**	**808,650**
Current Assets	*12*	2,198	2,073
Current Liabilities	*13*	(681)	(436)
Net assets of the fund available to fund benefits at the end of the reporting period		**956,707**	**810,287**

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 19.

Paul Whaymand
Corporate Director of Finance
27 June 2017

Notes to Pension Fund Accounts

1. DESCRIPTION OF THE FUND

a) General

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and early payment of benefits on medical grounds.

The fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

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

Admitted Bodies:

Belrock (new 2016/17)
Braybourne Facilities (new 2016/17)
Churchill
Cucina (new 2016/17)
Greenwich Leisure
Hayward Services (new 2016/17)
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Kingdom Security (new 2016/17)
Mitie Facilities Management
Servest Group Ltd
Taylor Shaw (Caterlink, Caterplus & Genuine Dining)

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Douay Martyrs Academy
Eden Academy Trust
- Moorcroft School
- Pentland Field School
- Grangewood School

Elliot Foundation Trust
- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust
- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Harefield Academy
Haydon Academy
Heathrow Aviation Engineering
LBDS Frays Academy Trust
- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium
Orchard Hill College Academy Trust
- Skills HUB (formerly Hillingdon Tuition Centre)
- Young Peoples Academy (formerly Chantry School)

Park Federation Trust
- Cranford Park Academy
- Lake Farm Park Federation
- Wood End Academy

QED Academy Trust
- Coteford Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust
- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School
Ryefield Primary School
Vyners Academy
Stockley Academy
Swakeleys Academy
Uxbridge Academy
Uxbridge College
Willows Academy

Notes to Pension Fund Accounts

As at 31 March 2017 there were 8,684 active members contributing to the fund, with 6,194 members in receipt of benefit and 7,225 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2017	31 March 2016
Number of employers with active members	53	43
Number of employees in scheme		
London Borough of Hillingdon	5,862	5,307
Other employers	2,822	2,960
Total	**8,684**	**8,267**
Number of Pensioners		
London Borough of Hillingdon	5,314	5,461
Other employers	880	783
Total	**6,194**	**6,244**
Deferred Pensioners		
London Borough of Hillingdon	6,279	4,600
Other employers	946	2,058
Total	**7,225**	**6,658**

c) Funding

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

d) Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, GMO Investments (defunded October 2016), JP Morgan Asset Management, Kempen International Investments (defunded June 2016), Legal & General Investment Management (appointed October 2016), LGT Capital Partners, London CIV (Appointed June 2016), Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP (assets transferred to London CIV June 2016), State Street Global Advisors (defunded October 2016) and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e) Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2016/17:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Peter Davis
Cllr Tony Eginton
Cllr Beulah East

Pensions Board

Cllr David Simmonds (Chairman)
Cllr Alan Chapman (Vice-Chairman)
Mr Andrew Scott (Member Representative)
Cllr John Morse
Venetia Rogers (Member Representative)
Roger Hackett (Member Representative)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis, and summarise the fund transactions and report on the net assets available to pay pension benefits as at 31 March 2017.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2017).

Notes to Pension Fund Accounts

3. ACCOUNTING POLICIES

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

All assets are disclosed in the financial statements at their fair value.

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

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

d) Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis.

e) Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension fund.

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

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

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

i) Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement which they are made.

j) Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA

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

Critical Judgements and Uncertainties

l) Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2017 was £114,851k (£109,712k at 31 March 2016).

m) Assumptions made about the future and other major sources of estimation uncertainty - The pension fund Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to Pension Fund Accounts

Items where there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £27,128k. There is a risk that this investment may be under- or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2017. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £27,002k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £22,447k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £38,233k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability.

Notes to Pension Fund Accounts

4. CONTRIBUTIONS

By category	31 March 2017 £000's	31 March 2016 £000's
Employees	9,356	9,382
Employers Contributions:		
Normal	27,134	25,118
Deficit Funding	4,976	4,768
	41,466	**39,268**

Deficit Funding: At the actuarial valuation on 31 March 2016 the fund was 75% funded, with the remaining 25% deficit to be recovered over a period of 25 years.

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	30,535	29,082
Scheduled Bodies	10,459	9,768
Admitted Bodies	472	418
	41,466	**39,268**

Note: Contributions disclosure notes format is different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated

5. TRANSFERS IN

	31 March 2017 £000's	31 March 2016 £000's
Individual transfers in from other schemes	1,241	2,744

6. BENEFITS

By category	31 March 2017 £000's	31 March 2016 £000's
Pensions	(32,435)	(31,597)
Commutations and Lump Sum Retirement Benefits	(6,236)	(7,598)
Lump Sum Death Benefits	(682)	(581)
	(39,353)	**(39,776)**

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	(37,561)	(38,969)
Scheduled Bodies	(1,443)	(701)
Admitted Bodies	(349)	(106)
	(39,353)	**(39,776)**

Notes to Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2017 £000's	31 March 2016 £000's
Refunds to members leaving service	(81)	(97)
Individual transfers out to other schemes	(2,162)	(2,603)
	(2,243)	**(2,700)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2017 as follows:

	31 March 2017 £000's	31 March 2016 £000's
Administrative Costs	(902)	(570)
Investment Management Expenses*	(6,761)	(5,445)
Oversight and Governance	(722)	(338)
	(8,385)	**(6,353)**

Note: Investment management and Oversight and Governances expenses for 2016 restated due to re-categorisation of £107k custody fees from oversight & governance to Investment management fees

* Further detailed Breakdown of Investment Management Expenses

	31 March 2017 £000's	31 March 2016 £000's
Management Fees	5,359	4,807
Performance Related Fees	917	279
Custody Fees	96	108
Transaction Costs	389	251
	6,761	**5,445**

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management expenses 2016.

8A. OTHER FUND ACCOUNT DISCLOSURES

External Audit Costs

	31 March 2017 £000's	31 March 2016 £000's
Payable in Respect of External Audit	21	21
	21	**21**

9. INVESTMENT INCOME

	31 March 2017 £000's	31 March 2016 £000's
Income from Equities	5,071	5,224
Income from Bonds	37	290
Private Equity Income	4,209	6,147
Pooled Property Investments	4,774	4,458
Pooled Investments- Unit trusts and other managed funds	2,669	666
Interest on cash deposits	63	94
Other (for example from stock lending or underwriting)	(819)	(1,368)
	16,004	**15,511**

Note: Investment income categories are different to that published in 2015/16 and in line with the CIPFA Code changes, the 2015/16 figures have been restated to provide comparative table of figures.

Notes to Pension Fund Accounts

10. INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Investment Assets		
Bonds	0	34,898
Equities	123,992	123,599
Pooled investments	672,256	495,752
Pooled property investments	114,894	106,360
Private equity	27,128	30,082
Other Investment balances		
Cash deposits	16,276	17,296
Investment income due	644	980
Total investment assets	**955,190**	**808,967**
Investment liabilities		
Derivative contracts:		
Forward currency contracts	0	(317)
Total investment liabilities	**0**	**(317)**
Net investment assets	**955,190**	**808,650**

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2016/17	Value 1 April 2016 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2017 £000's
Bonds	34,898	4,704	(40,461)	859	0
Equities	123,599	139,652	(167,581)	28,322	123,992
Pooled Investments	495,752	721,833	(645,615)	100,286	672,256
Pooled Property Investments	106,360	11,904	(4,825)	1,455	114,894
Private Equity	30,082	865	(5,287)	1,468	27,128
	790,691	**878,958**	**(863,769)**	**132,390**	**938,270**
Forward Foreign Exchange	**(317)**	4,367	(3,152)	(898)	0
	790,374	**883,325**	**(866,921)**	**131,492**	**938,270**
Other investment balances					
Cash Deposits	**17,296**			256	16,276
Investment Income Due	**980**				644
Adjustments to Market Value Changes				5,942	
Total Investment Assets	**808,650**			**137,690**	**955,190**

2015/16 Restated	Value 1 April 2015 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2016 £000's
Bonds	64,834	6,087	(37,691)	1,668	34,898
Equities	136,322	25,428	(24,919)	(13,232)	123,599
Pooled Investments	449,990	100,335	(53,162)	(1,411)	495,752
Pooled Property Investments	84,768	15,081	(3,187)	9,698	106,360
Private Equity	35,275	1,201	(4,878)	(1,516)	30,082
	771,189	**148,132**	**(123,837)**	**(4,793)**	**790,691**
Forward Foreign Exchange	(745)	3,519	(1,608)	(1,483)	(317)
	770,444	**151,651**	**(125,445)**	**(6,276)**	790,374
Other investment balances					
Cash Deposits	28,867			**432**	17,296
Investment Income Due	913				980
Adjustments to Market Value Changes	745			**5,137**	0
Total Investment Assets	**800,969**			**(707)**	**808,650**

Purchases and sales of derivatives are recognised in Note 14A above as follows: Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated.

Notes to Pension Fund Accounts

10B. ANALYSIS OF INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Bonds		
UK		
Public sector quoted	0	18,026
Overseas		
Public sector quoted	0	16,872
	0	**34,898**
Equities		
UK		
Quoted	123,992	98,337
Overseas		
Quoted	0	25,262
	123,992	**123,599**
Pooled funds - additional analysis		
UK		
Fixed income unit trust	54,622	36,603
Unit trusts	242,454	45,134
Unitised insurance policies	287,498	179,997
Limited liability partnerships	87,682	79,590
Overseas		
Unit trusts	0	154,378
	672,256	**495,702**
Pooled property Investments	114,894	106,369
Private equity	27,128	30,123
Cash deposits	16,276	17,296
Investment income due	644	980
	158,942	**154,768**
Total investment assets	**955,190**	**808,967**
Investment liabilities		
Derivatives	0	(317)
Total investment liabilities	0	(317)
Net investment assets	**955,190**	**808,650**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2017 £000's	%	Market Value 31 March 2016 £000's	%
Adams Street Partners	17,532	2	19,195	2
AEW UK	47,565	5	36,094	4
GMO	0	0	62,041	8
JP Morgan Asset Management	54,622	6	36,603	5
Kempen International Investments	0	0	87,317	11
Legal & General Investment Management	287,498	30	0	0
LGT Capital Partners	9,596	1	10,887	1
London CIV - Ruffer	104,440	11	0	0
M&G Investments	22,447	2	39,150	5
Macquarie Infrastructure	27,002	3	19,805	2
Newton Asset Management	137,948	14	30,395	4
Permira Credit Solutions	38,233	4	20,634	3
Ruffer LLP	0	0	92,546	11
State Street Global Advisors	0	0	179,997	22
UBS Global Asset Management (Equities)	130,119	14	97,271	12
UBS Global Asset Management (Property)	68,499	7	71,112	9
Other*	9,689	1	5,603	1
Total	**955,190**	**100**	**808,650**	**100**

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

There are no fund investments which constitute more than 5% of net assets of the scheme.

10D. STOCK LENDING

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £21,444K (31 March 2016: £17,138K). These equities continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £23,412K (31 March 2016: £18,492k) representing 109% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

11. INVESTMENT LIABILITIES

	31 March 2017 £000's	31 March 2016 £000's
Forward foreign exchange unrealised loss	0	(317)
	0	**(317)**

12. CURRENT ASSETS

Analysis of debtors	31 March 2017 £000's	31 March 2016 £000's
Employers' contributions due	68	364
Employees' contributions due	19	100
Debtor: Other local authorities (LB Hillingdon)	0	30
Cash balances	2,111	1,579
	2,198	**2,073**

13. CURRENT LIABILITIES

Analysis of creditors	31 March 2017 £000's	31 March 2016 £000's
Creditor: Other local authorities (LB Hillingdon)	(227)	0
Other entities	(454)	(436)
	(681)	**(436)**

Note:Other entities balance is due to the pension fund from bodies external to the government e.g fund managers

Notes to Pension Fund Accounts

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2017 £000's	Market Value 31 March 2016 £000's
Prudential	5,975	5,937
	5,975	**5,937**

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.
According to information provided by Prudential, £220k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

15. FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in Note 17 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2017 £000's	Value on Increase £000's	Value on Decrease £000's
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	27,002	29,702	24,302
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	60,680	66,748	54,612
Private equity & venture Capital	5%	27,128	28,484	25,772
Ventuire Capital	5%	41	43	39
Total		**114,851**	**124,978**	**104,724**

15A: FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data.

Notes to Pension Fund Accounts

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2017	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial Assets at Fair Value through Profit and Loss	124,016	699,403	114,851	938,270
Loans and Receivables	16,920	0	0	16,920
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net investment Assets	**140,936**	**699,403**	**114,851**	**955,190**

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial Assets at Fair Value through Profit and Loss	158,519	522,460	109,712	790,691
Loans and Receivables	18,276	0	0	18,276
Financial Liabilities at Fair Value through Profit and Loss	(317)	0	0	(317)
Net investment Assets	**176,478**	**522,460**	**109,712**	**808,650**

15B. RESTATEMENT OF VALUATION HIERARCHIES

The following managers' assets for 2015-16 have been re-categorised from level 1 to level 2: Newton Asset Management- £30,396k, Kempen International- £87,317k, State Street Asset Management- £179,997k, GMO Investments- £62,041k and JP Morgan Asset Management- £36,603k.

15C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2016	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2017
	£000's	£000's	£000's	£000's	£000's	£000's
Private Equity - Adams Street Partners , LGT Capital Partners & UBS	30,082	865	(5,287)	624	844	27,128
Private Finance - M&G	39,150	0	(23,266)	1,225	5,338	22,447
Infrastructure - Maquarie	19,805	5,276	(1,659)	3,350	230	27,002
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	20,634	17,279	(126)	320	126	38,233
	109,712	**23,420**	**(30,338)**	**5,519**	**6,538**	**114,851**
Other investment balances	0				0	0
Total Investment Assets	**109,712**				**6,538**	**114,851**

There were no transfers in or out of level 3 assets in 2016/17

Notes to Pension Fund Accounts

15D. Level 3 Pricing Hierarchy Disclosures

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G

The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cashflows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Description of Valuation Process

Private Equity

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Private Finance: M&G
These assets are floating rate and are held to maturity they are valued at par unless suffering from impairment.
Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that
- Each valuation is reviewed to ensure:

Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie

Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cashflow (DCF) analysis.

DCF-Based Market Valuation Process
Financial Model
The acquisition financial models of all of the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year to date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- the actual operational results to date
- the revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.
Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market

Private Equity
Market valuation method applied to investments is sensitive to four main components:
(i) changes in actual market prices;
(ii) interest rate risk;
(iii) foreign currency movements; and
(iv) other price risks.

Private Finance (M&G)
The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Infrastructure: Macquarie
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira
The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:
- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.
These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

16. FINANCIAL INSTRUMENTS

16A: CLASSIFICATION OF FINANCIAL INSTRUMENTS
The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

				Restated		
	Designated as fair value through P&L	**Loans & receivables**	**Total**	**Designated as fair value through P&L**	**Loans & receivables**	**Total**
	31 March 2017 £000's	**31 March 2017 £000's**	**31 March 2017 £000's**	**31 March 2016 £000's**	**31 March 2016 £000's**	**31 March 2016 £000's**
Financial Assets						
Bonds	0	0	0	34,898	0	34,898
Equities	123,992	0	123,992	123,599	0	123,599
Pooled Investments	672,256	0	672,256	495,702	0	495,702
Pooled property investments	114,894	0	114,894	106,369	0	106,369
Private Equity	27,128	0	27,128	30,123	0	30,123
Cash	0	16,276	16,276	0	17,296	17,296
Other Investment balances	0	644	644	0	980	980
	938,270	**16,920**	**955,190**	**790,691**	**18,276**	**808,967**
Financial Liabilities						
Derivative Contracts	0	0	0	(317)	0	(317)
	0	**0**	**0**	**(317)**	**0**	**(317)**
Total	**938,270**	**16,920**	**955,190**	**790,374**	**18,276**	**808,650**

Note: Investment assets categories disclosures are different to that published in 2015/16 and in line with the CIPFA Code, the 2015/16 figures have been restated to provide comparative table of figures.

16B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2017 £000's	31 March 2016 £000's
Financial Assets		
Designated at Fair Value through profit and loss	137,690	(390)
Financial Liabilities		
Fair Value through profit and loss	0	(317)
	137,690	**(707)**

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential market movements (+/-)
UK bonds	5.20%
Overseas bonds	5.20%
UK equities	9.60%
Overseas equities	8.70%
Pooled property investments	3.40%
Other pooled investments	9.60%
Derivatives	0.00%
Private equity	6.20%

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Notes to Pension Fund Accounts

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value as at 31 March 2017 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
UK bonds	0	5.20%	0	0
Overseas bonds	0	5.20%	0	0
UK equities	123,992	9.60%	135,895	112,089
Overseas equities	0	8.70%	0	0
Pooled property investments	114,894	3.40%	118,800	110,988
Other pooled investments	672,256	9.60%	736,793	607,719
Derivatives	0	0.00%	0	0
Private equity	27,128	6.20%	28,810	25,446
Total	**938,270**		**1,020,297**	**856,243**

	Restated			
Asset type	Value as at 31 March 2016 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
UK bonds	18,026	4.57%	18,850	17,202
Overseas bonds	16,871	4.57%	17,642	16,100
UK equities	98,337	10.56%	108,721	87,953
Overseas equities	25,262	8.01%	27,285	23,239
Pooled property investments	106,369	3.00%	109,560	103,178
Other pooled investments	495,703	10.56%	548,049	443,357
Derivatives	0	0.00%	0	0
Private equity	30,123	4.86%	31,587	28,659
Total	**790,691**		**861,695**	**719,687**

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated to provide comparative table of figures.

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

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2017 £000's	31 March 2016 £000's
Cash balances	16,276	17,296
Bonds - segregated portfolio	0	72,526
Bonds - pooled funds	148,817	112,128
Total	**165,093**	**201,950**

Notes to Pension Fund Accounts

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

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

	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	16,276	163	16,439	16,113
Bonds - pooled funds	148,817	1,488	134,492	147,329
Total change in assets available	**165,093**	**1,651**	**150,930**	**163,442**

	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	17,296	173	17,469	17,123
Bonds - segregated portfolio	72,526	725	73,251	71,801
Bonds - pooled funds	112,128	1,121	113,249	111,007
Total change in assets available	**201,950**	**2,020**	**203,970**	**199,931**

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

The pension fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2017 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period ending 31 March 2016.

Currency exposure by asset type

	Asset Value 31 March 2017	Asset Value 31 March 2016
	£000's	**£000's**
Overseas Quoted Securities	0	25,262
Overseas Index-Linked Bonds	0	16,871
Overseas Managed Funds	106,344	149,059
Private Equity/Infrastructure	54,130	49,928
	160,474	**241,120**

Currency risk sensitivity analysis
Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 7.90%, based on the data provided by PIRC. A 7.90% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 7.90% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Notes to Pension Fund Accounts

Assets exposed to currency risk	Asset Value 31 March 2017	Potential market movement	Value on increase	Value on decrease
		7.90%		
	£000's		£000's	£000's
Overseas Managed Funds	106,344	8,401	114,745	97,943
Private Equity/Infrastructure	54,130	4,276	58,406	49,854
	160,474	**12,677**	**173,151**	**147,797**

Assets exposed to currency risk	Asset Value 31 March 2016	Potential market movement	Value on increase	Value on decrease
		6.08%		
	£000's	£000's	£000's	£000's
Overseas Quoted Securities	25,262	1,536	26,798	23,726
Overseas Index-Linked Bonds	16,871	1,026	17,897	15,845
Overseas Managed Funds	149,059	9,063	158,122	139,996
Private Equity/Infrastructure	49,928	3,036	52,964	46,892
	241,120	**14,660**	**255,780**	**226,460**

Credit Risk - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

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

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The pension fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of BBB+. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2017 was £2,111k (31 March 2016: £1,579k) and this was held with the following institutions.

Summary	Rating S&P	Balances as at 31 March 2017 £000's	Rating S&P	Balances as at 31 March 2016 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAf S1+	200	AAAf	100
Bank current accounts				
Lloyds	A	1,911	A	402
NatWest (Capita)		0	BBB+	1,077
Total		**2,111**		**1,579**

Liquidity Risk - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.
The pension fund holds a working cash balance in its own bank accounts with Lloyds and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,111k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2017 these assets totalled £708,503k, with a further £16,276k held in cash in the Custody accounts at Northern Trust.

Refinancing risk
The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

Notes to Pension Fund Accounts

18. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 201 to March 2020. The next triennial valuation will take place as at 31 March 2019.

In line with the triennial valuation the fund updates it Funding Strategy Statement every three years. The key elements of the funding strategy are:

1) to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment

2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so

5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2016 actuarial valuation, the fund was assessed as 75% funded (72% at the March 2013 valuation). This corresponded to a deficit of £269m (2013 valuation: £266m) at that time. The slight improvement in funding position between 2013 and 2016 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%)	Secondary Rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
19.50%	£5,296,000	£5,537,000	£6,938,000

The Primary rate above includes an allowance for administration expenses of 0.7% of pay. The employee average contribution rate is 6.4% of pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the fund has been undertaken using a risk based approach and this approach adopted recognises the uncertainties and risks posed to funding and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Financial assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

Description	31 March 2016	31 March 2013
Funding Basis Discount Rate	4.0%	4.6%
Benefit Increases (CPI)	2.1%	2.5%
Salaries Increases	2.6%	3.3%

Demographic assumptions

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

Description	31 March 2016	31 March 2013
Male		
Pensioners	22.6 years	22.7 years
Non- Pensioners	24.0 years	24.3 years
Female		
Pensioners	24.6 years	24.7 years
Non- Pensioners	26.5 years	26.9 years

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

Description	31 March 2017 % per annum	31 March 2016 % per annum
Inflation /Pensions Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	3.2%
Discount Rate	2.5%	3.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2017 by Hymans Robertson with the following results:

Description	31 March 2017 £000's	31 March 2016 £000's
Present Value of Promised Retirement Benefits	1,522,000	1,225,000
Assets	956,707	810,287
Deficit	565,293	414,713

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

Notes to Pension Fund Accounts

20. RELATED PARTY TRANSACTIONS

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

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

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

Governance

There are two members of the Pension Fund Committee who are deferred or retired members of the pension fund. Cllr Philip Corthorne (Chairman), a deferred member; and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

Key Management Personnel

Three employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, Deputy Director - Strategic Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2017 £000's	31 March 2016 £000's
Short term benefits	69	61
Post employment benefits	31	105
	100	**166**

This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

21. BULK TRANSFER

There were no bulk transfers into or out of the fund during the 2016/17 financial year.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2017 totalled £46,472k (£31,122k at 31 March 2016).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

23. CONTINGENT ASSETS

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

24. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

POLICY STATEMENTS

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

Investment Strategy Statement

From 1 April 2017, the Fund is required to publish an Investment Strategy Statement (ISS), which replaces the requirement for a Statement of Investment Principles. The ISS will be kept under review and will be updated whenever there is a change in Fund Manager or mandate. The current ISS is available at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2017 following the 2016 valuation. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund.

Communication Strategy

The London Borough of Hillingdon Pension Fund's Communication Strategy was fully revised in 2016/17 and agreed at Pensions Committee in June 2017, and came into effect from 1 July 2017. It can be accessed at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund . The local Pension Board has undertaken an in depth review of governance strategy and an updated document will be taken to Pensions Committee for approval in September 2017.

Risk Management Policy

A risk management policy was introduced during 2016 as part of the work undertaken by the local Pension Board. While Committee regularly review Fund risks through the risk register, it was identified that a formal risk management policy had not been drafted. The policy is available at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund

Administration strategy

During 2016 it was agreed by Committee that best practice was to have an Administration Strategy and this was agreed in September 2016. The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

The strategy is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

GLOSSARY

Active Management
A style of management where the fund manager aims to outperform a **benchmark** by superior **asset allocation**, market timing or **stock selection** (or a combination of these).

Actuary
An independent consultant who advises the Council on the financial position of the Fund. See **actuarial valuation.**

Actuarial Valuation
This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)
An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-12.5% of basic earnings payable.

Administering Authority
In this instance the 'Administering Authority' is London Borough Hillingdon. An administering authority is responsible, amongst other things, for maintaining member records, dealing with member queries/requests, investment of the fund and paying your LGPS pension.

Admitted Bodies
Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Asset Allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

Asset Liability Modelling
Models the interaction and the allocation of assets to meet to meet present and future financial liabilities over time

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared. Each Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

Bond
A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost
The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

Broker

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

CARE
'Career Average Revalued Earnings'. LGPS 2014 is a career average scheme, and is a method used for calculating pensions earned from April 2014.

Commission
A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance
The system by which organisations are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Coupon
The return earned on an investment. Eg £5 received from a £100 debenture is the coupon.

Creditors
Amounts owed by the pension fund.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

Debtors
Amounts owed to the pension fund.

Defined Benefit
A type of pension plan in which an employer/sponsor promises a specified
monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Derivative
Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification
A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield
An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets
There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity
Stock or any other security representing an ownership interest.

Ex-dividend
Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Final Salary Scheme
An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest
A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level
A comparison of a scheme's assets and liabilities.

Futures Contract
A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

Gilts
The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge
Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

Index Linked
A **bond** which pays a **coupon** that varies according to some underlying index, usually the Consumer Price Index.

Liability Profile
The future cash outflows for Scheme Member benefits as they mature.

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

Mandate
The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value
A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option
The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

Property Unit Trusts
Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties

Quantitative Easing (QE)
QE is monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply

Resolution Bodies
Scheme employers with the power to decide if an employee or group of employees can join the scheme

Return
Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk
The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers
Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund

Security
An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity

Socially Responsible Investment (SRI)
Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager
A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock
A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity.**

Stock Selection
The process of deciding which stocks to buy within an asset class.

The Fund
'The Fund' explicitly refers to London Borough of Hillingdon Pension Fund

Tracking Error
An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs
Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value
The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition
To move from one set of investment managers to another

Underwriting
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt)

Unit Trust
A pooled fund in which investors can buy and sell units on an ongoing basis

Unlisted Security
A security which is not traded on an **exchange**

Unrealised Gains/(losses)
The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield
The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

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 Ministerial letter on pooling

SUMMARY

This is the main report which focuses on the investment of the Fund's assets. The report includes an overview of fund performance as at 30 June 2017, an update on recent investment decisions, and progress of the London CIV.

The total size of the fund was £965m at 30 June 2017 an increase from £956m at the end of last quarter, with an overall investment return over the quarter was 0.94%, giving rise to relative under-performance of the benchmark by 0.01%. Included with this report is the Northern Trust performance.

Part II includes an update on each Fund Manager and the detailed current market backdrop. These papers all form background reading to inform Committee and to aid discussion.

RECOMMENDATIONS

It is recommended that Pensions Committee, following consideration of the Part II papers:

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 to 30 June 2017, the Fund returned 0.94% (2.88% March 2017) just 1 basis point below the fund benchmark of 0.95% (3.14% March 2017). The value of the Fund increased over the quarter by £9m, to bring the fund balance to £965.5m as at 30 June 2017.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	0.94	0.95	-0.01
1 Year	14.27	12.57	+1.70
3 Year	9.60	8.96	+0.64
5 Year	10.33	9.41	+0.92
Since Inception (09/1995)	7.19	7.03	+0.16

During the quarter distributions were made from various mandates with funds being transferred to fund the commitment to Permira. Positive impacts were seen from Macquarie LGT and AEW negated by negative performance from UBS Property and Ruffer.

Relative outperformance over a one year rolling period was 1.51% ahead of the benchmark with the largest contributions from Macquarie and M&G.

2. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is outlined in the table below. 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 Fund's long term horizon.

Current Asset Allocation by Asset Class

	Market Value As at 30 June 2017	Actual Asset Allocation	Benchmark Allocation
ASSET CLASS	**£'000**	**%**	**%**
UK Equities	212,661	22.0	47.0
Global Equities	247,245	25.5	
UK Index Linked Gilts	61,501	6.4	12.0
Corporate Bonds (Global)	86,417	9.0	
Property	117,053	12.1	12.0
DGF/Absolute Returns	103,971	10.8	12.0
Private Equity	25,656	2.7	4.0
Infrastructure	27,418	2.8	3.0
Private Credit	56,743	5.9	10.0
Cash & Cash Equivalents	26,814	2.8	0.0
Totals	**965,479**	**100.0**	**100.0**

The underweight in Private Credit is due to a further £30.8 million committed to Permira awaiting drawdown of investment.

Current Asset Allocation by Manager

FUND MANAGER	ASSET CLASS	Market Value As at 30 June 2017 £'000	Actual Asset Allocation %
ADAMS STREET	Private Equity	16,592	1.7
LGT	Private Equity	9,023	0.9
AEW	Property	49,186	5.1
JP MORGAN	Corporate Bonds (Global)	55,302	5.7
LCIV RUFFER	DGF/Absolute Returns	103,971	10.8
M&G	Private Credit	17,883	1.9
MACQUARIE	Infrastructure	27,418	2.8
NEWTON	Global Equities	139,272	14.4
PERMIRA	Private Credit	38,860	4
LGIM	UK Equities	88,195	9.1
	Global Equities	107,973	11.3
	UK Index Linked Gilts	61,501	6.4
	Corporate Bonds (Global)	31,115	3.2
UBS EQUITIES	UK Equities	124,466	12.9
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	4,946	0.5
UBS PROPERTY	Property	67,845	7
	Cash & Cash Equivalents	1,736	0.2
Non Custody	Cash & Cash Equivalents	20,132	2.1
		965,479	**100**

Note: Asset Market Valuation is at BID price, as per accounting requirements, which differs from the attached Northern Trust Performance report which is measured at MID price.

3. Market and Financial climate overview

During the second quarter of 2017 the French and UK elections dominated the period resulting in volatile European and UK equity markets. However both markets finished the quarter broadly flat. The French election result and strong economic data helped drive confidence within the European area whilst in the UK, a reduced Conservative majority, uncertain Brexit negotiations and weakening economic data dampened the UK outlook. US equities delivered a positive return with the S&P 500 up approximately 2.5% despite a confused message regarding the trajectory of rates. Strong corporate earnings and growing optimism regarding the economy also helped Japan to finish ahead. Taking all regions together, the FTSE World was up 0.5% over the second quarter.

UK inflation ended June at 2.6% and below market expectations. This represented a fall from the May figure of 2.7% and the first reduction since April 2016. The largest detractors came from the Transport sector as a result of a fall in fuel prices when compared to a 2.2% increase in the previous year and Recreational and Cultural Goods & Services which were again down from a year before. However, consumers have started to feel the bite with Food, Household Goods and Restaurants & Hotels all providing upward pressure. Going forward the Monetary Policy Committee expects inflation to increase over the coming months peaking at 3% in October. With this outlook, UK government 10-year gilts yields were up 0.12% on the quarter and the FTSE All Stock Index down by 1.29%.

4. LCIV update

Since last quarter the LCVI have opened one more sub fund and three more are due to open for investment by the end of September. The London CIV are currently ahead of their business plan target for assets under management. The London CIV (LCIV) now have 9 active sub funds open.

Sub funds available on the platform currently

Fund Name	Manager	Fund Type
LONDON LGPS CIV GLOBAL EQUITY ALPHA FUND	Allianz	Global equity
LONDON LGPS CIV GLOBAL ALPHA GROWTH FUND	Baillie Gifford	Global equity
LCIV RF ABSOLUTE RETURN FUND	Ruffer	Diversified growth Fund
LCIV PY GLOBAL TOTAL RETURN FUND	Pyrford	Absolute return
LONDON LGPS CIV DIVERSIFIED GROWTH FUND	Baillie Gifford	Diversified growth Fund
LCIV NW REAL RETURN FUND	Newton	Absolute return
LCIV MJ UK EQUITY FUND	Majedie	UK Equity
LCIV NW GLOBAL EQUITY FUND	Newton	Global equity
LCIV LV Global Equity Fund	Longview	Global equity

The next funds to open for investment in September are Epoch (Income), RBC (Sustainable), Henderson (Emerging markets).

The CIV developing its plans to add fixed income options and are investigating how to enable more illiquid sub funds into the pool as they are not supported on an ACS structure.

Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer on the LCIV platform and LGIM which sits alongside the LCIV Platform accessing the economies of scale created via the LCIV. The Fund has total LCIV holdings of £393m at 31 March 2017 accounting for 41% of total assets.

The Minister for Local Government recently sent a letter to all pools to highlight progress by the pools and the focus of government in this area. A copy of the ministers letter is included as a supporting paper to this report. The minster praises development of the pools and acknowledges resourcing implication on the pools. The letter highlights in some situations they do not have sufficient assurance relation to pools being operational with FCA approval in time. This is not relevant to the LCIV who have FCA approval and assets under management. The minster reiterates its stance on pooling stating that "In order to achieve the maximum savings funds must invest in the pools with minimum exceptions, where there is a value for money case, and they must delegate manager selection to the operator". The minister also goes on to discuss government want to see infrastructure increasing in line with pools ambitions.

The Pensions Committee should consider the offers available, or as they become available, through the LCIV to continue to benefit from the cost savings of the pool where there is a match to strategic asset allocation. In September Epoch will provide the first income Global Equity Income sub fund available to invest in, which is equivalent to the funds current allocation through Newton. Officers are currently discussing and understanding the fee structure of this sub fund, but based on early discussions it looks like there will be a small ongoing saving initially (excluding transition costs) and this saving should increase assuming the LCIV management fees reduce over time with the efficient running of the operator.

The Hillingdon fund are represented on two of the sub fund working groups and Investment Sub Committee as well as the Joint Committee enabling the fund to have insight into the workings

Voting and ESG

As part of the Pension Committees role in making investment decisions it is required to take into account factors which are financially material to the performance of an investment, balancing returns against risks. This includes risks to the long-term sustainability of a company's performance which could arise from a number of factors including poor governance, environmental degradation, or the risks to a company's reputation arising from the way it treats its customers, suppliers or employees.

All the managers in which the Hillingdon Pension Fund invest have Responsible Investing and ESG policies which enable them to promote long term shareholder value and protect the interest of shareholders by only investing in well governed companies.

During the quarter ended 30 June 2017 the Hillingdon Investment managers made the following votes

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	6,204	70,789	63,456	7,333	-
Newton	297	507	279	218	10
JP Morgan	1,015	14,276	12,636	1,626	14
LGIM	2,173	31,213	26,884	4,292	37

Overall, Newton Asset Management were quite distinct in their opposition of most management resolutions by voting against 43% of such proposals.

On average, UBS, JP Morgan and LGIM opposed about 10% of proposals at meetings attended. UBS were the most active fund manager by attending and voting at 6,204 meetings, with Newton attending 297 shareholder meetings, the least, during the period under review.

The Pensions Regulator (TPR) received a referral claiming LGPS firms were acting unlawfully by not taking climate risk factors into account when making investment decisions. The Pensions regulator has responded to reiterate their purpose is to how investment policy and decisions are made in the LGPS, and not what decisions were being made, however they have said they recognise come of the concerns raised and that funds should be paying attention to Environmental Social and Governance factors when setting investment strategy. TPR has been in discussion with the Scheme Advisory board over guidance in this area which will be issued in the winter to further guide investment decisions, and a paper will be brought to Pensions Committee once this has been published.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

NORTHERN TRUST

London Borough of Hillingdon

Investment Risk & Analytical Services

June 30, 2017

Table of Contents

Client Commentary

Total Scheme Commentary

Although the global economy continues to improve and the outlook remains positive, equity markets have slowed down as the year has gone on. The IMF warned at the G20 summit that greater co-operation would be required to safeguard that positive outlook even while their US growth forecast was cut on the diminishing probability of fiscal reform. Oil related stories have made headlines over the second quarter; Brent crude dropped below $45 a barrel in June, the Saudi Aramco IPO caused concern at the London Stock Exchange that the sale of only 5% of the company fell short of the minimum 25% required for a listing. Repeating Q1, Oil & Gas lost most value over the quarter and Telecoms was the worst sector over one year. The strongest sectors over quarter and year respectively were Health Care and Technology. Oil ended June at $48 per barrel, down again from $56 at the end of 2016. The FTSE World was up by 0.5% over quarter two 2017 and returned 22.9% over the year. In the UK, concerns over rising inflation saw a surprisingly hawkish leaning towards raising interest rates amongst the Bank of England's Monetary Policy Committee members. CPI inflation, fuelled by last year's Sterling depreciation, has been pushed above the 2% target. The Bank expressed concerns of inflation rising above 3% by the autumn and they see it likely to remain above target as Sterling's fall continues to feed into prices of consumer goods and services. The shift in the balance at the Old Lady saw the 10 year Gilt finish the quarter at 1.26% up from 1.14% at the end of Q1, reversing what had otherwise been a gradual decline in rates over the quarter. For the quarter, the FTSE All Stock Index fell -1.29% and the ML Sterling Non-Gilts returned 0.47%.

Against this backdrop the London Borough of Hillingdon returned 0.94% which was a mere basis point less than the Total Plan benchmark of 0.95%. In monetary terms this is a growth in assets of £9 million and the value of the combined scheme now stands at £965.5 million as at 30th June 2017. This period withdrawals were made from M&G, Macquarie, UBS, Private Equity and Cash with the combined £12.3 million assigned to the Premira Credit mandate. Looking further into the analysis the results seen were caused by weights closely in line with the strategic position leading to a neutral allocation impact while minimal selection effects offset each other. Within selection the most notable effects were the positive impacts of Macquarie, LGT and AEW nullified by the negative impacts in UBS Property and Ruffer.

Driven by the positive results in the second half of 2016, the Scheme's one year return of 14.27% is 1.52% ahead of the benchmark of 12.55%. The largest impact comes from selection, the most significant in UBS UK Equity (+1.09%) coupled with Ruffer (+0.81%), although these are slightly offset by the negative effect from Newton (-0.91%). While allocation has a negative impact coming from overweighting Premira (-0.13%), while also overweighting AEW and underweighting LGT (both leading to -0.11%).

While over the longer periods, with twelve positive quarters over the last 5 years, the Scheme continues to outperform, producing a return of 9.60% over three year versus 8.96%. Then the excess increases to 0.84% for the 5 year period where we see figures of 10.33% versus 9.41% per annum. Then since inception in September 1995, the Fund remains ahead of target by 14 basis points with an annualised return of 7.19% against a target of 7.03%.

Manager Commentary

AEW UK

Over the second quarter AEW UK Property produced a growth of 3.41%, which was 1.08% above the IPD UK PPFI All Balanced Funds index figure of 2.30%. They remain ahead of target over the year so far, but driven by the result in Q3 2016 the rolling one year return of 6.56% against the benchmark of 7.46% translates as a -0.84% relative return. However, with positive absolute returns in all but one period and only four quarters in the red on a relative basis, growth ahead of benchmark is seen since the fund incepted. In those three years since June 2014, the fund return is 11.14%, leading to an outperformance of 1.15% when compared to the IPD figure of 9.98%.

JP Morgan

In the latest quarter JP Morgan prodcues a growth in assets of 1.24% leading to an outperformance of 0.39% when compared to the 0.85% target for the 3 Month LIBOR + 3% p.a. Then with good results in the five of the last six quarters, the one year return of 6.41% is ahead of the 3.58% target by 2.73%. Then over three and five years they post returns closer to the benchmark with figures of 3.79% vs 3.65% and 4.02% vs 3.62% respectively. Then in the 5 and a half years since the mandate funded their return of 4.20% is +51 basis points above the target return of 3.66% on an annualised basis.

Legal & General 1

Over the last three months the Legal & General No. 1 mandate post a return of 0.40% against 0.55% for the custom fixed weight blended benchmark, a slight underperformance of -15 basis points. In the short period since inception in October 2017, they return 5.73%, which is just -2 basis points down on the benchmark return 5.76%. Further analysis demonstrates the passive strategy with all funds neutral when compared to the benchmark weights and in line with their respective benchmark returns.

Legal & General 2

During February 2017 the new Legal & General mandate was funded, in it's first full quarter of investment they post a return of -0.06% against +0.16% for the custom fixed weight blended benchmark consisting of FTSE Global Equity Hedged and Emerging Markets, FTSE Index Linked 15+ years and iBoxx UK Non-Gilts. In the short period of just over 4 months since inception, they return 1.82% against 2.04% for the benchmark. The slight underperformance is due to the Emerging Equity and Corporate Bonds funds posting returns slightly below their benchmarks, while weights are matching leading to a minimal allocation impact.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

This quarter assets within the London CIV Ruffer portfolio saw their first fall in value since Q3 2015, meaning the -0.45% return when compared to the LIBOR 3 Month GBP figure of 0.11%, leads to a relative return of -0.56%. However with the good results in 2016, the one year period exhibits a growth of 7.90% against the target of 0.57%. Then with this being only the fourth quarter in the red in the last five years, outperformance remains in the longer periods. This is seen in a three year return of 7.02% versus 0.65%, then similarly for the five years with figures of 7.20% against 0.67%, culminating in since inception (May 2010) figures of 6.17% versus 0.85% per annum, which translates as a relative return of 5.28%.

M&G Investments

In this period M&G offset the losses seen in Q1 by producing a return of 2.42% against the 3 Month LIBOR +4% p.a. target of 1.09%, demonstrating an outperformance of 1.31%. Coupled with the previous good results, the full year return leads the benchmark by 10.80%, coming from figures of 15.86% against 4.57%. Over the three and five year the account registers figures of 10.43% vs 4.64% and 9.11% vs 4.61% respectively; since inception (May 2010) return falls slightly to 7.30% pa whilst the benchmark is 4.70% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.54% opposed to the comparator of 4.43%.

Macquarie

Over the last three months, Macquarie produced a growth of 4.34%, against the 0.85% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 3.46%. With twelve consecutive quarters of positive absolute and relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 15.39% beats the target of 3.57% by 11.41%, the highest relative return over this period; similarly the three year result of 20.95% versus 3.64% also exhibits the best relative return at 16.70%. The annualised return over 5 years falls to 11.20%, but still ahead of the 3.61% seen for the benchmark; then since inception (September 2010) the 4.47% is just ahead of the target of 3.69%. Although the since inception Internal Rate of Return for this portfolio jumps to 13.19%, which is ahead of the benchmark figure of 3.63%.

Newton

In the second quarter of 2017 Newton produced a return of 0.96%, which was almost exactly the same as the 0.95% seen for the FTSE World Index +2%. This very slight positive relative does break the run underperformance, although they still fall -6.14% short of the benchmark over the year, generated from figures of 17.24% versus 24.91%. Then with only three other quarters in the black over the last twelve the three year return falls just short with figures of 16.87% versus 17.68%; then since inception in January 2013, the fund return of 14.63% falls short of the yardstick of 16.32% by -1.45% on an annualised basis.

Manager Commentary

Premira Credit

The Premira Credit Fund saw a growth of 1.41% over the second quarter of 2017, this compares favourably with the 3 Month LIBOR +4% p.a. target of 1.09%. This now means all four quarter's over the last year are ahead of target, leading to an outperformance of 6.26%, created from figures of 11.12% against 4.57%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 9.60% against the benchmark of 4.59%, leading to a relative position of 4.79%.

UBS

During Q2 the UBS UK Equity investments returned of 1.44%, almost exactly the same as the 1.42% for the FTSE All Share. Looking into the attribution analysis this slight outperformance was achieved through selection decisions, the most notable being the effects in Consumer services (+26 bps) and Industrials (+18 bps), while the largest negative impact comes from Basic Materials (-35 bps). This was offset by allocation, with the most significant being overweight both Basic Materials (-24 bps) and Oil & Gas (-19 bps), the largest positive due to also being overweight Industrials (+10 bps). With the previous good run of results they remain ahead over the one year, figures of 28.69% vs 18.12% translates as a relative return of 9.0%. This is attributable to both allocation and selection, the biggest impacts come from both overweighting Basis Materials (1.48%) and selection in the sector (2.08%), combined with the selection effect in Financials (2.05%); while the largest negative impact was once again the drag from the 3% cash exposure. This feeds into the longer time periods, with three and five years ahead of the index, culminating in a since inception (January 1989) return of 10.27% versus 8.91% on an annualised basis.

UBS Property

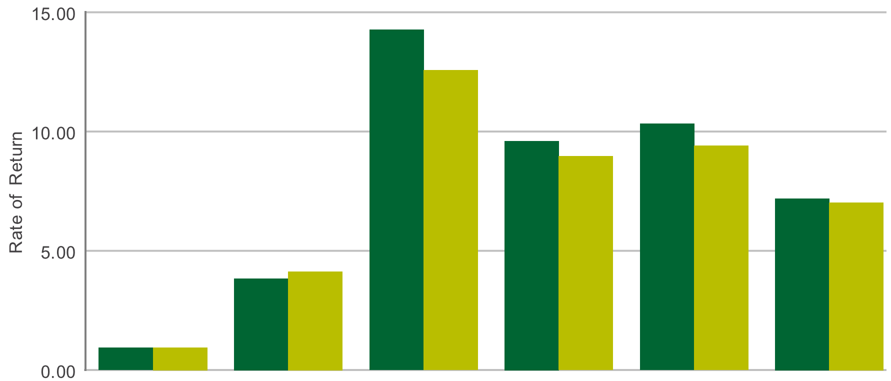
In contrast to the previous period, in the latest quarter the UBS Property posted their worse underperformance since the sub-prime crash in 2009 with -2.05%, generated from a return of 0.20% against the IPD UK PPFI All Balanced Funds index of 2.3%. This feeds into the one year deficit, with a full year return of 3.26% falling -2.56% behind the IPD target of 5.97%. However, the previous good run of results prior to the last year leads to high absolute returns staying ahead of the IPD target over the longer periods, peaking over the three year with a return of 10.31% against 9.47%. Then since inception, in March 2006, the fund return falls to 3.54% per annum which manages to stay just ahead of the benchmark figure of 3.53%.

Private Equity

Over the latest period saw a contrast for the private equity assets with just a 0.04% rise in value for Adam Street LGT saw a growth of 9.05%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with a figures of 22.71%, 21.34% and 51.80% for the one, three and five year periods respectively, while Adam Street posted 13.79%, 19.12% and 14.88% over the same periods; both exhibit some of the highest returns seen. Although they fall short of the proxy benchmark of MSCI AC World +4% p.a. which shows 26.82%, 19.66% and 18.35%. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.45% pa, while LGT sees a slight dip to 11.04%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	0.94	3.84	14.27	9.60	10.33	7.19
Index	0.95	4.13	12.57	8.96	9.41	7.03

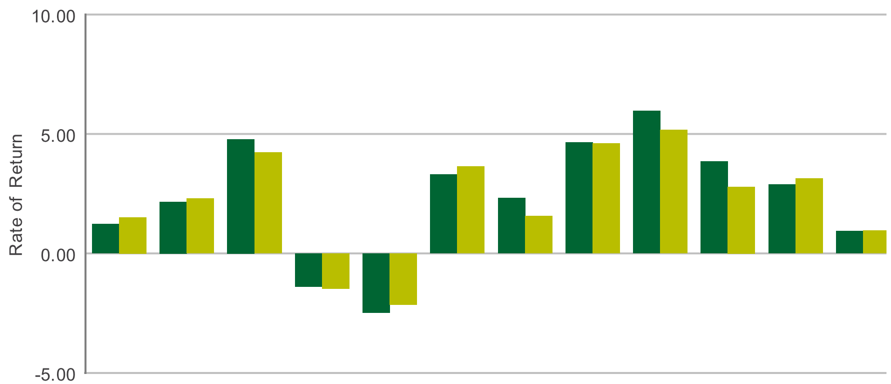
Index: Total Plan Benchmark

RISK STATISTICS

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	14.27	9.60	10.33
Index Return	12.57	8.96	9.41
Relative Excess Return	1.51	0.59	0.84
Standard Deviation	4.44	5.11	5.06
Index Standard Deviation	3.82	4.78	4.73
Tracking Error	1.05	1.18	1.09
Information Ratio	1.63	0.55	0.84
Sharpe Ratio	3.09	1.75	1.91
Index Sharpe Ratio	3.14	1.74	1.85
Sortino Ratio	-	-	3.58
Treynor Ratio	12.05	8.61	9.23
Jensen's Alpha	-0.02	0.28	0.45
Relative Volatility (Beta)	1.14	1.04	1.05
R Squared	0.96	0.95	0.96

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

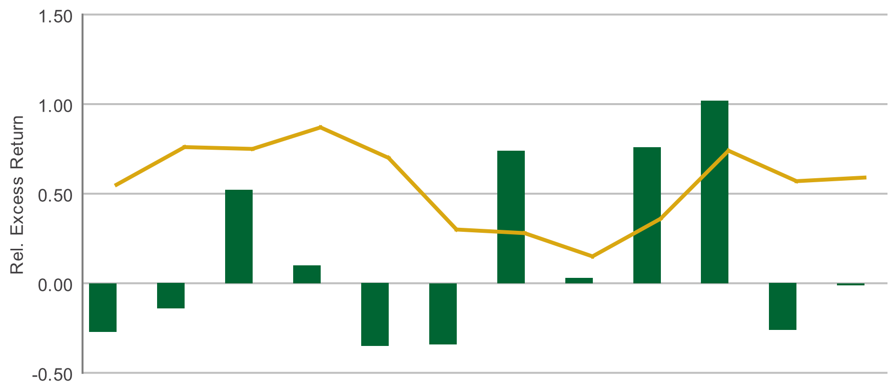
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17
Fund	1.23	2.16	4.78	-1.39	-2.48	3.30	2.32	4.64	5.96	3.85	2.88	0.94
Index	1.51	2.30	4.23	-1.48	-2.14	3.64	1.57	4.61	5.17	2.79	3.14	0.95

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17
3M R.Excess	-0.27	-0.14	0.52	0.10	-0.35	-0.34	0.74	0.03	0.76	1.02	-0.26	-0.01
3Y R.Excess	0.55	0.76	0.75	0.87	0.70	0.30	0.28	0.15	0.36	0.74	0.57	0.59

Index: Total Plan Benchmark

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Investment Hierarchy

			Three Months			Year to Date			One Year		
Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess
London Borough of Hillingdon	965,479,421	100.00	0.94	0.95	-0.01	3.84	4.13	-0.27	14.27	12.57	1.51
Total Plan Benchmark											
AEW UK	49,186,231	5.09	3.41	2.30	1.08	5.26	4.32	0.90	6.56	7.46	-0.84
LBH22 AEW Benchmark											
JP Morgan	55,302,276	5.73	1.24	0.85	0.39	3.57	1.73	1.81	6.41	3.58	2.73
LBH15 JPM LIBOR +3%pa											
Legal & General 1	225,450,456	23.35	0.40	0.55	-0.15	4.84	4.84	-0.00	-	-	-
LBH26 L&G Benchmark											
Legal & General 2	63,333,307	6.56	-0.06	0.16	-0.22	-	-	-	-	-	-
LBH27 L&G Benchmark											
London CIV Ruffer	103,981,030	10.77	-0.45	0.11	-0.56	-0.45	0.24	-0.68	7.90	0.57	7.29
LBH11 Ruffer BM LIBOR											
M&G Investments	20,598,047	2.13	2.42	1.09	1.31	0.61	2.22	-1.57	15.86	4.57	10.80
LBH10 3 Month LIBOR +4%pa											
Macquarie	27,417,942	2.84	4.34	0.85	3.46	6.69	1.73	4.88	15.39	3.57	11.41
LBH14 Macquarie LIBOR +3%pa											
Newton	139,271,739	14.43	0.96	0.95	0.01	5.71	7.29	-1.47	17.24	24.91	-6.14
LBH19 FTSE World Index +2%											
Premira Credit	51,348,609	5.32	1.41	1.09	0.31	3.95	2.22	1.70	11.12	4.57	6.26
LBH24 Premira LIBOR +4%pa											
UBS	129,475,421	13.41	1.44	1.42	0.03	4.28	5.50	-1.15	28.69	18.12	8.95
LBH04 UBS Benchmark											
UBS Property	69,581,120	7.21	0.20	2.30	-2.05	2.69	4.32	-1.56	3.26	5.97	-2.56
LBH06 UBS Property Benchmark											
Adam Street	16,591,599	1.72	0.04	1.48	-1.42	-1.62	8.35	-9.20	13.79	26.82	-10.27
Adam Street PE Bmark											
LGT	9,024,521	0.93	9.05	1.48	7.46	11.43	8.35	2.84	22.71	26.82	-3.24
LGT PE Bmark											

Investment Hierarchy(2)

	Three Years			Five Years			Inception to Date			
Account/Group -% Rate of Return	Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	Inception Date
London Borough of Hillingdon Total Plan Benchmark	9.60	8.96	0.59	10.33	9.41	0.84	7.19	7.03	0.14	30/09/1995
AEW UK LBH22 AEW Benchmark	11.24	9.98	1.15	-	-	-	11.24	9.98	1.15	30/06/2014
JP Morgan LBH15 JPM LIBOR +3%pa	3.79	3.65	0.13	4.02	3.62	0.39	4.20	3.66	0.51	08/11/2011
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	5.73	5.76	-0.02	31/10/2016
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	1.82	2.04	-0.22	22/02/2017
London CIV Ruffer LBH11 Ruffer BM LIBOR	7.02	0.65	6.33	7.20	0.67	6.49	6.17	0.85	5.28	28/05/2010
M&G Investments LBH10 3 Month LIBOR +4%pa	10.43	4.64	5.53	9.11	4.61	4.30	7.30	4.70	2.49	31/05/2010
Macquarie LBH14 Macquarie LIBOR +3%pa	20.95	3.64	16.70	11.20	3.61	7.33	4.47	3.69	0.75	30/09/2010
Newton LBH19 FTSE World Index +2%	16.87	17.68	-0.69	-	-	-	14.63	16.32	-1.45	24/01/2013
Premira Credit LBH24 Premira LIBOR +4%pa	-	-	-	-	-	-	9.60	4.59	4.79	30/11/2014
UBS LBH04 UBS Benchmark	9.07	7.40	1.56	14.04	10.57	3.14	10.27	8.91	1.25	31/12/1988
UBS Property LBH06 UBS Property Benchmark	10.31	9.47	0.77	9.52	8.94	0.53	3.54	3.53	0.01	31/03/2006
Adam Street Adam Street PE Bmark	19.12	19.66	-0.45	14.88	18.35	-2.93	6.45	-	-	31/01/2005
LGT LGT PE Bmark	21.34	19.66	1.40	15.80	18.35	-2.15	11.04	-	-	31/05/2004

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

Account/Group	31/03/2017 Market Value	31/03/2017 Weight	Net Contribution*	Income	Fees	Appreciation	30/06/2017 Market Value	30/06/2017 Weight	Change in Weight
London Borough of Hillingdon	**956,496,312**	**100.00**	**-8,411**	**3,423,635**	**8,515**	**5,567,885**	**965,479,421**	**100.00**	**0.00**
AEW UK	47,565,189	4.97	-1	553,270	0	1,067,773	49,186,231	5.09	0.12
GMO Global	27,985	0.00	-27,986	1	0	0	0	0.00	-0.00
JP Morgan	54,622,301	5.71	0	0	0	679,975	55,302,276	5.73	0.02
Legal & General 1	224,558,272	23.48	-6,759	0	6,759	898,943	225,450,456	23.35	-0.13
Legal & General 2	63,374,228	6.63	-1,756	0	1,756	-39,165	63,333,307	6.56	-0.07
London CIV Ruffer	104,453,932	10.92	-2,404	-893	0	-469,605	103,981,030	10.77	-0.15
M&G Investments	23,822,576	2.49	-3,723,884	84	0	499,271	20,598,047	2.13	-0.36
Macquarie	27,651,020	2.89	-1,374,977	401,210	0	740,690	27,417,942	2.84	-0.05
Newton	137,948,370	14.42	0	0	0	1,323,368	139,271,739	14.43	0.00
Premira Credit	38,316,673	4.01	12,318,019	86,956	0	626,961	51,348,609	5.32	1.31
UBS	130,151,100	13.61	-2,500,000	1,769,194	0	55,126	129,475,421	13.41	-0.20
UBS Property	69,443,005	7.26	0	638,420	0	-500,305	69,581,120	7.21	-0.05
Adam Street	17,624,053	1.84	-1,011,476	0	0	-20,978	16,591,599	1.72	-0.12
LGT	9,455,636	0.99	-1,203,122	-1,303	0	773,311	9,024,521	0.93	-0.05
Cash & Other Assets	7,481,971	0.78	-2,474,064	-23,305	0	-67,478	4,917,124	0.51	-0.27

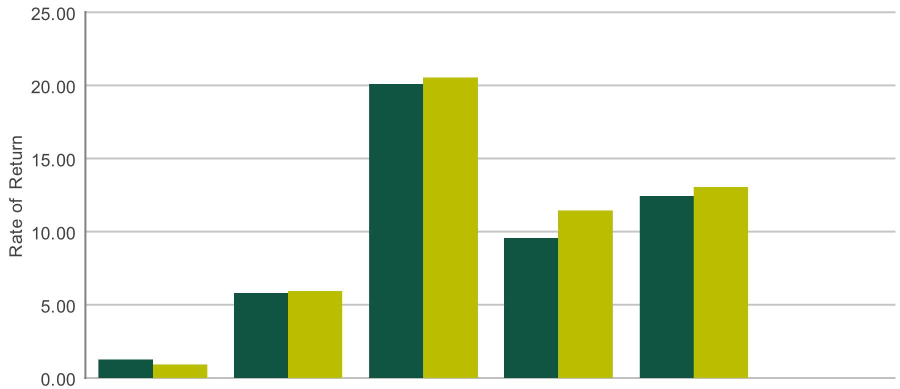
Min -0.36 1.31 Max

*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.

Category: Total Fund Gross of Fees • Currency: GBP

Historical Performance

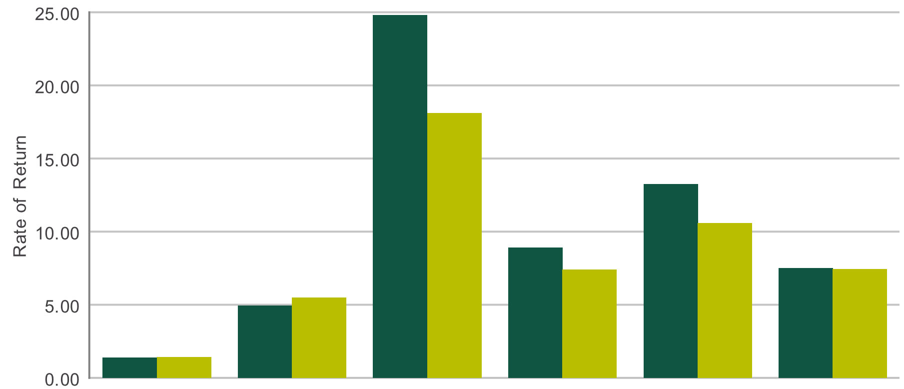
EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.26	5.78	20.10	9.56	12.42	-
Index	0.92	5.92	20.53	11.42	13.06	-

Index: Total Equity Benchmark

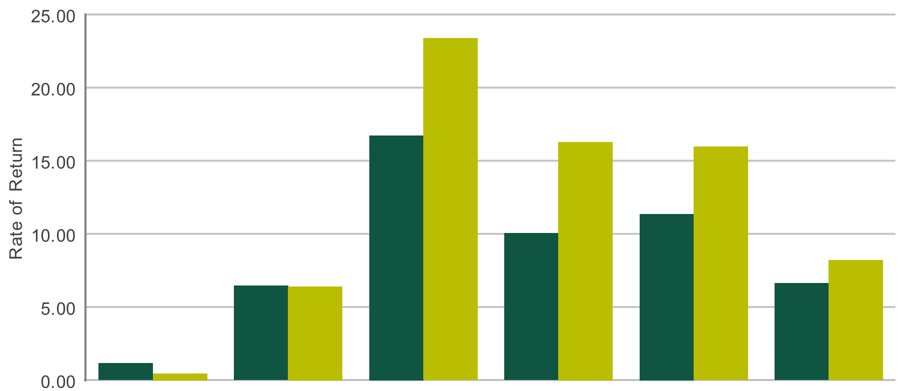
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.39	4.93	24.80	8.89	13.24	7.49
Index	1.42	5.50	18.12	7.40	10.57	7.43

Index: FTSE All Share UK Equity

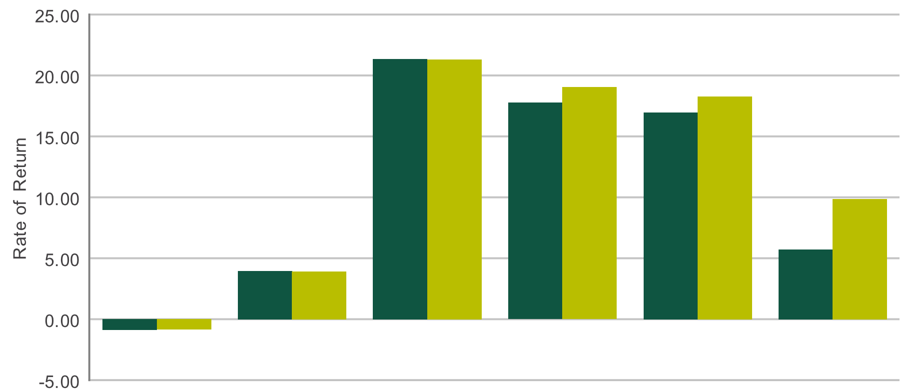
OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.15	6.46	16.72	10.05	11.36	6.63
Index	0.45	6.40	23.37	16.29	15.96	8.20

Index: Total O'seas Equity Benchmark

NORTH AMERICA

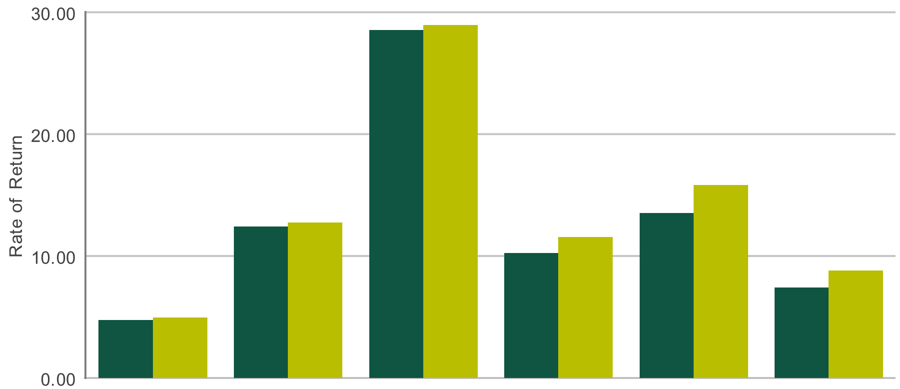


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.88	3.94	21.35	17.76	16.95	5.72
Index	-0.86	3.93	21.31	19.03	18.27	9.86

Index: FTSE North America

Historical Performance

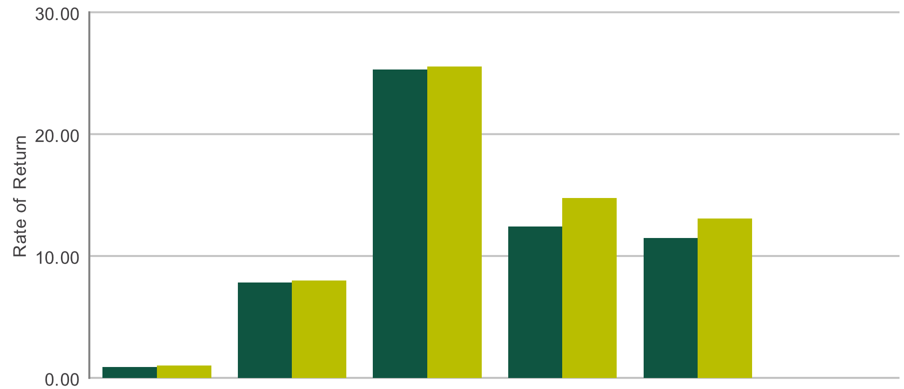
EUROPE EX UK



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.72	12.40	28.52	10.22	13.52	7.39
Index	4.95	12.73	28.95	11.56	15.80	8.82

Index: FTSE AW Dev Europe ex UK

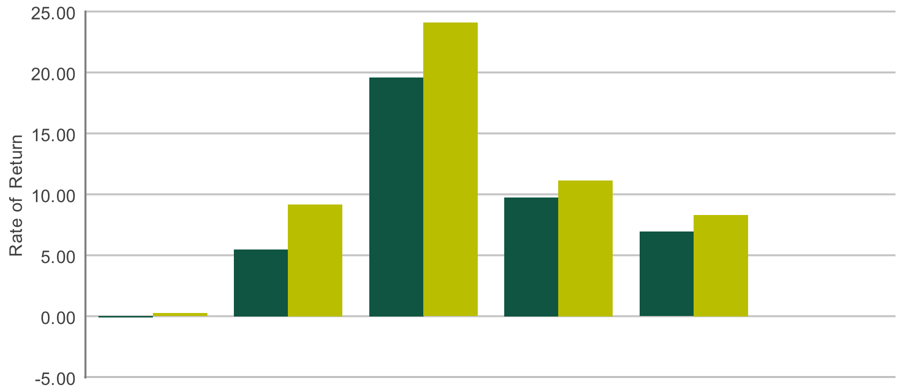
ASIA PACIFIC INC JAPAN



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.89	7.83	25.31	12.42	11.48	-
Index	1.00	7.96	25.55	14.76	13.08	-

Index: FTSE AW Dev Asia Pacific

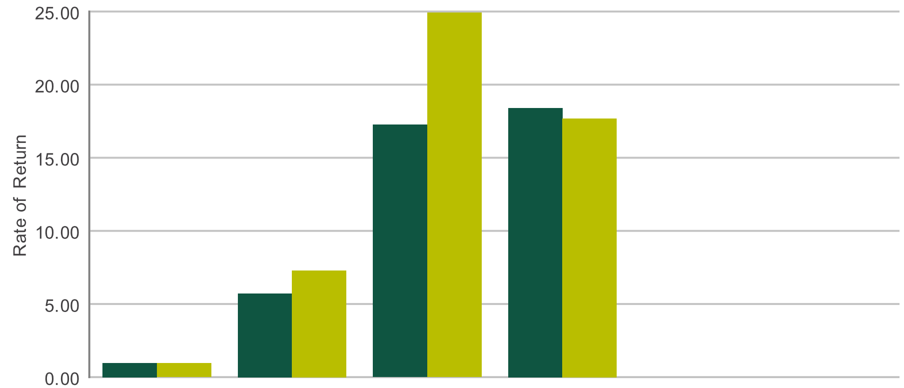
EMERGING MARKETS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.12	5.47	19.58	9.74	6.93	-
Index	0.24	9.18	24.08	11.15	8.29	-

Index: LBH Emerging Markets

GLOBAL - NEWTON

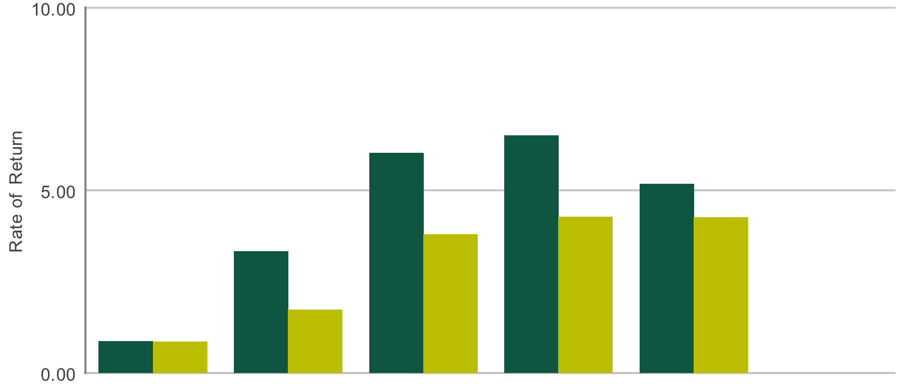


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.96	5.71	17.25	18.41	-	-
Index	0.95	7.29	24.91	17.68	-	-

Index: FTSE World Index +2%

Historical Performance

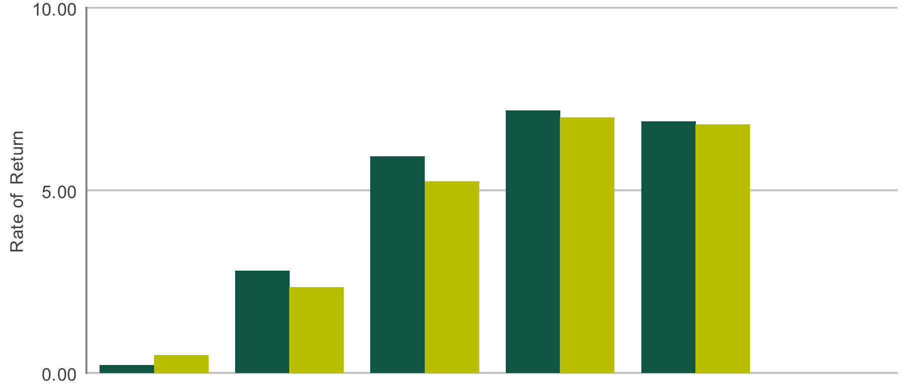
FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.87	3.33	6.03	6.50	5.18	-
Index	0.85	1.73	3.79	4.28	4.26	-

Index: LBH Fixed Income Benchmark

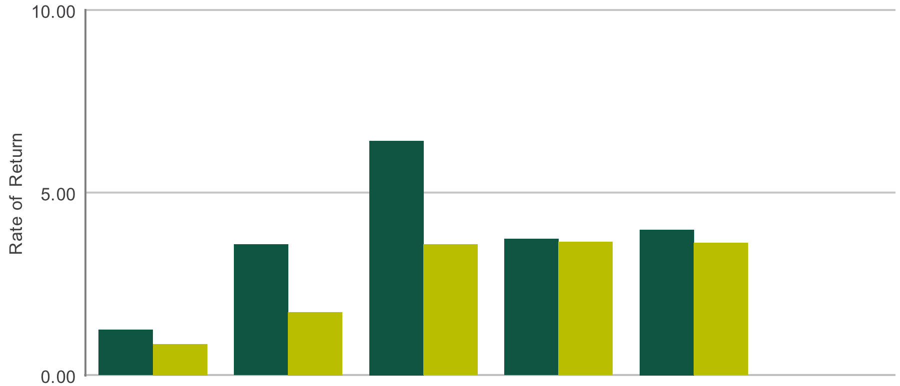
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.21	2.80	5.93	7.19	6.89	-
Index	0.49	2.34	5.25	6.99	6.81	-

Index: LBH Non-Gilts Benchmark

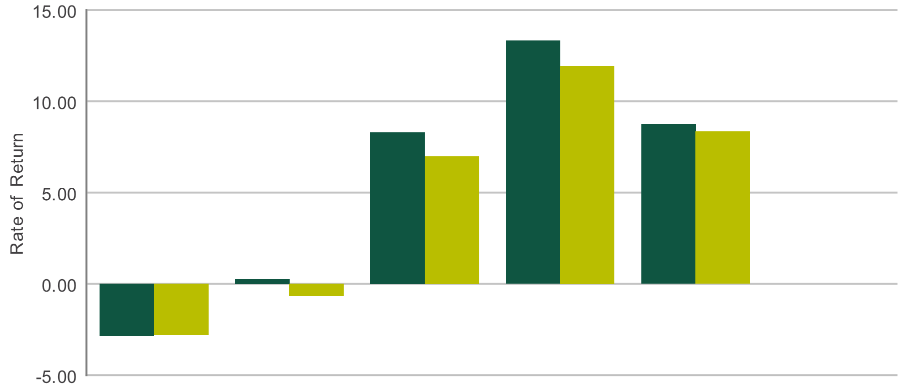
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.24	3.58	6.42	3.73	3.98	-
Index	0.85	1.73	3.58	3.65	3.62	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

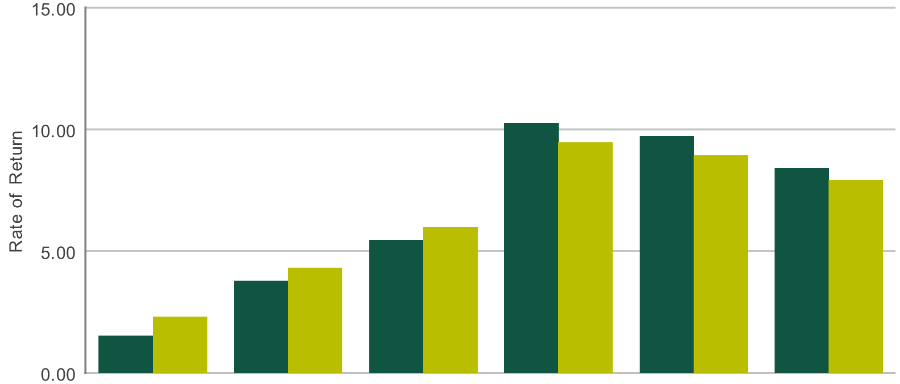


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-2.87	0.25	8.29	13.32	8.75	-
Index	-2.81	-0.68	6.98	11.95	8.34	-

Index: LBH Index Linked Benchmark

Historical Performance

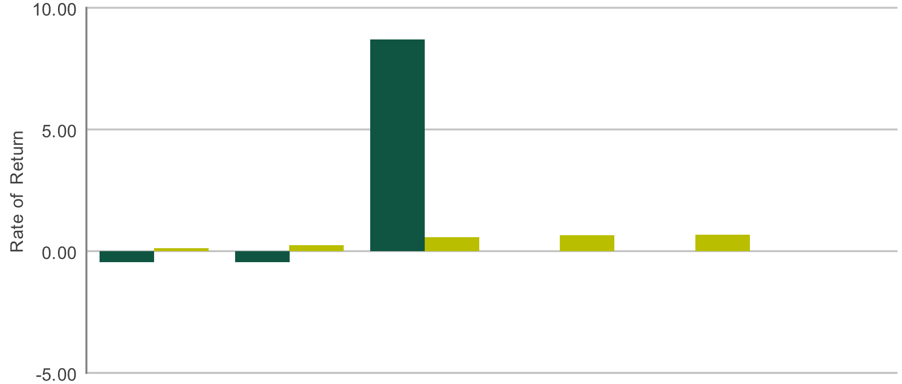
REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.52	3.78	5.45	10.27	9.74	8.43
Index	2.30	4.32	5.97	9.47	8.94	7.92

Index: IPD UK PPFI All Bal Funds Index

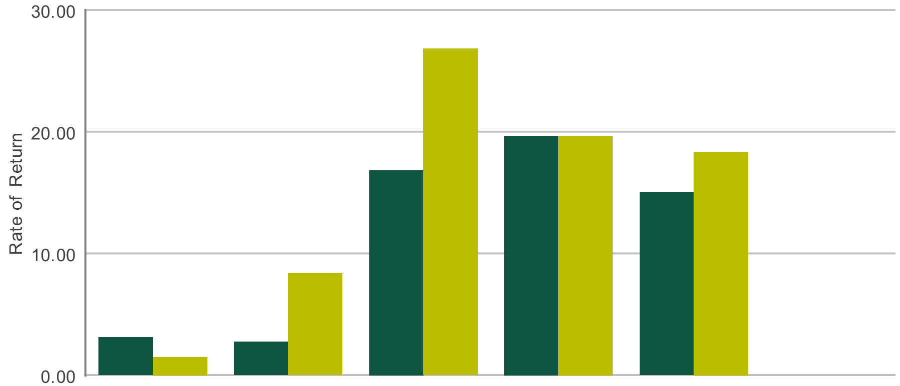
DGF/ABSOLUTE RETURN



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.45	-0.45	8.69	-	-	-
Index	0.11	0.24	0.57	0.65	0.67	-

Index: LIBOR GBP 3 Month

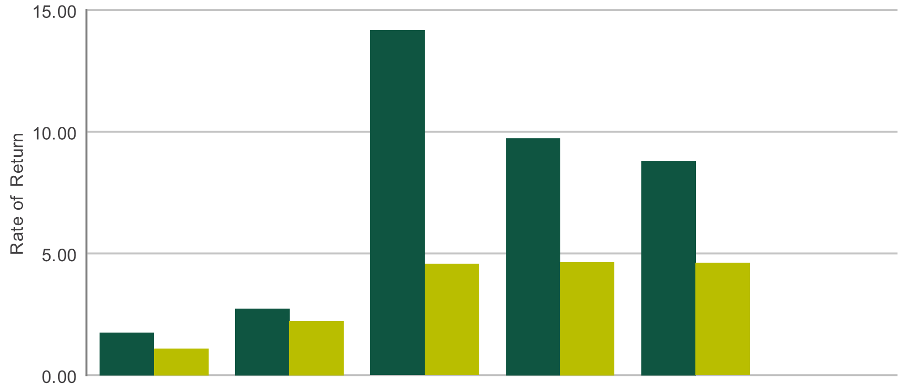
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.10	2.73	16.84	19.67	15.05	-
Index	1.48	8.35	26.82	19.66	18.35	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.75	2.73	14.17	9.73	8.81	-
Index	1.09	2.22	4.57	4.64	4.61	-

Index: LIBOR GBP 3 Month +4% pa

Benchmark Composition

Total Plan Benchmark

22.63	FTSE All Share
2.46	FTSE North America
2.32	FTSE Developed Europe ex UK
1.37	FTSE Japan
0.96	FTSE Developed Asia Pacific ex Japan
2.31	FTSE Emerging Markets
14.41	FTSE World Index +2%
4.81	FTSE Index Linked Gilts 15+ Years
1.80	FTSE Index Linked Gilts
3.25	iBoxx Sterling Non-Gilts
12.09	IPD UK PPFI All Balanced Funds Index
7.55	LIBOR 3 Month +3%
11.03	LIBOR 3 Month
6.39	LIBOR 3 Month +4%
1.63	FTSE AW Developed GBP Hedged
2.96	MSCI All Countries World Index +4%
2.03	FT 7 Day LIBID

AEW UK

100.0	IPD UK PPFI All Balanced Funds Index

JP Morgan

100.0	LIBOR 3 Month + 3%

Legal & General

38.75	FTSE All Share
10.53	FTSE World North America
9.92	FTSE World Europe ex UK
5.88	FTSE Japan
4.10	FTSE Developed Asia Pac ex Japan
2.94	FTSE Emerging Markets
13.34	FTSE Index Linked Gilts 15+ Years
7.72	FTSE Index Linked Gilts
6.82	iBoxx Sterling Non-Gilts

Legal & General

24.72	FTSE AW Developed GBP Hedged
24.52	FTSE Emerging Markets
25.67	FTSE Index Linked Gilts 15+ Years
25.09	iBoxx Sterling Non-Gilts

London CIV Ruffer

100.0	LIBOR 3 Month Sterling

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%

UBS

100.0	FTSE All Share

UBS Property

100.0	IPD UK PPFI All Balanced Funds Index

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Chairs of LGPS pension funds
Chairs of LGPS investment pools

22 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY	**MARCUS JONES MP**	**CAROLINE NOKES MP**

Implementation of the Markets in Financial Instruments Derivative (MiFID II)

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	APPENDIX 1 – Retail client protections APPENDIX 2 – Summary of FCA policy statement APPENDIX 3 – Opt up process flowchart APPENDIX 4 – Opt up letter template APPENDIX 5 – Opt up information template

SUMMARY

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the of becoming a retail client on 3rd January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018;**
2. **Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.**
3. **In electing for professional client status the committee acknowledges and agrees to forgo the protections available to retail clients attached as APPENDIX 1.**
4. **Agrees to approve delegated responsibility to The Corporate Director Finance for the purposes of completing the applications and determining the basis of the application as either full or single service.**

INFORMATION

Context

Under the current UK regime, local authorities are automatically categorised as per se professional clients in respect of non MiFID scope business and are categorised as per se professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'optup criteria'.

Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a per se professional client or elective ECP for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an elective professional client status.

Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential Impact

A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat the fund the same way they do individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, to the regulator that all requirements have been met.

Such protections would come at the price of not being able to access the wide range of assets needed to implement an effective investment strategy. Retail status would significantly restrict the range of institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under FCA rules as ‘non-complex’ which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss (‘promote’) certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

MiFID II allow for retail clients which meet certain conditions to elect to be treated as professional clients (to ‘opt up’). There a two tests which must be met by the client when being assessed by the financial institution the quantitative and the qualitative test.

The Local Government Pension Scheme Advisory Board (SAB) and the LGA along with the Department of Communities and Local Government and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

The new tests recognise the status of LGPS administering authorities as providing a ‘pass’ for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as APPENDIX 2

The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January. Failure to do so would result in the institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

A flowchart of the process is attached as APPENDIX 3 and the letter and information templates are attached as APPENDICES 4 and 5

Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end. It is recommended that officers determine the most appropriate basis of the application either full or single service.

Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the optup process and notify all institutions of any changes in circumstances which could affect their status; for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority’s investment advisor was terminated.

LGPS pools

LGPS pools will be professional investors in their own right so the fund will not need to opt up with external institutions they use. Authorities will however need to opt up with their LGPS pool in order to access the full range of services and funds on offer.

In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use ‘safe harbour’ provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

Elections to professional status will be needed for every institution the authority uses outside of the pool both existing and new together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are transferred.

Next steps

In order to continue to effectively implement the authority's investment strategy after 3rd January applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

This process should commence as soon as possible in order to ensure complete in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

The officer named in the recommendations be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

Note - Single service basis opt up is electing up with a fund manager for a single specific asset class. Full service basis opt up is for all future assets classes or advice the fund may require now or as part of its ongoing strategy. Opt up to either full or single service will be based on type of relationship and future service provision with the financial institution.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

<u>**Warnings - loss of protections as a Professional Client**</u>

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term ‘financial sector’ in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority’s ability to borrow extra funds to ‘game’ this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take “appropriate action”. Neither MiFID II, nor our rules specify what ‘appropriate action’ is, which will depend on the facts of the case and what would be in the client’s best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage Finalise standard opt-up process	End July 2017	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 Local authorities to complete letter and questionnaire and send to investment firms	August – September 2017	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 Investment Firms to validate the information and run the client status assessment	September – October 2017	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 Dispatch the confirmation letter to LA clients confirming professional client status	October 2017	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 Client re-categorisation	3 January 2018	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

……………………………………………….

[insert name and position] **[Authority]**

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:_____________________________

DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: ……………………………………………………………………...	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: ………………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?	YES NO	☐ ☐
	(*Please tick whether you have enclosed or provided a link to details of the succession plan*)	Enclosed Link	☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.
[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each <u>investment advisory firm</u> used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6.	For each <u>individual investment consultant</u> used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	Relevant qualifications	Years experience in role[4]

7.	For each <u>investment consultancy firm</u> used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

Pensions Administration Report

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	KPI report Draft Governance Policy and Compliance Statement

SUMMARY

This report is for information and provides an update on the administration of the London Borough of Hillingdon Fund of the LGPS, both in relation to Surrey and internally at Hillingdon.

Attached to the report is a draft Governance Policy and Compliance Statement for approval by Pensions Committee. This strategy was developed by officers, assisted by AON Hewitt, the Fund's governance advisor and reviewed by Pensions Board. It is proposed to bring into effect from 1 October 2017.

RECOMMENDATION

It is recommended that Pensions Committee:

1. **Agree to the amended list of Authorised Signatories for payment of Death Grants.**
2. **Approve the Governance Policy and Compliance Statement for the London Borough of Hillingdon Pension Fund.**

INFORMATION

Lump Sum Death Grant - Authorised Signatory

It has been a number of years since the officers delegated to approve Death Grants have been updated. As the administering authority for the London Borough of Hillingdon Pension Fund, the Council has absolute discretion in deciding who should receive payment of a Death Grant. When a payment is due, a report outlining the amount due and the circumstances of the death is provided by the Corporate Pensions Manager, or the Technical officer Pensions, with a recommendation as to who should receive payment of the Death Grant. This is then passed to two authorised signatories to either agree or otherwise, the recommendation. The payment of the grant cannot be made until two authorised signatories have signed to agree the recommendation.

It is recommended that the delegated officers who may authorise a Death Grant are, The Head of HR, The Head of Legal Service, HR and OD Service Manger, Director of Finance, Legal Services - Office Managing Partner and the Chief Accountant, or the equivalent officer if the post name changes.

Surrey Administration Update

As reported previously to Committee, the Pension Administration system used by Surrey - Altair - includes a sophisticated task management system which allows the progress of all case work to be managed and monitored on a daily basis. The Key Performance Indicators (KPIs) against which Surrey are being monitored were all contained within the agreed Section 101 agreement.

Surrey, continue to identify errors in members records that they inherited from Capita. However, Surrey will be issuing Annual Benefit statements to scheme members within the legislative deadline of 31 August. Included with the statements will be details of how members may now log-in to the pensions administration system to look at their own record.

Surrey is having difficulty in recruiting experienced staff, and have recently decided to recruit to trainee positions and train staff themselves. Additionally, an experienced member of their team is due to return from maternity leave in September who will be able to work exclusively on cleaning Hillingdon data. Officers are awaiting a detailed business plan from Surrey, which will include a request for increased funding to provide additional recourses, on a temporary basis, to help with general data cleansing issues. That said the Pensions Manager is very keen that they deliver progress with recovering the data quality issues which are causing so much additional work. He has reiterated Surrey's commitment to working together with LB Hillingdon to recover the administration service on behalf of the Hillingdon fund and has every confidence we can jointly move towards providing an efficient and effective service in the future.

Key Performance Indicators 1 July 2017 to 28 August 2017

The attached KPI Report shows a number of areas of concern, especially regarding death cases; however, having checked all the cases included in the report, officers were able to confirm an acknowledgment was sent out to the Next of Kin within 3 working days of Surrey being able to identify the relevant person for this purpose. Notification of the death may of come from the deceased's bankers or solicitor, and Surrey have to then investigate to ascertain who is the Next of Kin. Another major area of concern is the late calculation of Spouse's Benefits. This was brought to our attention at the last contract review meeting with Surrey and has arisen due to Spouses details not being transferred over as part of the transition between Capita and Surrey. It has been agreed that the in-house team will look at and correct records where a Spouses Benefit is due, to ensure cases are completed with the agreed deadline. The next KPI Report submitted to committee will include figures relating to the issuing of Annual Benefit Statement,.

Hillingdon Process update

Previous reports to Committee have explained how the in-house team have adapted their processes to support the work with Surrey, to ensure that all new starters and leavers are identified and checked against information held in the Altair system. Processes are still being monitored and amended where necessary. All Scheme employers are aware that it is their responsibility to fully inform Surrey of all activity.

Monthly monitoring of pension contributions deducted, for both employees and employers is undertaken and as part of the process, amounts deducted from scheme members are reconciled with contributions paid in to the Pension Fund bank account. Discrepancies are immediately referred back to the employer. These checks enable the internal team to identify any new employees or leavers where no documentation had been sent to Surrey. Issues are being addressed as they are identified to ensure quality of data is maintained going forward.

Governance Policy and Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Supported by Daniel Kanaris of AON Hewitt, a draft updated Governance Policy was taken to Local Pensions Board for consideration and review in June. Minor amendments have been made in line with Boards suggestions and now the policy is with Pensions Committee for approval.

FINANCIAL IMPLICATIONS

There are no financial implications within this report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

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Hillingdon Pensions Administation - Key Performance Indicators 2017-18 Q2

Activity	Measure	Impact	Target	July		Aug		Sept		Commentary	
Scheme members	Pensioners, Active & Deferred			21510							
New starters set up/welcome letters				37							
ABS sent - Councillors	Statutory deadline		Due by 31 Aug								
ABS sent - Active	Statutory deadline										
ABS sent - Deferred	Statutory deadline										
				Volume	Score	Volume	Score	Volume	Score		May/June
Death notification acknowledged, recorded and documentation sent	5 working days	M	**100%**	7	86%	9	44%			1 case late in July. Legacy case.	Same
Payment of death grant made	10 working days	H	**100%**	2	NA	1	100%				DTHDGRA1
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	**100%**	30	60%	17	71%				Same - deferreds exc
Payment of lump sum made	10 working days	H	**100%**	29	97%	27	81%				
Calculation of spouses benefits	10 working days	M	**100%**	2	0%	14	36%			These cases are all late because of complexities and resource required to reconstruct the pensioner records	
Transfers In - Quote (Values)	20 working days	L	**100%**	5	100%	0	100%				
Transfers In - Payments	20 working days	L	**100%**	0	100%	1	100%				
Transfers Out - Quote	20 working days	L	**100%**	0	100%	2	100%				
Transfers Out - Payments	20 working days	L	**100%**	0	100%	1	0%				
Employer estimates provided	10 working days	M	**100%**	3	67%	4	75%				
Employee projections provided	10 working days	L	**100%**	7	71%	10	40%			Some cases took longer than 10 days but forward projections only and we aim to make MSS available for this purpose	
Refunds	20 working days	L	**100%**	10	100%	8	100%				
Deferred benefit notifications	20 working days	L	**100%**	25	84%						
Complaints received- Admin				1		2					
Complaints received- Regulatory				0		0		0			
Compliments received				Not recorded		Not recorded		Not recorded			
Queries Handled by Helpdesk				544							

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London Borough of Hillingdon Pension Fund

Governance Policy and Compliance Statement

Governance Policy and Compliance Statement– Administering Authority

London Borough of Hillingdon is the Administering Authority of the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives

The London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund on behalf of its stakeholders which include (at time of drafting):

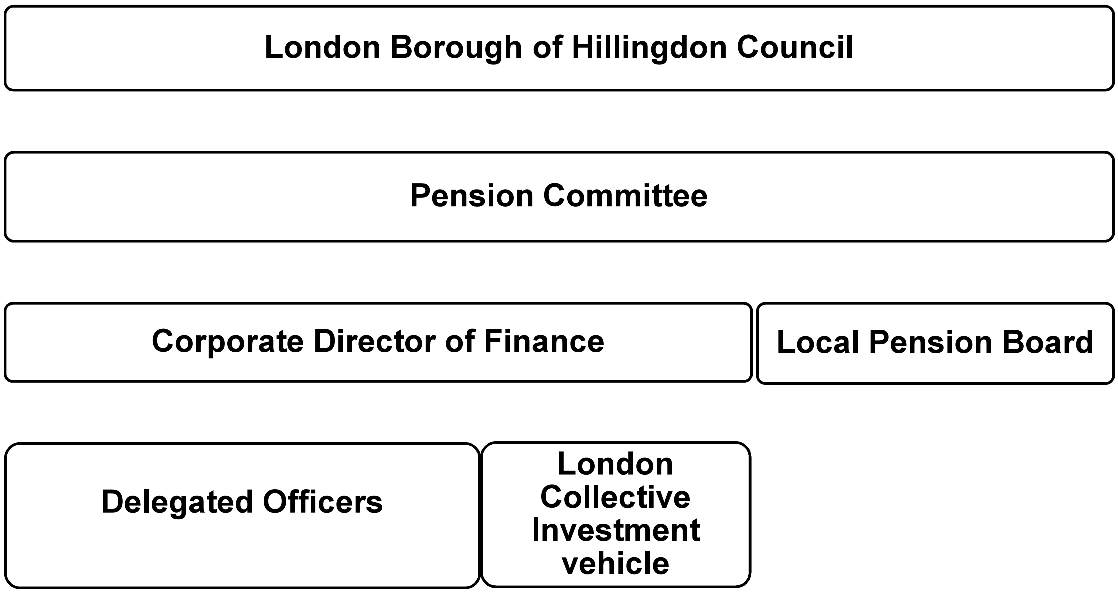
- around 22,100 current and former members of the Fund, and their dependants
- over 40 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.



Terms of Reference for the Pensions Committee

The Pensions Committee's principal aim is to carry out the functions of the London Borough of Hillingdon as the Scheme Manager and Administering Authority for the London Borough of Hillingdon Pension Fund in accordance with Local Government Pension Scheme regulations and any other relevant legislation.

In its role as the administering authority, the London Borough of Hillingdon owes fiduciary duties to the employers and members of the London Borough of Hillingdon Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

The Pensions Committee operates under the following terms of reference:

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.

2. To review the Investment Strategy Statement 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 agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.

5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.

6. 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.

7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.

8. To review the appointment of specialist advisors and service providers and make new appointments as necessary.

9. 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.

11. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.

12. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.

13. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.

14. 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.

Membership of the Pensions Committee

Councillor membership of the Committee will be 5, will be politically balanced and have voting rights. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

Meetings

The Council shall fix the day of meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they see fit. The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website: http://www.hillingdon.gov.uk

The Committee's full terms of reference can also be found on the Council's website.

Scheme of Delegation

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Corporate Director of Finance in the case of the Pension Fund. The Corporate Director of Finance is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Corporate Director of Finance in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Corporate Director of Finance and responsible officer for the pension Fund. The scheme of delegation is reviewed regularly by the Council.

London CIV

The London CIV was formed as by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Sectoral Joint Committee, comprising nominated Member representatives from each investing Fund within the pool. In addition there is an Investment Advisory Committee ("IAC") formed of nominated officers from the investing Boroughs.

As an FCA Authorised Contractual Scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme.

London CIV - Pensions CIV Sectoral Joint Committee

The Pensions CIV Sectoral Joint Committee was established in accordance with recommendations made to London Councils Leaders Committee on 11 February 2014 and operates under the London Councils governance arrangements. Each London Local Authority participating in the London CIV appoint a representative to the Pensions CIV Joint Committee. The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for participating authorities to consider and provide guidance on the direction and performance of the CIV. In addition members shall meet at least once each year at an AGM of the ACS Operator in their capacity as representing shareholders of the ACS Operator. If decisions are required on specialist matters where the committee do not have expertise advisers will be arranged at attend the committee meetings. Committee meeting are called in accordance with London Councils' Standing Orders which covers procedures, quorum and voting.

London CIV - Investment Advisory Committee (IAC)

The IAC is responsible in supporting the Joint Committee in the investment decision making process and to liaise with the Fund Operator on the CIV in defining Shareholders' investment needs. It was formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities. The IAC is involved in reviewing the needs of the London local authority Pension Funds in terms of investment strategies and investment mandates for the CIV and it supports the review of investment managers and performance reports from the ACS Operator. Membership of the IAC is reviewed annually based on nominations and the committee is required to review the effectiveness of the committee annually.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of London Borough of Hillingdon does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The London Borough of Hillingdon Pension Board was established by London Borough of Hillingdon on 1st April 2015 and the full terms of reference of the Board can be found on the Fund's website hillingdon.gov.uk/pensions. The key points are summarised below:

Role of the Pension Board

The Pensions Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

Membership of the Pension Board

The membership of the Board must be equally split between employer and scheme member representatives with relevant experience and the capacity to represent. Council has determined that membership shall be:

- 3 employer representatives - elected Members, appointed on the basis of political balance and appointed annually by Council. No elected Member may sit on both the Pensions Committee and the Pensions Board.

- 3 employee/scheme member representatives - selected at interview by the Chairman and one other Member of the Pensions Committee and a Senior Officer, on the basis of capacity and/or experience. Term of Office to be indefinite

Meetings

The Pension Board meets quarterly in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board is treated in the same way as a Committee of the London Borough of Hillingdon and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pensions Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website: hillingdon.gov.uk/pensions.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the Investment Strategy Statement are as follows:

- Investment objectives.
- Asset allocation
- Pooling of assets
- Investment implementation
- Investment governance
- Performance management
- Risk Management
- Environment, Social and Governance (ESG) policy

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

London Borough of Hillingdon has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Conflicts of Interest

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected

Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Corporate Director of Finance to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website: hillingdon.gov.uk/pensions.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website: hillingdon.gov.uk/pensions.

Discretions Policies

Under the LGPS regulations, the Administering Authority has a level of discretion in relation to a number of areas, and maintains a policy document detailing how it will exercise these discretions. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and London Borough of Hillingdon's Employing Authority Discretions can be found on the website: http://www.hillingdon.gov.uk

Pension Administration Strategy

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: hillingdon.gov.uk/pensions. This represents part of the process for ensuring the ongoing efficient management of the

Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Monitoring Governance of the London Borough of Hillingdon Pension fund

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Pension Board prepares and publishes an annual report. • In line with the Regulations this document will be filed with the DCLG.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• Pension Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and register is in place. • Ongoing consideration of key risks at Pensions Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

Key Risks

The key risks to the delivery of this Strategy are outlined below. Pensions Committee members will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time

allocated to ongoing management, either at Pensions Committee meetings or as part of key officers' duties

- Ineffective delegation of duties and/or presentation of Pensions Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members and/or key officers.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hillingdon Pensions Committee meeting on xxxxxx following consultation with all the participating employers in the Fund and London Borough of Hillingdon union representatives. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

Any enquiries in relation to the Fund's governance or the principles or content of this Strategy, or for further information on the Fund, contact:

Ken Chisholm, Corporate Pensions Manager
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

E-mail - kchisholm@hillingdon.gov.uk
Telephone - 01895 250847

Website: hillingdon.gov.uk/pensions

Appendix A

Governance Best Practice – Compliance Statement

Appendix A – London Borough of Hillingdon Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE & REPRESENTATION		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant	
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Non-compliant	Prior to establishment of the local Pensions Board, both employees and Unions were represented on Pensions Committee. However, they now sit on Pensions Board.
B. REPRESENTATION		

Best Practice	Compliant or not?	Explanatory Note
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Non-compliant	Council took the decision to only have Council Members as voting members on Committee. Meetings are open to all to attend, but main representation comes through Pensions Board.
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	N/A	
C. SELECTION AND ROLE OF LAY MEMBERS		
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Fully compliant	
b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Fully compliant	
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully Compliant	

Best Practice	Compliant or not?	Explanatory Note
E. TRAINING / FACILITY TIME / EXPENSES		
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant	
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully Compliant	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partially compliant	No annual training plan as training is developed according to need and workplan. A training log is maintained.
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	Fully compliant	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	N/A	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant	Pensions Board
G. ACCESS		

Best Practice	Compliant or not?	Explanatory Note
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant	
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	Through Pensions Board
I. PUBLICITY		
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant	

Appendix B

Delegation of Functions to Officers by Pensions Committee – June 2017

Key:
PC – Pensions Committee CDF – Corporate Director of Finance FA – Fund Actuary
Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's Investment Strategy Statement including specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation	CDF (having regard to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by CDF
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDF (having regard to ongoing advice of advisers and subject to ratification by PC)	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	CDF and the Head of HR	Copy of policy to be circulated to PC members once approved.

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDF, subject to agreement with Chairman	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Overall responsibility the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	CDF	Regular reports provided to PC
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDF, subject to agreement with Chairman	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

[1] CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

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Local Pension Board - Annual Report

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	n/a

PURPOSE OF REPORT

The report is compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since its inception and to meet the legislative requirement for producing an annual report. The need for an annual report was first discussed on 5th April 2016, when it was agreed that the production of the first report should wait until early 2017.

BACKGROUND

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:

- Secure compliance with the regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
- To ensure the effective and efficient administration of the Scheme.

London Borough of Hillingdon Council ratified the establishment of the Board on 6th November 2014 to commence with effect from 1st April 2015. The Board meets four times a year and consists of three Employer representatives, all members of the Council, and three scheme member representatives.

Membership and Attendance at Meetings

The membership of the local Pension Board is:

Employer Representatives:
Councillor David Simmonds CBE (Chairman)
Councillor Alan Chapman (Vice-Chairman)
Councillor John Morse

Scheme Member Representatives:

Venetia Rogers	Active Member
Andrew Scott	Active Member
Roger Hackett	Retired Member

Attendance at meetings has been high with an attendance rate of 88%.

AON Hewitt was appointed as Governance advisers to support the development and work of the local Pension Board and attend meetings as necessary.

Training

Internal training for all Board Members has been specific to the topics they have considered and been provided at the start of those meetings. The early focus was on the role of the Pension Board, Scheme Governance and the Pension Regulator's Code of Practice, with later sessions focussing on Investment of the Fund's assets and the Triennial Valuation process. Relevant external training opportunities are made available to Board Members and have been well supported, particularly by the scheme member representatives.

Using CIPFA's Training Needs analysis, specific training needs have been identified, and will continue to be identified, and will be built into future training.

Work of the Local Pension Board

The first meeting of the Hillingdon local Pension Board was in July 2015 and an outline workplan for the first two of years was agreed. There were four meetings in each municipal year - 30/07/15; 07/10/15; 12/01/16; 05/04/15; 29/06/16; 05/10/16; 10/01/17; and 04/04/17.

Each meeting undertakes a review of the most recent Pensions Committee reports and decisions, raising any issues for clarification with officers. To date there have been no issues referred back to Pensions Committee. All Committee papers are shared with Board Members who are encouraged to attend Committee meetings to fully understand the reports.

The first meeting of the Board agreed the Terms of Reference for the Board:

- The Pensions Board will be chaired by an elected Member of the Council and will meet quarterly in the month following Pensions Committee.
- Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
- The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.
- To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
- To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
- To provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be

appointed to the Pension Board does not have a conflict of interest. NB: Being a member of the LGPS is not seen as a conflict of interest.

The key work of the Pension Board to date has related to improving Fund governance through refreshing and drafting policy documentation and in ensuring compliance with the Pension Regulator's code of practice. Pension Board have undertaken some significant pieces of work since inception including:

- Development of a policy to Report Breaches of the Law;
- Development of a refreshed Communication Strategy;
- Supporting the development and introduction of an Administration Strategy;
- Review initial self assessment against Pension regulator's Compliance checklist and agreement of actions for improvement; and
- Maintaining a watching brief on the transition of Pensions Administration from Capita Employee Benefits to Surrey County Council.

FINANCIAL IMPLICATIONS

There are no financial implications within the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

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Agenda Item 11

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