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Pensions Committee

Date: **WEDNESDAY, 28 MARCH 2018**

Time: **5.00 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

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Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

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HILLINGDON
LONDON

Minutes

PENSIONS COMMITTEE

6 December 2017

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

	Committee Members Present: Councillors Philip Corthorne (Chairman) Michael Markham (Vice-Chairman) Peter Davis Beulah East Tony Eginton	
12.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Philip Corthorne declared a Non-Pecuniary Interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion on the items. 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 items. Councillor Beulah East declared a Non-Pecuniary Interest in all agenda items as she was a retired member of the Local Government Pension Scheme. She remained in the room during discussion on the items.	**Action by**
13.	**MINUTES OF THE MEETING - 25 SEPTEMBER 2107** *(Agenda Item 3)* Agreed as an accurate record. [In relation to Minute No. 5 - External Auditor Report on the Pension Fund Accounts - it was requested that a breakdown of Management Expenses detailed in the Pension Fund Accounts be provided on a quarterly basis to the Committee.]	**Action by**
14.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* It was agreed that Agenda Item 9 would be considered in private.	**Action by**
15.	**INVESTMENT STRATEGY AND FUND MANAGEMENT PERFORMANCE** *(Agenda Item 5)* Consideration was given to a report which provided Members with an	**Action by**

	overview of fund performance as at 30 September 2017, an update on recent investment decisions and progress on the London CIV. The Committee was informed that the total size of the fund was £978m at 30 September 2017 which was an increase from £965m at the end of the last quarter. This represented an overall investment return over the quarter of 1.59% which was a relative underperformance of the benchmark by 0.01%. Reference was made to the Fund now having London CIV holdings of £396m which accounted for 41% of total assets, which would increase to 55% after transition in November. In Part II of the agenda, the Committee received information on the current market update which covered the current market climate and performance of various investment vehicles, updates on Managers' reports and an update of the London CIV. **RESOLVED:** **(1) That the Committee discussed and noted the performance update and agreed any required decisions in respect of mandates or Fund Managers.** **(2) That the implementation of any decisions be delegated to the Officer and Advisor Investment Strategy Group.** **(3) That the follow up activity to previous investment decisions and progress in the development of the London CIV be noted.**	
16.	**ENVIRONMENTAL SOCIAL AND CORPORATE GOVERNANCE** *(Agenda Item 6)* Consideration was given to a report which provided details on the requirements for funds to have an ESG policy, the funds approach to ESG and Fund's Investment Manager's approaches to ESG including climate change. The KPMG advisor provided the Committee with a short training session on ESG. The Committee was informed of the possible options: • Active Management - which was to utilise an investment manager which specifically accounts for ESG related factors within the investment process. • Positive bias - Invest in sustainable themed investments addressing social and environmental change. • Negative Screening - Remove / reduce exposure to specific risk factors or sectors. Discussion took place on all available options and it was agreed that a more detailed look be taken at this to enable a decision to be taken	**Action by**

	which would balance the Fund's objective of maximising returns on investments against taking into account ESG factors. **RESOLVED:** **(1) That the current Fund Manager's ESG policies be noted.** **(2) That it was noted that the Fund was signed up to "The UK Stewardship Code".** **(3) That Investment Managers be requested to advise whether they had signed up to UN Principles for Responsible Investment (PRI) and "The UK Stewardship Code".** **(4) That a more detailed report be submitted to a future meeting providing greater detail, to enable the Committee to make an informed decision on the Fund's approach to ESG and investments.**	
17.	**PENSIONS ADMINISTRATION REPORT** *(Agenda Item 7)* 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. Members were informed that errors from the previous Pensions Administrator were still being identified which Surrey and the in-house team were continuing to update. Reference was made to an issue with Spouses Benefits, with Capita not having correct information on their system. Surrey had to recreate these records and create a Spouses Benefit. In addition a new process had to be implemented in relation to Death Notifications to enable all future cases to be dealt with within the agreed KPI timeframes. The Committee was informed that there would be two pension seminars taking place in 2018 which would be promoting the "Mypension" online tool for members to access their own pension records. **RESOLVED:** **(1) That the information contained in the report be noted.**	**Action by**
18.	**PENSION FUND RISK REGISTER** *(Agenda Item 8)* The report provided details of the main risks to the Pension Fund which enabled the Committee to monitor and review. Reference was made to two new risks contained in the register relating to the performance of the administration contract and the impact of the introduction of the new MiFID II directive which changed the investment status of Local Authorities to retail clients as a default position, which	**Action by**

	could lead to inability to carry out the investment strategy. **RESOLVED:** **(1) That the Committee considered the Risk Register and noted the measures which were being taken to mitigate the indentified risks.**	
19.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *(Agenda Item 9)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee received confidential information on the current market update which covered details on the current market climate and performance of various investment vehicles, updates on Managers' reports and an update of the London CIV. **RESOLVED:** **(1) That the information be noted, together with the performance of Fund Managers.**	**Action by**
	The meeting, which commenced at 7.00 pm, closed at 7.44 pm.	

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

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	ITEM 5

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

SUMMARY

This item will be preceded with a training and discussion item from KPMG on the fund strategy with options to update the funds strategic asset allocation to align with the funding strategy; to reduce risk and meet planned returns.

This report focuses on the investment of the Fund's assets. The report includes an overview of fund performance as at 31 December 2017, cash flow and expenditure summary for fund activity in the year, progress of the London CIV, regulatory updates and recent voting and engagement.

The total size of the fund was £1,009m at 31 December 2017 an increase £31m from £978m at the end of last quarter, with an overall investment return over the quarter of 3.08%, resulting in a relative under-performance of the benchmark by 0.44%. Included with this report is the Northern Trust performance report.

The funding level has increased from 75.1% at the formal valuation as at 31 March 2016 to 77.9% at the end of December 2017. Included with this report is an update on funding by the fund actuary.

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. **Consider and discuss any issues raised in the training item**
2. **Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
3. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

INFORMATION

1. Fund Performance

Over the last quarter to 31 December 2017, the Fund returned 3.08% (1.59% September 2017) an under-performance of 44 basis points relative to the fund benchmark of 3.53% (1.60% September 2017). The value of the Fund increased over the quarter by £31m, to bring the fund balance to £1,008.8m as at 31 December 2017.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	3.08	3.53	-0.45
1 Year	8.75	9.53	-0.78
3 Year	10.07	9.43	+0.64
5 Year	10.10	9.50	+0.60
Since Inception (09/1995)	7.24	7.11	+0.13

During the quarter distributions were received from various alternative investment mandates with funds utilised to fund the commitment to Permira. Positive impacts were seen from Macquarie, Permira, LondonCIV and UBS Property negated by negative performances from both private Equity portfolios, AEW, M&G and UBS Equities.

Relative performance over a one year rolling period was 0.72% behind the benchmark with the largest detractors being Adams Street & LGT Capital. Macquarie, Permira, AEW & JP Morgan portfolios significantly outperformed their relative benchmarks during this period.

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 12 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 31 Dec 2017	Actual Asset Allocation	Benchmark Allocation
ASSET CLASS	**£'000**	**%**	**%**
UK Equities	227,334	22.5	47.0
Global Equities	255,736	25.3	
UK Index Linked Gilts	66,109	6.6	12.0
Corporate Bonds (Global)	88,625	8.8	
Property	125,834	12.5	12.0
DGF/Absolute Returns	105,970	10.5	12.0
Private Equity	22,016	2.2	4.0
Infrastructure	27,008	2.7	3.0

Private Credit	66,708	6.6	10.0
Cash & Cash Equivalents	23,497	2.3	0.0
Totals	**978,184**	**100.0**	**100.0**

The underweight position in Private Equity is due the maturity profile of the investments with more money now being returned than drawn-down. The underweight position in Private Credit is due to committed funds in Permira yet to be called totalling £20.2m.

The fund will soon be receiving funds from the Harrow and Uxbridge College merger that will be invested in March/April in line with the Strategic asset allocation and to meet liquidity requirements of committed funds.

Current Asset Allocation by Manager

		Market Value As at 31 Dec 2017	**Actual Asset Allocation**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**
ADAMS STREET	Private Equity	14,382	1.4
LGT	Private Equity	7,593	0.8
AEW	Property	53,073	5.2
JP MORGAN	Corporate Bonds (Global)	56,529	5.6
LCIV - EPOCH	Global Equities	140,384	13.9
LCIV - RUFFER	DGF/Absolute Returns	105,970	10.5
M&G	Private Credit	13,645	1.4
MACQUARIE	Infrastructure	27,008	2.7
PERMIRA	Private Credit	53,063	5.3
LGIM	UK Equities	92,799	9.2
	Global Equities	115,352	11.4
	UK Index Linked Gilts	66,109	6.6
	Corporate Bonds (Global)	31,736	3.2
UBS EQUITIES	UK Equities	134,535	13.3
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	5,064	0.5
UBS PROPERTY	Property	72,739	7.2
	Cash & Cash Equivalents	1,211	0.1
Non Custody	Cash & Cash Equivalents	17,222	1.7
		1,008,477	**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

In the fourth quarter of 2017, the FTSE All-Share index rose 5.0% over the period amid further evidence of a sustained recovery in the global economy. This was underlined as the International Monetary Fund (IMF) upgraded its global growth forecast for 2017 to 3.6%, from 3.2% reflecting rising hopes for a sustained synchronised recovery. On the domestic front, despite a sluggish economy, the Bank of England's (BoE) monetary policy committee raised interest rates for the first time since November 2007, from a record low of 0.25% back to 0.50%. Annual CPI inflation reached 3.1% in November, breaching the BoE's upper target. The UK Budget did little to dispel the fears around the UK economy as the Office for Budget Responsibility downgraded its GDP growth forecasts. However, hopes rose towards the period end around progress with Brexit negotiations, with an agreement struck to allow talks to proceed to the future of trade arrangements.

In the US, the S&P 500 ended a strong year with a fourth-quarter gain of +6.6%. Two Republican defeats in Senate contests in Alabama and Virginia during the quarter spurred House and Senate Republicans into action. Fearing the defeats are a sign of things to come in next year's mid-term elections, they agreed the long-awaited tax reform bill. Markets rallied on the news, with big permanent cuts for corporations as the centrepiece of the package. US equities were also supported by generally positive macroeconomic data, including better-than-expected third-quarter GDP growth of 3.0% (annualised). Employment data over the period was partly distorted by the effects of the hurricane season. However, non-farm payrolls rose by a stronger-than-expected 228,000 in November although wage growth remained subdued.

Eurozone markets ended 2017 on a negative note with the MSCI EMU index returning -0.5% in the fourth quarter. Profit-taking after this year's gains and a stronger euro were in part to blame for the downward move. The healthcare, telecoms and financials sectors underperformed, while materials was the top gainer. Within healthcare, some corporate updates disappointed the market, including below-consensus Q3 revenues from pharmaceutical firm Sanofi.
Japanese equities gained ground to record a rise of 8.7% for the quarter while the yen ended little changed. After considerable initial uncertainty over the potential outcome of October's snap general election, the likelihood of an LDP victory increased steadily. This enabled equity investors to form a view on the likely continuation of both monetary and fiscal policies. This more stable sentiment was matched by a significant pick-up in net purchases of Japanese equities by foreign investors, helping to maintain upward momentum in the market after Mr Abe's victory was confirmed.

Emerging markets recorded a strong gain in Q4, with political developments supporting gains. The MSCI Emerging Markets index increased in value and outperformed the MSCI World.South Africa was the strongest index market as pro-reform candidate, Cyril Ramaphosa, was elected as leader of the African National Congress. This development increased the prospect for a return to more orthodox policy after elections in 2019.

In the UK, ten-year gilt yields were down from 1.36% to 1.19% with less pronounced decreases for five and two-year maturities. A November rate hike by the BoE was well anticipated and was accompanied by dovish guidance. Economic activity remains subdued and political uncertainty continues. Corporate bonds capped a good year with positive total returns, outperforming government bonds.

4. LCIV update

LCIV currently has 11 sub-funds; two new sub-funds we opened in Q4. Epoch opened with the Hillingdon investment in November transition assets from Newton into the pool.

Sub funds available on the platform currently

Fund Name	Manager	Fund Type
Global Equity		
LONDON LGPS CIV GLOBAL EQUITY ALPHA FUND	Allianz	Global equity
LONDON LGPS CIV GLOBAL ALPHA GROWTH FUND	Baillie Gifford	Global equity
LCIV EP Income Equity Fund	Epoch	Global equity (Income)
LCIV HN Emerging Market Equity Fund	Henderson	Global equity (EM)
LCIV NW GLOBAL EQUITY FUND	Newton	Global equity
LCIV LV GLOBAL EQUITY FUND	Longview	Global equity
UK Equity		
LCIV MJ UK EQUITY FUND	Majedie	UK Equity
Multi assets/Total return		
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

The London CIV is moving forward on its plans to launch a range of fixed income products dependant on soft commitments to the funds.

The LCIV undertook a governance review in 2017 which resulted in a number of areas for suggested improvement. A consultation has taken place for the boroughs to feed into the suggested improvements which include a change to the governance structure, changing the current committee structures and to create a streamlined sub group to make the committee more dynamic. Investment options are also being considered and debated.

Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer and Epoch 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 £552m at 31 December 2017 accounting for 55% of total assets of the Pension Fund.

5. Expenditure and Cash flow

Expenditure during the year to December 2017 on members dealings shows a fluctuating cash flow position from positive to negative month on year; however it is anticipated that the annual position will be a small positive position.

Forecasts on administrative costs are estimated to be lower than 2016/17 due to one off project costs incurred in the 2016/17 on the implementation of the new administration contract. Staffing costs are forecast to be higher in 2017/18 compared to the prior year due to increases to salaries in line with the public sector pay awards, changes in the team structure during the year and the recruitment of an apprentice in 2017/18 to support the internal administration and accounting team.

Oversight and Governance is estimated to be lower than 2016/17 due to the one off software cost involved in the implementation of the new administration contract

Investment Management is estimated to be slightly higher on that incurred in 2016/17 due to the increase in the fund value, as management fees are linked to assets under management; however transparency of these costs will not be clear until the year end accounting process is undertaken.

	Actual 2016/17	**YTD Actual 2017/18**	**Forecast 2017/18**
Net Member Income	42,707	33,586	45,923
Net Member Expenditure	(41,597)	(33,840)	(45,222)
Surplus/(Deficit) on member dealings	**1,110**	**(254)**	**701**
Administrative Costs			
Support Services and Staffing	313,614	0	361,802
Admin Contract cost	588,294	237,590	363,000
Oversight & Governance			
Investment & Actuarial advice	721,796	222,517	476,502
Investment Management Expenses	6,760,543	874,056	7,584,000

6. Voting and Engagement

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 and 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.

During the quarter ended 31 December 2017 the Hillingdon investment managers made the following votes

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,239	8,711	7,830	881	0
Newton	70	229	151	78	0
JP Morgan	142	1,205	1,123	80	2
LGIM	469	4,488	3,803	662	23

Q4 voting reports by the Fund's managers' mirrored the pattern of the last three quarters. UBS were the most active fund manager by attending and voting at 1,239 meetings, with Newton attending 70 shareholder meetings, the least, during the period under review. On average, the four reported managers opposed about 16% of proposals at meetings attended.

7. Other Updates

Responsible Authority

A Cabinet reshuffle took place on 8 January 2018 where the Department of Communities and Local Government (DCLG) changed its name to become the Ministry of Housing, Communities and Local Government (MHCLG). This resulted in a mew minister Rishi Sunak who is now responsible for the LGPS replacing Marcus Jones. Rishi Sunak is currently establishing priorities and building relationships within the industry, there are currently no changes to the approach with the LGPS as a result of this change. The MHCLG are continuing to oversee the progress of pooling with regular progress reports. The deadline for pools to be operational is 1 April 2018, it is expected that all but one of the pools will be operational by this date (due to be operational 1 June 2018) with assets to transition at a later date.

MiFID II

The Fund successfully opted up to all fund managers and other relevant parties before the change in regulations came into effect which moves LGPS pension funds to retail clients as default. As a result the fund has not been affected by reduced access to information or investment products which would impact on the functionality of the fund. MiFID II will continue to be reviewed as the opt up process is affected by changes in circumstances such as member or officer changes.

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

December 31, 2017

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Client Commentary

Total Scheme Commentary

Total Scheme Commentary

All major developed economies enjoyed increasing growth over 2017 and the signs are that momentum will accelerate into the start of 2018 as inflationary pressure remains weak. Global Equity valuations remain elevated at 21.6 times earnings, some way above the historical average of 17.8. Emerging Market equities appear inexpensive by comparison. It is the lack of volatility that has been the most remarkable characteristic of equity markets in 2017. Returning 23% growth in USD over the year, global equities only suffered 2 days of >1% losses and enjoyed just 1 day of >1% gains. Disney's purchase of most of 21st Century Fox was just the latest acquisition across the business spectrum from retailing through healthcare to packaged food and car making as the old guard tries to prevent being displaced by young upstarts.

Brexit talks and the anticipation of further interest rate increases weighed heavily on sterling and gilt yields. The UK 10-year gilt bid-yield ended the quarter at 1.19% whilst the rate-sensitive two-year gilt bid-yield jumped to 0.44%. The FTSE All-Stock index delivered a total return of 1.97% in Sterling terms over the quarter whilst the ML Sterling Non-Gilts index returned 1.85% for the same period.

In the UK, Q4 2017 saw Sterling strengthen against the Dollar and Yen. The Bank of England raised the official bank rate from 0.25% to 0.50%, the first rate increase since July 2007. It is now back at the level it was at prior to the cut in August 2016. The vote was 7-2 in favour of the rate rise citing low unemployment, rising inflation and stronger global economic growth as justification. The consumer price index rose by 3.1% in the year to November 2017, the highest year-on-year rise since March 2012. The main upward contributors were from air fares and the rising prices for computer games, toys and hobbies.

Within this environment the London Borough of Hillingdon returned 3.08% which was below the Total Plan benchmark of 3.53%. In monetary terms this is a growth in assets of £30 million and the value of the combined scheme now stands at £1,009 million as at 31st December 2017. Looking further into the analysis the results seen were caused by stock selection effects, the most notable impacts were the negative effects of UBS although this was partially reversed by the positive impacts in London CIV Ruffer.

The Scheme's one year return of 8.75% is 0.72% behind the benchmark of 9.53% following four consecutive quarters of underperformance. While over the longer periods, with ten positive quarters over the last 3 years, the Scheme has outperformed, producing a return of 10.07% over three year versus 9.43%. Then the excess marginally decreases to 0.54% for the 5 year period where we see figures of 10.10% versus 9.50% per annum. Then since inception in September 1995, the Fund remains ahead of target by 12 basis points with an annualised return of 7.24% against a target of 7.11%.

Manager Commentary

AEW UK

Over the fourth quarter AEW UK Property produced a growth of 2.82%, which was 0.27% below the IPD UK PPFI All Balanced Funds index figure of 3.10%. They remain ahead of target over the year, and continue to be ahead over the three year period returning 11.02% against the benchmark of 8.89%. This translates as a +1.96% 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. Since the funds inception date of July 2014, the fund return is 11.97%, leading to an outperformance of 1.61% when compared to the IPD figure of 10.19%.

JP Morgan

In the latest quarter JP Morgan produces a growth in assets of 0.76% leading to an underperformance of 0.06% when compared to the 0.83% target for the 3 Month LIBOR + 3% p.a. Then with good results in the four of the last six quarters, the one year return of 5.87% is ahead of the 3.41% target by 2.38%. Then over three and five years they post returns closer to the benchmark with figures of 4.65% vs 3.61% and 3.63% vs 3.58% respectively. Since the mandate funded their return of 4.22% is +56 basis points above the target return of 3.64% on an annualised basis.

Legal & General 1

Over the last three months the Legal & General No. 1 mandate post a return of 4.55% against 4.53% for the custom fixed weight blended benchmark, a slight outperformance of +1 basis points. In the short period since inception in October 2016, they return 10.25%, which is just -2 basis points down on the benchmark return 10.27%. 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, now in its eleventh month of investment they post a return of +4.57% against +4.58% for the fourth quarter against 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 since inception, they return 8.41% against 8.72% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

This quarter assets within the London CIV Ruffer portfolio saw a positive gain reversing the last two consecutive falls in value, meaning the +2.65% return when compared to the LIBOR 3 Month GBP figure of 0.09%, leads to a relative return of +2.56%. This has improved the results over 2017 and the one year period exhibits a modest growth of 1.47% against the target of 0.41%. Outperformance remains in the longer periods. This is seen in a three year return of 5.54% versus 0.60%, then similarly for the five years with figures of 6.85% against 0.60%, culminating in since inception (May 2010) figures of 6.02% versus 0.82% per annum, which translates as a relative return of 5.16%. This manager shows the largest outperformance of all the schemes managers over the since inception period.

M&G Investments

For the third consecutive period M&G posted gains (albeit small) in Q4 by producing a return of 0.61% against the 3 Month LIBOR +4% p.a. target of 1.07%, demonstrating an underperformance of 0.45%. Coupled with the previous good results, the full year return leads the benchmark by 1.97%, coming from figures of 6.47% against 4.41%. Over the three and five year the account registers figures of 11.36% vs 4.60% and 9.22% vs 4.58% respectively; since inception (May 2010) return falls slightly to 7.60% pa whilst the benchmark is 4.67% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.74% opposed to the comparator of 4.42%.

Macquarie

Over the last three months, Macquarie produced a growth of 2.30%, against the 0.83% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 1.46%. With twelve consecutive quarters of positive absolute and relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 10.36% beats the target of 3.41% by 6.71%, similarly the three year result of 17.86% versus 3.60% exhibits the best relative return at 13.76%. The annualised return over 5 years falls to 12.90%, but still ahead of the 3.58% seen for the benchmark; then since inception (September 2010) the 4.64% is ahead of the target of 3.67%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.41%, which is ahead of the benchmark figure of 3.59%.

Newton

During the month of October, Newton was terminated and a total of 141m was transferred to the transition account. The proceeds were then invested into the new Epoch account in November

Manager Commentary

Premira Credit

The Premira Credit Fund saw a growth of 1.71% over the fourth quarter of 2017, this compares favourably with the 3 Month LIBOR +4% p.a. target of 1.07%. All four quarter's over the last year are still ahead of target, leading to an outperformance of 3.66%, created from figures of 8.23% against 4.41%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 9.41% against the benchmark of 4.55%, leading to a relative position of 4.64%.

UBS

During Q4 the UBS UK Equity investments returned 3.90%, trailing behind the 4.96% for the FTSE All Share. Looking into the attribution analysis this underperformance was a result of Selection effects, the most significant being the effects in Consumer Services (-57bps) and Utilities (-40 bps), while the largest positive impact comes from Basic Materials (+22 bps). Allocation decisions were also notable and made a positive impact with the most significant being overweight in Basic Materials (+27 bps) as well as an overweighting in Oil & Gas (+25 bps) and being underweight HealthCare (+16 bps). The manager is now behind over the one year, figures of 12.49% vs 13.10% translates as a relative return of -0.54%. This is largely attributable to selection effects again, the biggest impacts come from both selection in the Utilities sector (-0.70%) and Consumer services (-0.53%); while the largest positive impact was from Basic Materials (+0.78%) . The longer time periods show a positive picture, with three and five years ahead of the index, culminating in a since inception (January 1989) return of 10.37% versus 9.01% on an annualised basis.

UBS Property

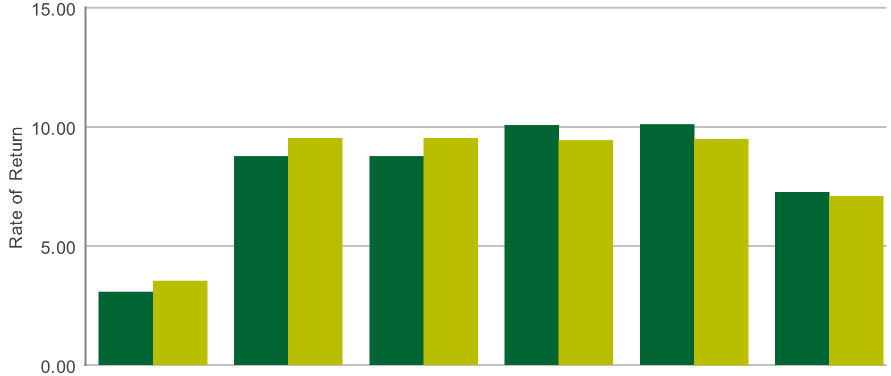
Continuing on from the previous period, in the latest quarter the UBS Property posted an outperformance with +0.12%, generated from a return of 3.22% against the IPD UK PPFI All Balanced Funds index of 3.1%. Over the one year a deficit is recorded, with a full year return of 9.19% falling -0.86% behind the IPD target of 10.13%. 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 9.52% against 8.38%. Then since inception, in March 2006, the fund return falls to 3.93% per annum which manages to stay just ahead of the benchmark figure of 3.86%.

Private Equity

The private equity assets saw a 3.09% rise in value for LGT. Adam Street saw an increase of 2.94%. 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 figures of 16.39%, 21.23% and 15.92% for the one, three and five year periods respectively, while Adam Street posted 0.96%, 14.68% and 16.00% over the same periods. Although they fall short of the proxy benchmark of MSCI AC World +4% p.a. which shows 17.84%, 19.24% and 18.88%. One exception being LGT's return over the 3 year period where they have outperformed by 1.67%. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.40% pa, while LGT sees a slight dip to 10.97%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	3.08	8.75	8.75	10.07	10.10	7.24
Index	3.53	9.53	9.53	9.43	9.50	7.11

Index: Total Plan Benchmark

RISK STATISTICS

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	8.75	10.07	10.10
Index Return	9.53	9.43	9.50
Relative Excess Return	-0.72	0.58	0.54
Standard Deviation	3.67	5.08	5.17
Index Standard Deviation	3.43	4.74	4.85
Tracking Error	0.75	1.18	1.07
Information Ratio	-1.05	0.54	0.55
Sharpe Ratio	2.27	1.86	1.84
Index Sharpe Ratio	2.66	1.86	1.84
Sortino Ratio	-	-	3.56
Treynor Ratio	7.94	9.08	9.11
Jensen's Alpha	-1.16	0.23	0.19
Relative Volatility (Beta)	1.05	1.04	1.04
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

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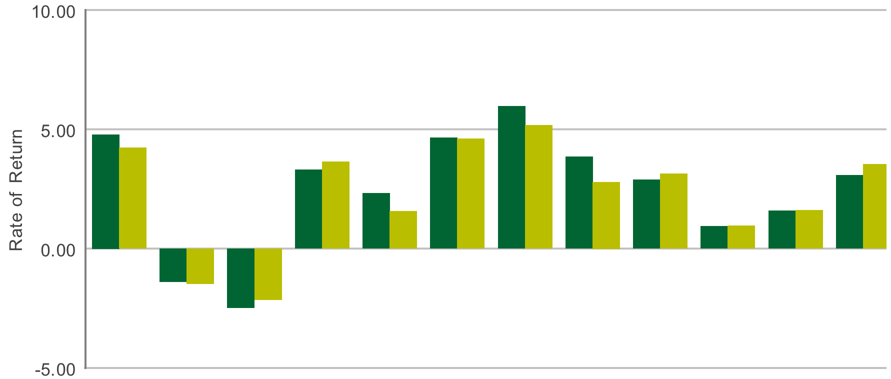
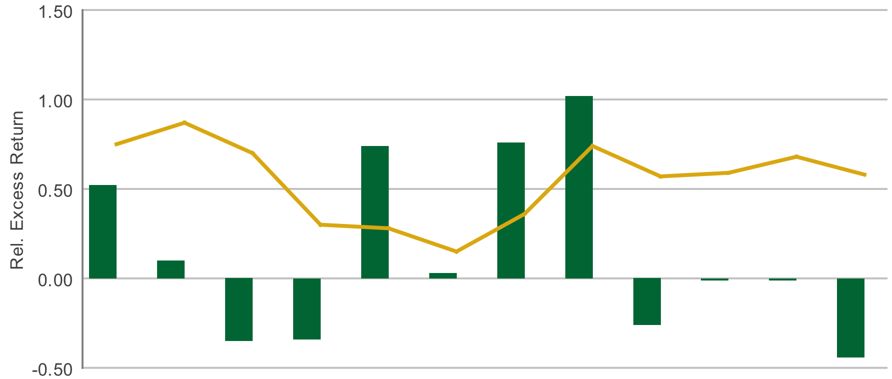
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17
Fund	4.78	-1.39	-2.48	3.30	2.32	4.64	5.96	3.85	2.88	0.94	1.59	3.08
Index	4.23	-1.48	-2.14	3.64	1.57	4.61	5.17	2.79	3.14	0.95	1.60	3.53

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17
3M R.Excess	0.52	0.10	-0.35	-0.34	0.74	0.03	0.76	1.02	-0.26	-0.01	-0.01	-0.44
3Y R.Excess	0.75	0.87	0.70	0.30	0.28	0.15	0.36	0.74	0.57	0.59	0.68	0.58

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months Port	Three Months Index	Three Months Relative Excess	Year to Date Port	Year to Date Index	Year to Date Relative Excess	One Year Port	One Year Index	One Year Relative Excess
London Borough of Hillingdon	1,008,836,599	100.00	3.08	3.53	-0.44	8.75	9.53	-0.72	8.75	9.53	-0.72
Total Plan Benchmark											
AEW UK	53,072,998	5.26	2.82	3.10	-0.27	13.57	10.13	3.12	13.57	10.13	3.12
LBH22 AEW Benchmark											
JP Morgan	56,529,035	5.60	0.76	0.83	-0.06	5.87	3.41	2.38	5.87	3.41	2.38
LBH15 JPM LIBOR +3%pa											
Legal & General 1	238,916,988	23.68	4.55	4.53	0.01	11.10	11.10	-0.00	11.10	11.10	-0.00
LBH26 L&G Benchmark											
Legal & General 2	67,428,860	6.68	4.57	4.58	-0.01	-	-	-	-	-	-
LBH27 L&G Benchmark											
M&G Investments	15,103,419	1.50	0.61	1.07	-0.45	6.47	4.41	1.97	6.47	4.41	1.97
LBH10 3 Month LIBOR +4%pa											
Macquarie	27,071,739	2.68	2.30	0.83	1.46	10.36	3.41	6.71	10.36	3.41	6.71
LBH14 Macquarie LIBOR +3%pa											
Newton	0	0.00	-	-	-	-	-	-	-	-	-
LBH19 FTSE World Index +2%											
Premira Credit	55,632,218	5.51	1.71	1.07	0.63	8.23	4.41	3.66	8.23	4.41	3.66
LBH24 Premira LIBOR +4%pa											
UBS	139,662,286	13.84	3.90	4.96	-1.01	12.49	13.10	-0.54	12.49	13.10	-0.54
LBH04 UBS Benchmark											
UBS Property	73,960,152	7.33	3.22	3.10	0.12	9.19	10.13	-0.86	9.19	10.13	-0.86
LBH06 UBS Property Benchmark											
Adam Street	14,382,397	1.43	2.94	5.75	-2.65	0.96	17.84	-14.33	0.96	17.84	-14.33
Adam Street PE Bmark											
LGT	7,594,764	0.75	3.09	5.75	-2.51	16.39	17.84	-1.23	16.39	17.84	-1.23
LGT PE Bmark											
Epoch Investment P Income	140,383,728	13.92	-	-	-	-	-	-	-	-	-
LBH11001 MSCI World ND											
London CIV Ruffer	105,977,118	10.50	2.65	0.09	2.56	1.47	0.41	1.05	1.47	0.41	1.05
LBH11003 Ruffer BM Libor											

Category: **Total Fund Gross of Fees**

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	10.07	9.43	0.58	10.10	9.50	0.54	7.24	7.11	0.12	30/09/1995
AEW UK LBH22 AEW Benchmark	11.02	8.89	1.96	-	-	-	11.97	10.19	1.61	30/06/2014
JP Morgan LBH15 JPM LIBOR +3%pa	4.65	3.61	1.00	3.63	3.58	0.04	4.22	3.64	0.56	08/11/2011
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	10.25	10.27	-0.02	31/10/2016
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	8.41	8.72	-0.28	22/02/2017
M&G Investments LBH10 3 Month LIBOR +4%pa	11.36	4.60	6.46	9.22	4.58	4.43	7.60	4.67	2.80	31/05/2010
Macquarie LBH14 Macquarie LIBOR +3%pa	17.86	3.60	13.76	12.90	3.58	9.00	4.64	3.67	0.94	30/09/2010
Newton LBH19 FTSE World Index +2%	-	-	-	-	-	-	-	-	-	24/01/2013
Premira Credit LBH24 Premira LIBOR +4%pa	9.68	4.60	4.86	-	-	-	9.41	4.55	4.64	30/11/2014
UBS LBH04 UBS Benchmark	12.11	10.07	1.86	13.01	10.26	2.50	10.37	9.01	1.25	31/12/1988
UBS Property LBH06 UBS Property Benchmark	9.52	8.38	1.05	11.08	10.24	0.76	3.93	3.86	0.07	31/03/2006
Adam Street Adam Street PE Bmark	14.68	19.24	-3.82	16.00	18.88	-2.42	6.40	-	-	31/01/2005
LGT LGT PE Bmark	21.23	19.24	1.67	15.92	18.88	-2.49	10.97	-	-	31/05/2004
Epoch Investment P Income LBH11001 MSCI World ND	-	-	-	-	-	-	-0.90	-0.42	-0.48	08/11/2017
London CIV Ruffer LBH11003 Ruffer BM Libor	5.54	0.60	4.91	6.85	0.60	6.22	6.02	0.82	5.16	28/05/2010

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

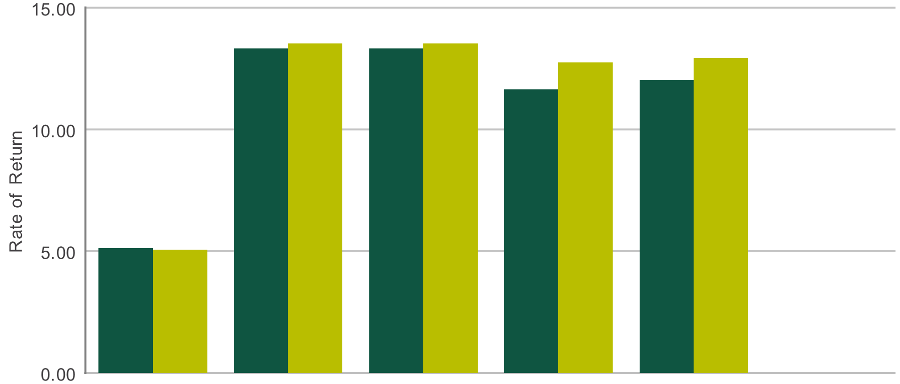
Account/Group	30/09/2017 Market Value	30/09/2017 Weight	Net Contribution*	Income	Fees	Appreciation	31/12/2017 Market Value	31/12/2017 Weight	Change in Weight
London Borough of Hillingdon	**978,183,943**	**100.00**	**483,136**	**2,917,735**	**-1,583,134**	**27,251,785**	**1,008,836,599**	**100.00**	**0.00**
AEW UK	51,617,689	5.28	0	581,024	0	874,286	53,072,998	5.26	-0.02
JP Morgan	56,101,422	5.74	0	0	0	427,613	56,529,035	5.60	-0.13
Legal & General 1	228,525,168	23.36	-4,304	0	4,304	10,396,124	238,916,988	23.68	0.32
Legal & General 2	64,490,865	6.59	-7,632	0	7,632	2,945,627	67,428,860	6.68	0.09
M&G Investments	21,665,559	2.21	-6,741,020	1,152	0	177,728	15,103,419	1.50	-0.72
Macquarie	27,732,610	2.84	-1,294,738	448,975	0	184,892	27,071,739	2.68	-0.15
Newton	138,262,523	14.13	-141,262,681	0	1,200	3,000,158	0	0.00	-14.13
Premira Credit	52,562,776	5.37	2,168,000	69,827	0	831,616	55,632,218	5.51	0.14
UBS	134,419,461	13.74	0	1,073,648	0	4,169,178	139,662,286	13.84	0.10
UBS Property	70,016,024	7.16	1,633,800	593,237	-1,633,800	1,717,091	73,960,152	7.33	0.17
Adam Street	14,645,949	1.50	-685,610	1,555	0	420,504	14,382,397	1.43	-0.07
LGT	8,206,945	0.84	-848,911	11	0	236,719	7,594,764	0.75	-0.09
Cash & Other Assets	6,695,573	0.68	6,441,234	11,899	0	-27,811	13,120,894	1.30	0.62
Epoch Investment P Income	-	-	141,658,656	0	0	-1,274,928	140,383,728	13.92	-
London CIV Ruffer	-	10.55	-3,290		0	2,738,962	105,977,118	10.50	-0.05
Cash and Other Assets	-	-	0	-1	37,529	1	0	0.00	-
Transition	0	-	-570,366	136,343	0	434,027	4	0.00	-

**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

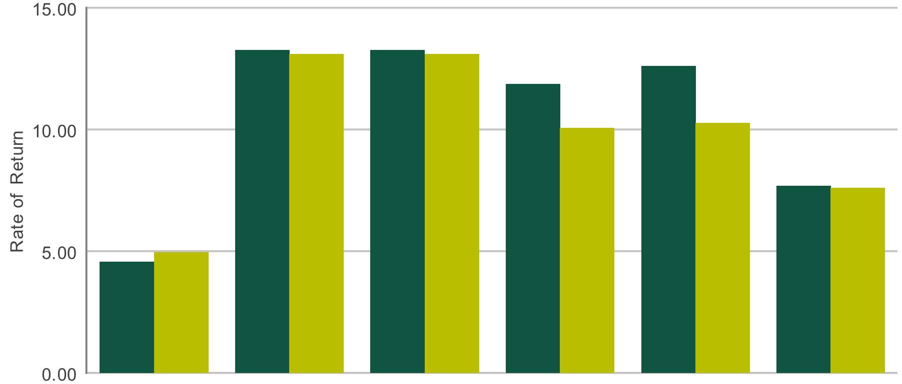
EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.12	13.32	13.32	11.64	12.03	-
Index	5.06	13.53	13.53	12.74	12.93	-

Index: Total Equity Benchmark

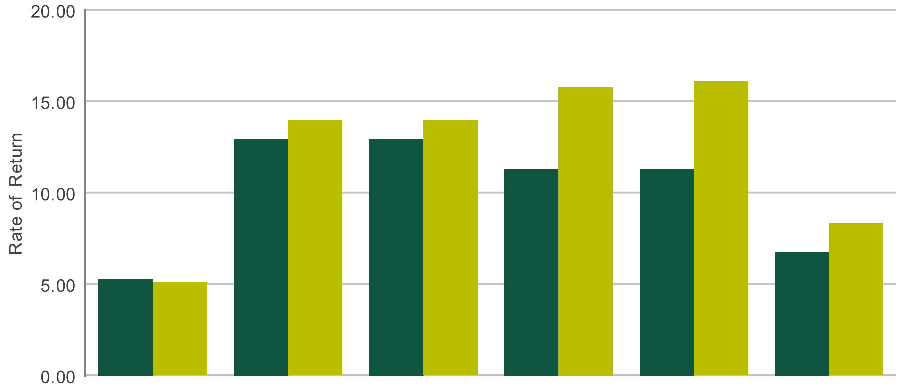
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.56	13.26	13.26	11.87	12.60	7.69
Index	4.96	13.10	13.10	10.07	10.26	7.59

Index: FTSE All Share UK Equity

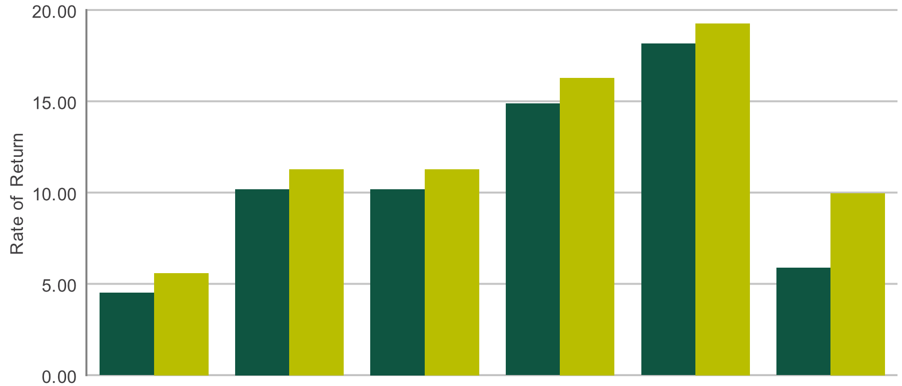
OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.28	12.95	12.95	11.27	11.31	6.76
Index	5.11	13.97	13.97	15.76	16.11	8.34

Index: Total O'seas Equity Benchmark

NORTH AMERICA

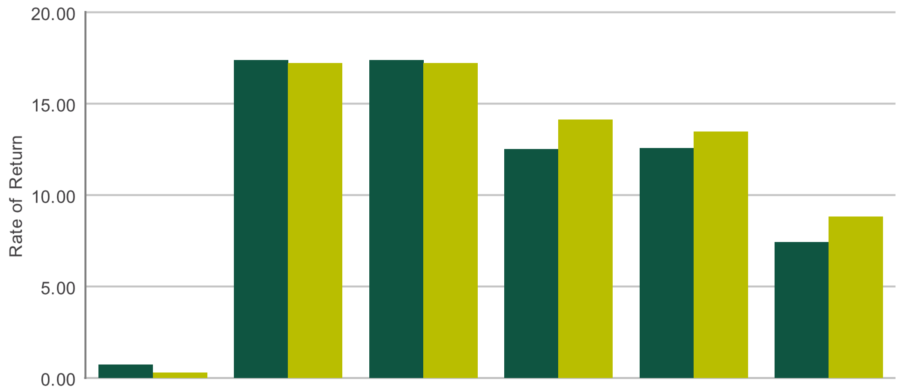


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.51	10.18	10.18	14.87	18.15	5.87
Index	5.59	11.27	11.27	16.28	19.26	9.96

Index: FTSE North America

Historical Performance

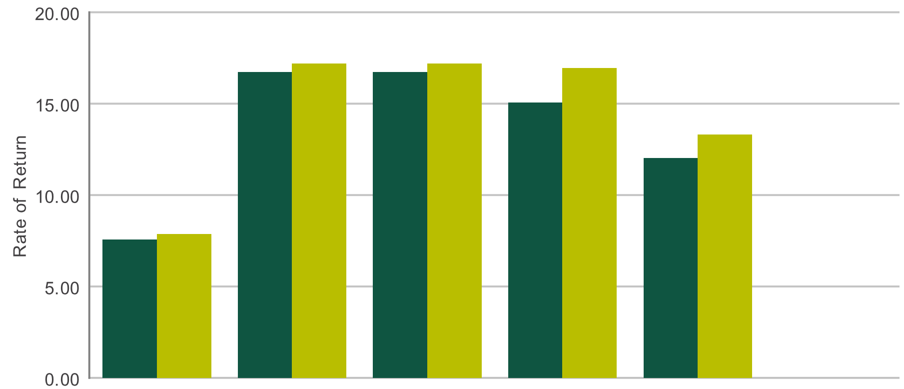
EUROPE EX UK



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.73	17.38	17.38	12.50	12.56	7.43
Index	0.28	17.21	17.21	14.13	13.47	8.81

Index: FTSE AW Dev Europe ex UK

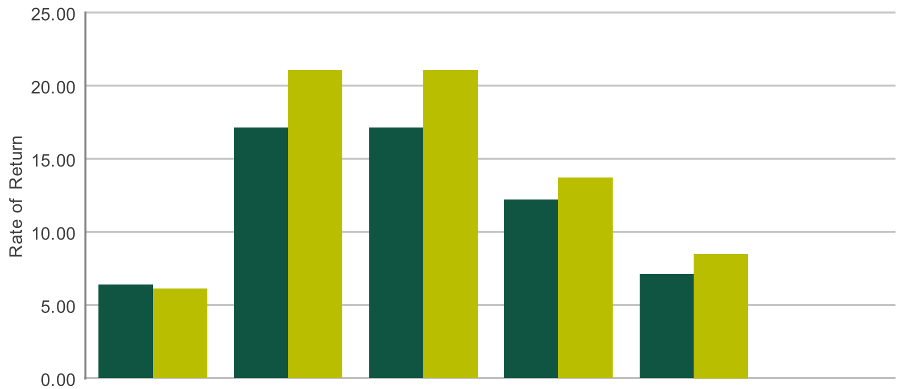
ASIA PACIFIC INC JAPAN



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.57	16.73	16.73	15.06	12.02	-
Index	7.87	17.18	17.18	16.95	13.31	-

Index: FTSE AW Dev Asia Pacific

EMERGING MARKETS

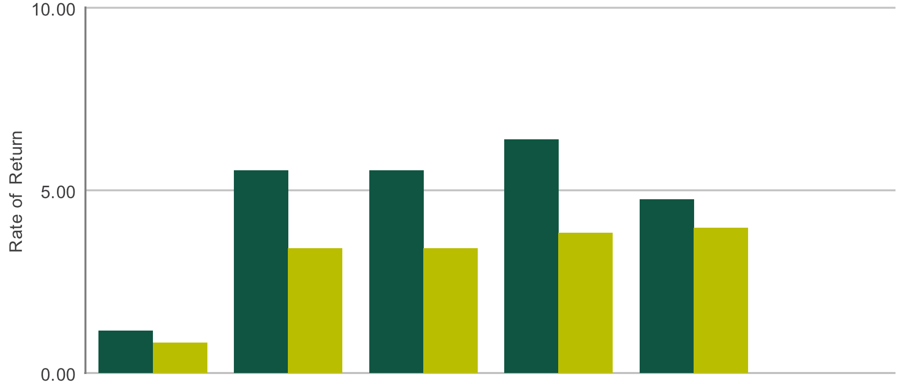


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.39	17.12	17.12	12.19	7.11	-
Index	6.12	21.06	21.06	13.71	8.48	-

Index: LBH Emerging Markets

Historical Performance

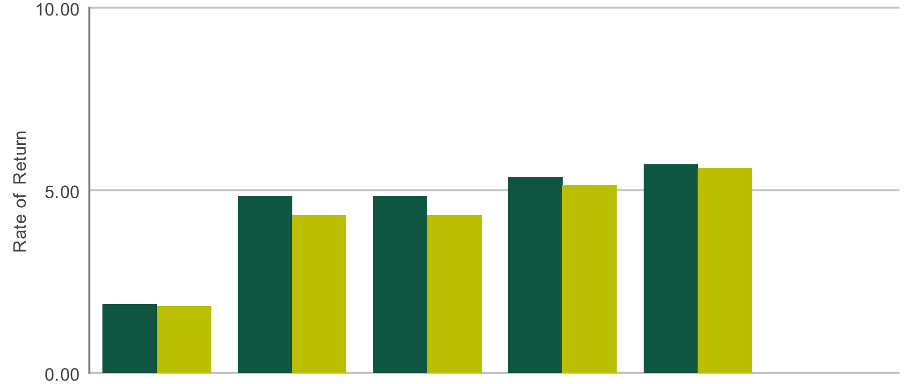
FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.16	5.54	5.54	6.39	4.75	-
Index	0.83	3.41	3.41	3.84	3.97	-

Index: LBH Fixed Income Benchmark

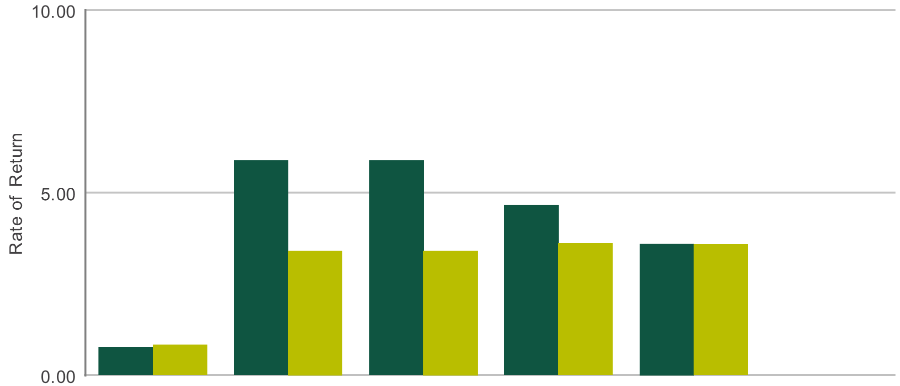
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.88	4.85	4.85	5.36	5.71	-
Index	1.83	4.31	4.31	5.13	5.62	-

Index: LBH Non-Gilts Benchmark

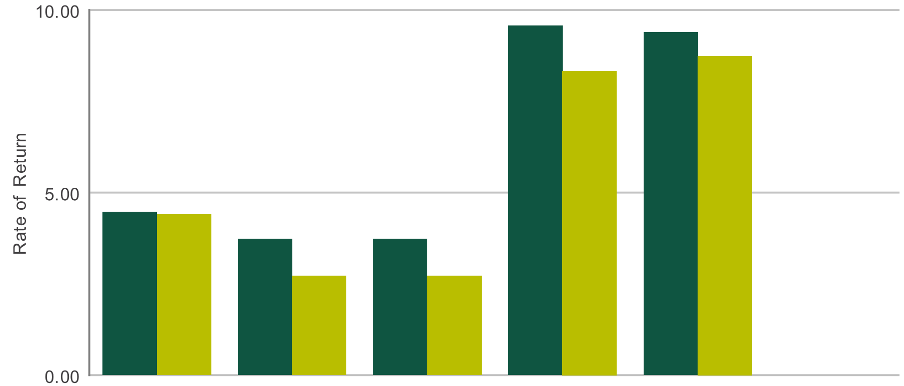
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.76	5.88	5.88	4.66	3.60	-
Index	0.83	3.41	3.41	3.61	3.58	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

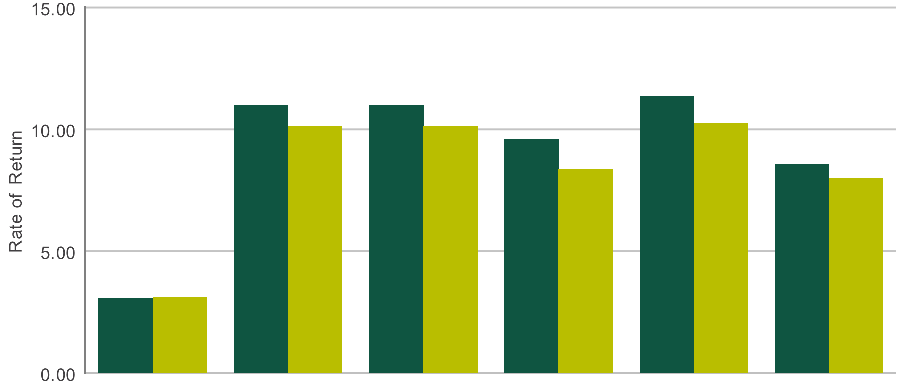


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.47	3.73	3.73	9.57	9.39	-
Index	4.40	2.72	2.72	8.33	8.74	-

Index: LBH Index Linked Benchmark

Historical Performance

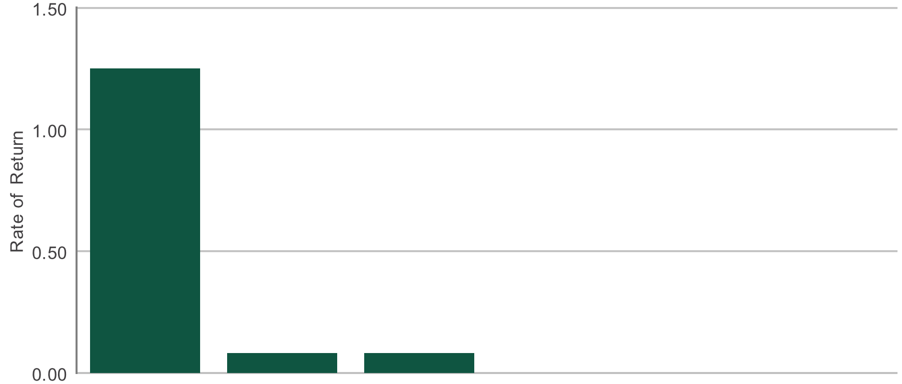
REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.08	11.01	11.01	9.61	11.37	8.56
Index	3.10	10.13	10.13	8.38	10.24	8.00

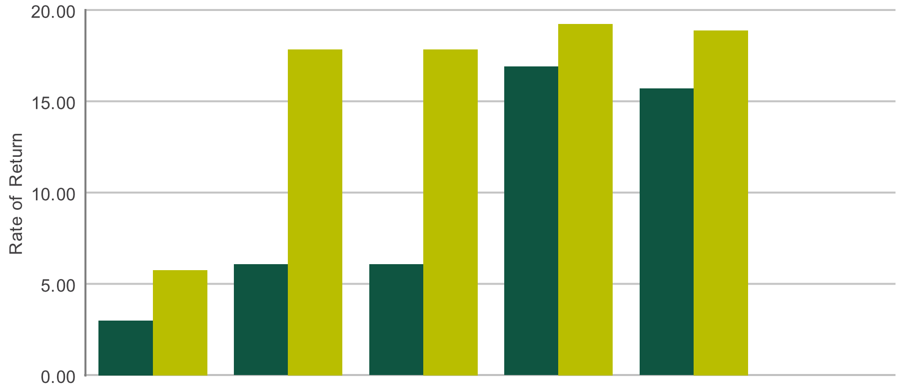
Index: IPD UK PPFI All Bal Funds Index

BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.25	0.08	0.08	-	-	-

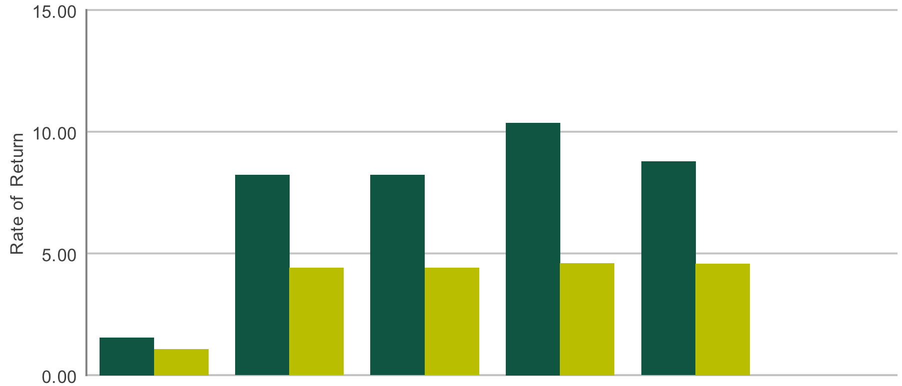
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.99	6.07	6.07	16.90	15.69	-
Index	5.75	17.84	17.84	19.24	18.88	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.54	8.22	8.22	10.36	8.78	-
Index	1.07	4.41	4.41	4.60	4.58	-

Index: LIBOR GBP 3 Month +4% pa

Total Plan Benchmark

22.57	FTSE All Share
2.45	FTSE North America
2.46	FTSE Developed Europe ex UK
1.42	FTSE Japan
1.00	FTSE Developed Asia Pacific ex Japan
2.44	FTSE Emerging Markets
14.22	MSCI World Index (Net)
4.81	FTSE Index Linked Gilts 15+ Years
1.71	FTSE Index Linked Gilts
3.17	iBoxx Sterling Non-Gilts
12.62	IPD UK PPFI All Balanced Funds Index
8.44	LIBOR 3 Month +3%
10.67	LIBOR 3 Month
7.21	LIBOR 3 Month +4%
1.74	FTSE AW Developed GBP Hedged
2.21	MSCI All Countries World Index
0.86	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

38.58	FTSE All Share
10.35	FTSE World North America
10.41	FTSE World Europe ex UK
6.00	FTSE Japan
4.22	FTSE Developed Asia Pac ex Japan
3.07	FTSE Emerging Markets
13.58	FTSE Index Linked Gilts 15+ Years
7.22	FTSE Index Linked Gilts
6.57	iBoxx Sterling Non-Gilts

Legal & General

26.10	FTSE AW Developed GBP Hedged
25.69	FTSE Emerging Markets
23.97	FTSE Index Linked Gilts 15+ Years
24.24	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%

Epoch Ruffer

100.0	MSCI World Index (Net)

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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HYMANS ROBERTSON

London Borough of Hillingdon Pension Fund

Funding and risk report as at 31 December 2017

HEADLINES

31 December 2017	Ongoing funding basis
Assets	£1,007m
Liabilities	£1,293m
Surplus/(deficit)	(£286m)
Funding level	77.9%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 December 2017, for the London Borough of Hillingdon Pension Fund ("the Fund"). It is addressed to the London Borough of Hillingdon in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

At the last formal valuation the Fund assets were £810m and the liabilities were £1,079m. This represents a deficit of £269m and equates to a funding level of 75.1%. Since the valuation the funding level has increased by c3% to 77.9% as detailed in the table above.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.
Craig Alexander AFA

Reliances and limitations

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The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

London Borough of Hillingdon Pension Fund | Strategy and Risk Management dashboard

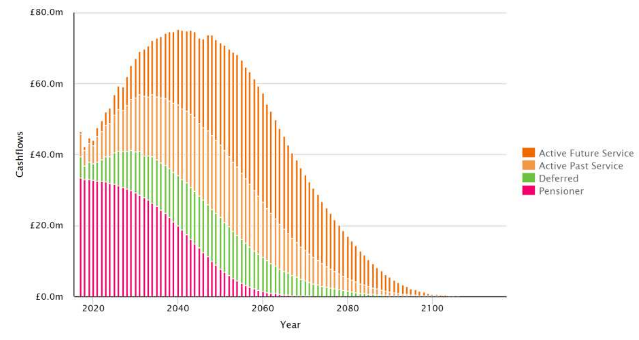
CURRENT POSITION

31 December 2017	Ongoing funding basis
Assets	£1,007m
Liabilities	£1,293m
Surplus/(deficit)	(£286m)
Funding level	77.9%

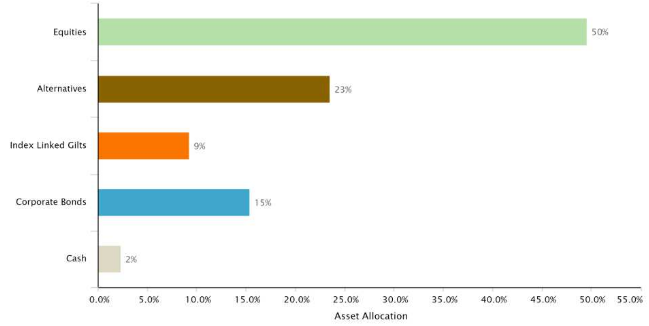
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(269)
Contributions (less benefits accruing)	(6)
Interest on surplus/(deficit)	(19)
Excess return on assets	145
Impact of change in yields & inflation	(136)
Surplus/(deficit) as at 31/12/2017	(286)

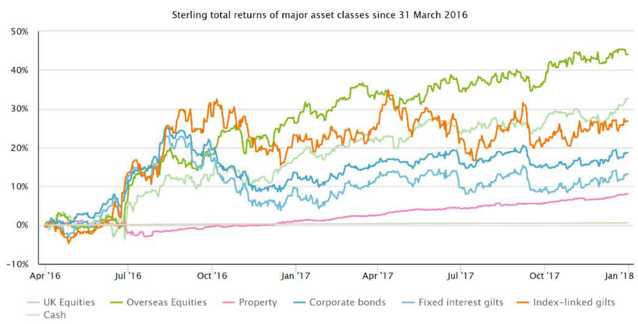
	31 March 2016	30 September 2017	31 December 2017
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.84%	1.68%
Index-linked Gilts	-0.96%	-1.49%	-1.64%
Implied Inflation	3.16%	3.38%	3.38%
AA Corporate Bonds	3.36%	2.64%	2.44%
Price Indices			
FTSE All Share	3,395	4,050	4,222
FTSE 100	6,175	7,373	7,688

PROGRESS



ASSETS AND RISKS





Sensitivity Matrix as at 22 January 2018 for basis Ongoing funding basis

	5401 -30%	6172 -20%	6944 -10%	7715 0%	8487 10%	9259 20%	10030 30%
0.6	(£385m)	(£311m)	(£237m)	(£162m)	(£88m)	(£14m)	£61m
0.4	(£416m)	(£341m)	(£267m)	(£193m)	(£118m)	(£44m)	£30m
0.2	(£448m)	(£374m)	(£299m)	(£225m)	(£151m)	(£76m)	(£2m)
0.0	(£482m)	(£408m)	(£334m)	(£259m)	(£185m)	(£111m)	(£36m)
-0.2	(£519m)	(£444m)	(£370m)	(£296m)	(£221m)	(£147m)	(£73m)
-0.4	(£557m)	(£483m)	(£409m)	(£334m)	(£260m)	(£186m)	(£111m)
-0.6	(£598m)	(£524m)	(£450m)	(£375m)	(£301m)	(£227m)	(£153m)

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

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ENVIRONMENTAL SOCIAL AND CORPORATE GOVERNANCE (ESG) (Part I)	ITEM 6

Contact Officers	Sian Kunert, 01895 556578

Papers with this report	

SUMMARY

At the Pensions Committee in December 2017 a discussion took place on Environmental, Social & Corporate Governance (ESG) issues including climate change; this paper provides further information in relation to Fossil Fuel impact from existing holdings.

In addition to this report there is a supporting note in Part 2 on profiting from an environmental tilt.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Consider this report**
2. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**

INFORMATION

In 2016, 195 countries signed up to the United Nations (UN) Paris Agreement where they committed to limiting the global increase in temperature to 2°C above pre-industrial levels, while pursuing efforts to limit it to 1.5°C. Trends in greenhouse gas show that climate change is a serious challenge and changes are required across the world to meet the requirements of the agreement.

We are already seeing the impact of climate change with erratic and severe weather conditions and climate change is considered to be one of the top 5 risks to the world due to likelihood of the risk and the potential impact. Systemic risks posed by climate change and required changes to address these risks, will fundamentally impact on economic and political systems.

Climate related risk can be within our portfolio in many guises, all sectors can have financial repercussions. Most attention in this space is drawn towards fossil fuel companies as they have a direct link to greenhouse emissions and the expectation is that some of the natural fuel reserves will have to remain in the ground to achieve the Paris Agreement levels. However, the financial risk to the fund can also be in areas such as insurance companies, haulage companies, energy users, food producers; companies also need to be resilient to flood risk and temperate changes.

Fossil Fuel holdings

The impact to the Pension Fund is across all asset classes, sectors and market; but as well as creating risks there are also opportunities for investors.

The fund has done an analysis of the underlying equity holdings within its active and passive equity mandates and equity exposure in its Diversified Growth funds to identify the scale of the exposure to fossil fuel companies where this potential risk is likely to bear the biggest impact. The aim is to understand the decision making of the fund managers and to consider if they are investing in assets that will meet the funding strategy set in April 2017 by achieving the predicted growth and dividend return profiles and avoiding unnecessary financial risk.

For the purposes of this report we have looked at the following sectors - Cement, Coal mining, Mining, Oil& Gas, Steel and Utilities. Data for this exercise is as available in December 2018.

Transition Pathway initiative

We have utilised data collated from the Transition Pathway initiative which has been established as a joint initiative between the National Investing Bodies of the Church of England and the Environment Agency Pension Fund. The initiative assesses how companies are preparing for the transition to a low-carbon economy by evaluating and tracking the quality of management of greenhouse gas emissions and of risks and opportunities related to the low-carbon transition. It evaluates how future carbon performance would compare to the targets of the Paris Agreement and publishes the results through an online tool.

Companies are provided a management quality level from 0 to 4
Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue
Level 1 – Acknowledging Climate Change as a Business Issue
Level 2 - Building Capacity
Level 3 - Integrated into Operational Decision Making
Level 4 - Strategic Assessment

Exposure

Exposure to the Fossil Fuel sectors by manager show £99,182k invested within this area with the biggest exposure held by UBS. This equates to 10% of the fund value at the time the data was assessed.

Manager	**Exposure £'000**
Epoch	28,762
Ruffer LLP	5,943
UBS	40,555
LGIM	23,922
Grand Total	**99,182**

Within this over half was invested in Oil and Gas companies and nearly a quarter in utilities.

Looking at the company's management quality as rated through the Transition Pathway initiative 46% of the investment exposure was held in companies ranked at the highest transition quality position of level 4.

Manager / Quality rating	**Exposure £'000**
Epoch	**28,762**
Level 1 - Awareness	3,474
Level 2 - Building Capacity	4,930
Level 3 - Integrated into operational decision making	3,652
Level 4 - Strategic Assessment	5,233
Not rated	11,473
LGIM	**23,923**
Level 0 - Unaware	25
Level 1 - Awareness	311
Level 2 - Building Capacity	4,131
Level 3 - Integrated into operational decision making	2,621
Level 4 - Strategic Assessment	12,532
Not rated	4,303
Ruffer LLP	**5,943**
Level 1 - Awareness	907
Level 2 - Building Capacity	2,600
Level 4 - Strategic Assessment	1,160
Not rated	1,276
UBS	**40,554**
Level 2 - Building Capacity	10,260
Level 4 - Strategic Assessment	26,788
Not rated	3,506
Grand Total	**99,182**

Passive funds track an index and as a result, exposure across all elements of this industry is expected. No further analysis has been carried out on the passive funds held by LGIM. Passive funds are available at a slightly higher cost than the existing passive sub funds which have a tilt towards being low Carbon. Products are also available with tilts towards companies that are demonstrably better at managing their water, energy inputs and waste outputs. Please see "Profiting from an environmental tilt" note in Part 2 for further information.

Investments held as "Not rated" are companies that have not been assessed by the Transition Pathway initiative. Nine investments were held by the two active equity managers without a rating and have been reviewed internally to see if there are any obvious concerns with the management from a climate impact perspective; this has been taken from a very high level perspective based on company annual reports. Of the nine not rated companies, seven have significantly reduced emissions and appear to have awareness of risks and on track for improvements; however, for two companies it is not clear beyond awareness on whether they are making changes integrating to transition to meet the Paris agreement. Total value for these two companies is £1,727k (0.12% of the fund) and the managers will be asked to confirm all financial risks have been assessed in relation to holding the companies.

Pensions Administration Report	ITEM 7
Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	KPI report

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 the latest KPI Report from Surrey CC.

RECOMMENDATION

It is recommended that Pensions Committee note this report.

INFORMATION

Surrey Administration Update

The Pension Administration system used by Surrey County Council (SCC) as administrators of the fund - Altair - includes a task management system which allows the progress of all case work to be managed and monitored on a daily basis. SCC has continued to maintain, and in some areas improve their performance against the reportable KPI's.

Year-end processes have commenced which should ensure that Annual Benefit Statements are produced within the Pension Regulators limits. SCC and the internal team are working towards a target for benefit statements for deferred benefits members, to be produced as early as the last week of March.

Since the roll-out of the online "mypension" facility, 1,351 (16%) of active members have applied for and received their login details. Although not fully rolled out to pensioner members, 76 pensioners have also received their login details. Pensioner roll out will take place as part of the annual pension uplift communications at the end of March. SCC will be including details of how and where to apply for registration of mypension, in all future communications, and the in-house team has encouraged all Scheme Employers to make the facility known to their staff in our communications.

Hillingdon have been advised a key member of the SCC team will be leaving in April. SCC have commenced their recruitment process to ensure a smooth transition and provided temporary contact points and escalation process as a result. SCC is continuing to carry out recruitment drives to support the contract. An update will be provided next quarter with any impact on resourcing.

Key Performance Indicators from December 2017 to February 2018.

There has been an overall improvement in performance during the period December 2017 to February 2018. The majority of KPI's figures are now at 100% and changes to processes are still ongoing to help achieve KPI targets in all areas.

The most important improvement has been in maintaining a 100% in the recording and acknowledgement of death cases. Although the performance in Transfer-Out quotes appears to be low, Surrey has to "roll-back" these cases and re-calculate benefits for the employee. This is due to the information transferred from the previous administrator, not transferring to SCC in a format that allows calculations to be performed. The in-house team is assisting SCC with these cases to help improve performance**.**

Hillingdon Process update

The in-house team have continued to update and amend records as part of the overall data cleanse. The team will attend the next Schools Forum meeting, to enforce the importance of schools co-operation to supply complete and timely information to Hillingdon and SCC at year end. This will enable the issuing of Annual Benefit statements on-time. In addition the fund will submit up to date information to the Actuary in as part of a data quality process in July to run a simulated valuation in advance of the next triennial valuation.

As reported to the last meeting, the fund arranged for a Mortality Screening body to carry out checks against the pensioner's payroll; as a result 22 cases have been identified where further investigations need to be performed.

In August 2017 Harrow College merged with Uxbridge College. As a result the Hillingdon Pension Fund has taken on the responsibility for all LGPS members formally employed by Harrow College. The Harrow College Pensioners will be transferred on to the Hillingdon Pension's payroll from July 2018. Transfer of assets is expected to complete on 21 March 2018 into the Hillingdon Pension Fund to an amount finalised by both fund actuaries. A letter informing pensioners affected by the merger was sent out on 6th March informing them of the change in administering body and a change to their pension paid date to align with the Hillingdon fund from July.

General Data Protection Regulations

New General Data Protection Regulation (GDPR) comes into force on Friday 25 May 2018. There will be implications to the fund and SCC as administrator. The main impacts of the new regulations are an increase to the maximum fine for a data protection breach rising to £18m, all breaches must be reported within 72 hours, people can apply to have their personal information erased and consent must be explicit rather than applied.

The LGPC Secretariat, on behalf of LGPS administering authorities, commissioned Squire Patton Boggs to provide an opinion on some key LGPS questions and to produce template privacy notices for LGPS administering authorities to use /adapt.

Work is being carried out by both the Council and SCC on GDPR to prepare for the introduction of this regulation in May.

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 Q3

Activity	Measure	Impact	Target	Sept		Oct		Nov		Dec		Jan-18		Feb-18		Commentary
Scheme members	Pensioners, Active & Deferred			20,974		20,926		20,773								
New starters set up/welcome letters										197						
						Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	
Death notification acknowledged, recorded and documentation sent	5 working days	M	**100%**	10	90%	13	85%	18	67%	6	100%	10	100%	14	100%	
Payment of death grant made	10 working days	H	**100%**	1	100%	3	67%	1	100%	2	100%	2	100%	6	100%	
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	**100%**	47	81%	51	55%	47	64%	21	86%	66	80%	45	100%	These still include a small number of backlog cases.
Payment of lump sum made	10 working days	H	**100%**	40	95%	45	42%	43	70%	18	100%	26	96%	33	97%	1 case late January & 1 late Februray
Calculation of spouses benefits	10 working days	M	**100%**	5	20%	7	0%	7	86%	7	57%	10	70%	5	80%	Complexities and resource involved in reconstructing pensioner records leads to slight delays for these cases. 1 case late February
Transfers In - Quote (Values)	20 working days	L	**100%**	0	N/A					8		10		14		Workflow to be reviewed for this process as timings measure only end to end process
Transfers In - Payments	20 working days	L	**100%**	2	100%					0	N/A	1	100%	1	100%	
Transfers Out - Quote	20 working days	L	**100%**	4	50%	2	0%	11	73%	10	50%	15	60%	28	36%	Deferred Benefit records need reconstructing before transfer calculations completed
Transfers Out - Payments	20 working days	L	**100%**	5	60%	2	0%	5	60%	0	N/A	13	69%	11	100%	Only interfund adjustments paid late
Employer estimates provided	10 working days	M	**100%**	9	22%	10	80%	14	86%	2	100%	8	100%	5	100%	
Employee projections provided	10 working days	L	**100%**	18	50%	5	100%	7	57%	4	75%	3	100%	7	86%	Members now encouraged to use online portal where appropriate. 1 case late February
Refunds	20 working days	L	**100%**	12	92%	9	55%	1	0%	7	86%	6	83%	2	100%	
Deferred benefit notifications	20 working days	L	**100%**	15	100%	23	70%	29	67%	11	63%	43	74%	62	71%	
Complaints received- Admin				0		0		1		0		1		1		
Complaints received- Regulatory				0		0		1		0		0		0		
Compliments received				Not recorded		Not recorded		Not recorded		0		1		0		
Queries Handled by Helpdesk				679						346		585		520		

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Pension Fund Risk Register	ITEM 8
Contact Officers	Sian Kunert, 01895 556578
Papers with this report	Pension Fund Risk Register Q3

REASON FOR ITEM

The purpose of this report is to identify to the Pension Committee the main risk's to the Pension Fund, to enable them to monitor and review going forward (see Appendix).

OPTIONS AVAILABLE TO PENSION COMMITTEE

1. **Committee is asked to consider the attached Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. There are no risks currently rated as red.**

Information

The specific risk matrix for the Pension Fund allows better classification of the risks than would be possible through the Council's standard risk matrix. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). The risks are also RAG rated to identify level.

There are currently 7 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

Each risk has been explained, along with details of the actions in place to mitigate that risk. The progress comment column provides the latest update in respect of the impact of those mitigating actions. The Direction of Travel (DOT) has also been included.

Risk PEN07 - Failure to invest in appropriate vehicles as a result of MiFID II, has been reduced to reflect the lower likelihood, due to the successful completion of the opt up in 2018; however there remains an ongoing risk due to changes in Committee members and officers which would require status to be reviewed.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

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Pension Fund Risk Register 2017/18 Q3

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the KPMG 'Fusion' tool - the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	Sian Kunert / Cllr P Corthorne
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Investment strategy group actively monitors this risk.	A separate Officer and Advisor working group, Investment Strategy Group (ISG) has been formed to regularly monitor the investment strategy and to develop proposals for change / adjustment for Pension Committee consideration. The impact of each decision is careflly tracked against the risk budget for the Fund to ensure that long-term returns are being acheived and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	Sian Kunert / Cllr P Corthorne
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoirng of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Sian Kunert / Cllr P Corthorne

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitoried as part of the Council's MTFF processes and any potential impact on pension fund contributions is kepty under review and factored into the Council's overall position. However, there is an increasing likliehood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3** **(Static)**	Sian Kunert / Cllr P Corthorne
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsiduary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation. In addition, further mortality monitoring in undertaken by CEB, the fund's administrators.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Ken Chisholm / Cllr P Corthorne
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. Quarterly review meetings held 2. Weekly update calls with officers 3. Quarterly KPI reports are provided to track and monitor performance	New cases are being dealt with and improvements in processes within the contract. There are signs of improvement in the quality of data inherited by SCC from Capita.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	Ken Chisholm / Cllr P Corthorne

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 07 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 Januray 2018	1. Applications have been made to sustain “Professional Status” of the pension fund to enable continuation of the existing investment strategy. 2. All current application's have successfully been resolved confirming professional status	This is a risk identified as a result of regulatory changes and is continually assessed. The fund is required to show an appropriate level of knowelgde and skills for investment decision markers. Changes in circumstances including committee membership or change in officers must be reported and could effect the ongoing investment relationship.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2 (Reducing)**	Sian Kunert / Cllr P Corthorne

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