Public Document Pack

HILLINGDON
LONDON

A

Pensions Committee

Date:	**MONDAY, 29 OCTOBER 2018**
Time:	**5.00 PM**
Venue:	**COMMITTEE ROOM 4 - CIVIC CENTRE, HIGH STREET, UXBRIDGE**
Meeting Details:	Members of the Public and Media are welcome to attend.

This agenda is available online at: www.hillingdon.gov.uk or use a smart phone camera and scan the code below:

To Members of the Committee:

Philip Corthorne (Chairman)
Martin Goddard (Vice-Chairman)
Teji Barnes
Tony Eginton
John Morse

Published: Friday, 19 October 2018

Contact: Liz Penny
Tel: 01895 250185
Email: epenny@hillingdon.gov.uk

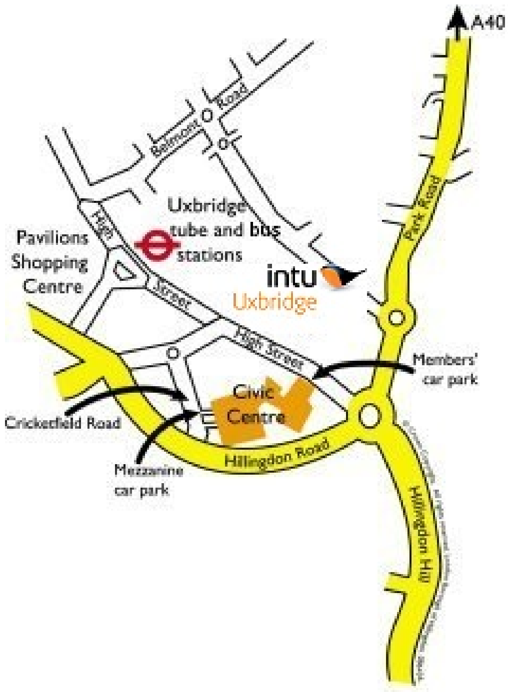
Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

Useful information for residents and visitors

Travel and parking

Bus routes 427, U1, U3, U4 and U7 all stop at the Civic Centre. Uxbridge underground station, with the Piccadilly and Metropolitan lines, is a short walk away. Limited parking is available at the Civic Centre. For details on availability and how to book a parking space, please contact Democratic Services. Please enter from the Council's main reception where you will be directed to the Committee Room.



Accessibility

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

Attending, reporting and filming of meetings

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

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

Emergency procedures

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

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

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

This page is intentionally left blank

Minutes

PENSIONS COMMITTEE

18 July 2018

HILLINGDON
LONDON

Meeting held at Committee Room 4 - Civic Centre, High Street, Uxbridge

	Committee Members Present: Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse **LBH Officers Present**: Tunde Adekoya, Pension Fund Accountant Paul Whaymand, Corporate Director of Finance Ken Chisholm, Corporate Pensions Manager Sian Kunert, Head of Pensions Treasury and Statutory Accounts James Lake, Lead Corporate Accountant Hayley Seabrook, Senior HR Operations Support Officer – Pension Board Member Liz Penny - Democratic Services Officer **Also Present**: Adrian Balmer - Ernst & Young Roger Hackett - Pensions Board Member Scott Jamieson - Investment Advisor Zak Muneer - Head of Finance (LHC) – Pension Board Member Andrew Singh - KPMG
	COMMENT Councillor Corthorne expressed his gratitude to Councillor Markham for his invaluable contribution to the work of the 2017/18 Pensions Committee during his time as Vice-Chairman.
1.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
2.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Philip Corthorne and Councillor Teji Barnes declared a Non-Pecuniary Interest in all agenda items because they were deferred members of the Local Government Pension Scheme. They both remained in the room during discussion of 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 of the items.

3.	**MINUTES OF THE MEETING DATED 28 MARCH 2018** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting on 28 March 2018 be approved as an accurate record.**
4.	**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 confirmed that items marked Part I would be considered in public and those marked Part II would be considered in private.
5.	**REPORT ON PENSION FUND ACCOUNTS** *(Agenda Item 5)* Adrian Balmer of Ernst & Young presented the External Auditor Report on the Pension Fund Accounts. Consideration was given to the Draft Pension Fund Annual Report for 2017/18 which included details of the Pension Fund Accounts. The Committee was informed that the London Borough of Hillingdon's Pension Fund Accounts were subject to a separate audit by the Council's external auditors. 2017/18 was the first year of the early close deadlines due to a change in legislation introduced through the Accounts and Audit Regulations 2015, which required the draft accounts completion date to move from 30 June to 31 May and the final approved audited accounts to be published by 31 July (previously 30 September). With regard to the status of the audit, Members were advised that good progress was being made and no significant issues had been identified to date. The auditors were awaiting confirmation from the banks. Members were informed that one area of the audit focus were 'significant risks'; it was reported that there was nothing to report in areas of significant risk. In terms of the other areas of audit focus, these were 1) Investment Manager Transition, 2) Valuation of Complex Investments (Unquoted Investments) and 3) the Earlier Deadline for production of the financial statements. The revised deadline had been noted and there was currently nothing to report regarding items 1) and 2); this was subject to final review. Consideration was given to the Draft Audit Report. Members were advised that the pension fund financial statements for the year ended 31 March 2018 had been audited; it was found that the financial statements gave a true and fair view of the financial transactions of the pension fund and had been appropriately prepared in accordance with regulations. It was reported that it had been a clean audit with no issues identified. No audit differences outwith the acceptable threshold had been identified to date. Data analytics had been used to enable the auditors to capture entire populations of the Fund's financial data; said data analytics helped to drive an efficient audit. Members expressed concern regarding the reduced time window for the audit and sought reassurance that this had not affected the quality or the integrity of the report. It was confirmed that no significant difficulties had been encountered and nothing had been done differently despite the revised timescales. Councillors requested further clarification regarding the figure of £15.3m as mentioned in the report under the heading of 'Audit Differences'. It was stated therein that any

	corrected misstatements greater than £15.3m identified during the course of the audit and corrected by management would be highlighted. Members were informed that there were no such misstatements to report as at the date of the report. The Committee queried the IAS valuation figures in the table on page 102 of the report and were advised that the figures were in millions rather than thousands. Mr Rodger Hackett informed the Committee that the Pensions Board had met and was now fully staffed; it would meet again at the end of the month. **RESOLVED:** 1. **That the Committee noted the auditor's findings on the audit of the Pension Fund accounts for 2017/18;** 2. **That authority was delegated to the Pensions Committee Chairman or Vice-Chairman to sign the Pension Fund accounts on completion of the audit;** 3. **That the Fund Annual Report was approved for publication subject to no material changes resulting from the audit of the Pension Fund accounts.**
6.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I** *(Agenda Item 6)* Andrew Singh, Senior Investment Consultant with KPMG, presented a training item to the Committee which covered Roles and Responsibilities within the Pension Fund, a Recap of the Fund's Investment Strategy and the Fund's Asset Classes. The report focused on the investment of the Fund's assets and included an overview of fund performance as at 31 March 2018, an update on strategy decisions made in March 2018, sub funds available within the London CIV, recent voting and engagement. The key objectives of the investment strategy were outlined and the Fund's asset allocation and managers were highlighted. Members were advised that the Actual Asset Allocation as at the end of June 2018 incorporated nine different classes including equity, property, diversified growth etc. With regard to future plans, the Committee was advised that the Fund was required by regulation to move the assets to a pooled vehicle (such as the LCIV) over time. Benefits of this approach should include lower management fees and greater overall investment governance. In terms of the agreed evolution of the Investment Strategy, the plan was to: • Reduce equity exposure, adjust regional weights and consider a 'resource efficient' or low carbon indexation; • Increase exposure to long dated inflation-linked assets; • Consider LCIV diversified credit options (recently launched); • Consider options for maintaining strategic allocation to illiquid credit (LCIV recently launched a strategy). Members commented that the content of the Investment Training item was both readable and digestible and provided a useful contextual background. They were informed that the training framework would be available in the Autumn of 2018. Members requested clarification regarding the testing of the funding position evolution model and were advised that a team of people designed it and assessed it using hard

data which was loaded onto a system and rolled forward using liability terms. The tool would not replace the actuary but was intended to give an indication and act as an early warning system.

The Pensions Committee Members were presented with a second report which considered the alternative approaches to implementing an allocation to long dated inflation-linked income. The Committee had previously reviewed the investment strategy and agreed to a strategic allocation of 5% to assets that provided a long dated income stream linked to inflation. KPMG had been asked to analyse the possible implementation options available for this allocation, noting a preference for new mandates to be accessed via the London Pension Collective Investment Vehicle (LCIV) if possible.

Members were informed that the LCIV did not currently offer a long dated inflation-linked income fund. However, they had indicated that they may be able to help access to an LLP fund in the short term although would not be on the platform; they planned to develop a long dated inflation-linked blend over the next few years. Details were unclear at this stage.

The Committee had also asked KPMG to identify the LLP funds which were best aligned with the Fund's requirements. KPMG had identified three funds which they believed could offer appropriate exposure. Members considered the queue length for each of these options; members suggested that a shorter queue length was a key benefit, members also discussed fund sizes and sector allocation

In terms of anticipated costs, Members were informed that investing in long lease property should be viewed as a medium to long term decision given the significant transaction costs involved (c.6-8%) and should be considered carefully. The bulk of the costs were payable upfront (stamp duty) and transition costs were uncertain but could be significant.

Three broad options were highlighted for the Committee to consider to implement an exposure to long dated inflation-linked assets. These were:-

- Option 1 - Hold the assets earmarked for the long dated inflation-linked income in index-linked gilts and await the launch of the LCIV inflation linked income fund (expected in 2 to 3 years). Members were advised that this option would provide inflation protection but a low return.
- Option 2a - Move forward with the LGIM LLP fund due to the potential link through the LCIV. There was a degree of uncertainty in selecting this course of action and it was noted the fund had a long queue and it is unclear if this product would be on the platform in the future which could result in further transition costs.
- Option 2b - Move forward outside of the LCIV Umbrella. This option would increase the choice of fund available and could enable faster deployment into the asset class by selecting a fund which had a shorter investment queue. This option would enable to the fund to select the most suitable manager for the fund requirements to best meet fiduciary duty. However, this approach could potentially expose the Committee to criticism and/or reputational risk by progressing investment outside of the LCIV.

In terms of recommendations, KPMG suggested that the Committee consider moving the investment forward in the short term ahead of the LCIV making an inflation-linked income fund available. KPMG were of the opinion that the LGIM fund offered a compromise between the risk of investing outside of the LCIV and implementation of

	the Committee's strategic decision in the near term. Members were reminded that this option came at the cost of a longer queue time for investment than some of the other LLP funds available. Members agreed that reputation was an important factor. However, it was vital to consider timings of LCIV offerings and to enable the Pension fund to achieve the best return to meet fiduciary duty to meet its funding strategy now. Members were informed that LGIM and BlackRock were larger concerns than the AEW. AEW's shorter queue could possibly be attributed to the fact that it was relatively new and a smaller concern, some of the members felt the short queue made this fund a viable option. Members were advised that LBH had been using the AEW for a number of years in another capacity and had been satisfied with their work. It was suggested that officers be instructed to continue with the manager selection exercise including conducting due diligence around the three shortlisted managers before the next Committee. In Part II of the agenda, the Committee received information on the current market update which covered both the current market climate and the performance of various investment vehicles, together with updates on Managers' reports. **RESOLVED:** 1. **That the Committee considered and discussed any issues raised in the training item;** 2. **That the Committee discussed the Fund performance update;** 3. **That the manager selection process continue including due diligence process associated with the Long Dated inflation-linked property fund for approval at the next committee;** 4. **That the implementation of any decisions be delegated to the Officer and Advisor - Investment Strategy Group.**
7.	**ADMINISTRATION REPORT - JUNE 2018** *(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. The Committee was informed that the Pension Administration system used by Surrey County Council as administrators of the fund included a task management system which allowed the progress of all case work to be managed and monitored on a daily basis. It was confirmed that Surrey County Council had continued to maintain and, in some areas, improve their performance against the reportable KPIs. Members were advised that active members Annual Benefits Statements were now available on individuals' records, well before the original deadline of August 2018.. All LBH staff had been informed via the all staff email of the need to register onto the 'mypension' online. 29% of staff had now registered to use the 'mypension' facility. The Team Leader from Surrey CC and one of the internal team had attended the latest Schools' Forum meeting to discuss any issues arising from schools in relation to provision of pensions. Schools were offered the opportunity of requesting a site visit and, since April 2018, five schools had been visited. Members enquired whether officers were satisfied with the progress made regarding schools and were informed that this was much improved and the main payroll provider

	for schools was now on-board. **RESOLVED:** 1. **That the information contained in the report be noted;** 2. **That the appointment of JLT to carry out GMP reconciliations work for the Fund be ratified.**
8.	**RISK MANAGEMENT REPORT** *(Agenda Item 8)* The purpose of the report was to identify to the Pensions Committee the main risks to the Pension Fund and enable them to monitor these. There were currently seven significant risks which were being managed and reported on. Members enquired about the cyber security risk element and were informed that this was being dealt with within the Council; however a large amount of data was held in Surrey. It was agreed that the matter of cyber security risk be covered in future reports. **RESOLVED:** 1. **That the Committee considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks;** 2. **That the Committee noted there were no risks rated as red;** 3. **That the matter of cyber security be included in the Risk Register going forward.**
9.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II** *(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, an update of the London CIV. **RESOLVED: That the information be noted, together with the performance of Fund Managers.**
10.	**CONTRACT TENDER REPORT - PART II** *(Agenda Item 10)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee received confidential information seeking authority to accept a tender to award the contract for Investment Consultancy Services and extend the existing

	contract for Actuarial Services to the London Borough of Hillingdon Pension Fund. **RESOLVED: That the recommendations as set out in the Part II report be agreed.**
	The meeting, which commenced at 5.00 pm, closed at 6.13 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Liz Penny on 01895 250636. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

This page is intentionally left blank

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

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

SUMMARY

This item will be preceded with a training item from KPMG on investing in Infrastructure.

This report asks Members to discuss and agree a new investment into long dated inflation linked property. The report includes an overview of fund performance as at 30 June 2018, sub funds available within the London CIV and recent voting and engagement.

The total size of the fund was £1,054m at 30 June 2018 an increase £40m from £1,014m at the end of previous quarter. There was an overall investment return over the quarter of 4.08%. The estimated funding position at 30 June 2018 is 78.9%.

Part II includes an update on each Fund Manager and the detailed current market backdrop. The 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. **Agree 5% investment of Long- Dated inflation linked property**
4. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

INFORMATION

1. Fund Performance

Over the last quarter to 30 June 2018, the Fund returned 4.08%, an under-performance of 8 basis points relative to the fund benchmark of 4.16%. The Fund value increased over the quarter by £40m, to £1,054m as at 30 June 2018.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	4.08	4.16	(0.08)
1 Year	6.16	7.01	(0.85)
3 Year	9.37	9.09	+0.28
5 Year	8.74	8.49	+0.25
Since Inception (09/1995)	7.14	7.03	+0.11

During the quarter, distributions received from Alternative investments were $3.4m, €1.5m & £1.1m. The cash was utilised to fund drawdowns of outstanding commitments in both Permira and Macquarie. The largest detractor from performance during the quarter was JP Morgan, with a relative return of -2.69 behind the benchmark. Whilst Macquarie outperformed the benchmark by 5.75% as the biggest contributor.

Relative performance over a one-year rolling period was 0.79% behind the benchmark with the largest detractor being JP Morgan; with a return of 4.61% in excess of benchmark from AEW as the best performing fund manager at the end of quarter under review.

2. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below. The assets of the Fund is invested across 11 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

ASSET CLASS	Market Value As at 30 June 2018	Actual Asset Allocation	Benchmark Allocation
	£'000	%	%
UK Equities	233,447	22.2	44.0
Global Equities	253,216	24.1	
UK Index Linked Gilts	86,106	8.1	14.0
Multi Asset Credit	80,051	7.6	
Corporate Bonds (Global)	31,322	3.0	
Property	132,613	12.6	12.0
DGF/Absolute Returns	105,647	10.0	10.0
Private Equity	20,101	1.9	2.0
Infrastructure	26,770	2.5	3.0
Private Credit	71,579	6.8	10.0
Long Lease Property	0	0	5.0
Cash & Cash Equivalents	13,072	1.2	0.0
Totals	**1,053,934**	**100.0**	**100.0**

The overweight positions in both Equities and Bonds will adjust itself once the cash allocated to Long lease property is drawn-down. Total of 5% fund assets has been earmarked for investments in this asset class and a manager search is currently under way.

Current Asset Allocation by Manager

		Market Value As at 30 June 2018	Actual Asset Allocation
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**
ADAMS STREET	Private Equity	13,595	1.3
LGT	Private Equity	6,465	0.6
AEW	Property	56,464	5.4
JP MORGAN	Corporate Bonds (Global)	80,051	7.6
LCIV - EPOCH	Global Equities	137,983	13.1
LCIV - RUFFER	DGF/Absolute Returns	105,647	10.1
M&G	Private Credit	11,228	1.1
MACQUARIE	Infrastructure	26,770	2.6
PERMIRA	Private Credit	60,351	5.8
LGIM	UK Equities	94,364	8.6
	Global Equities	115,233	10.9
	UK Index Linked Gilts	86,106	8.2
	Corporate Bonds (Global)	31,332	3.0
UBS EQUITIES	UK Equities	139,083	13.2
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	5,120	0.5
UBS PROPERTY	Property	76,127	7.3
	Cash & Cash Equivalents	152	0
Non Custody	Cash & Cash Equivalents	47,461	0.7
		1,053,934	**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

The FTSE All-Share index rose 9.2% over the period, enjoying strong relative performance versus global equities. UK equities bounced back as international investors reduced their underweight in the country, albeit sentiment towards the UK remains extremely negative. Prior to the period under review, the UK's unpopularity with international investors had hit levels not seen since the global financial crisis. This situation had weighed heavily on UK returns at a time when investor sentiment in general was fragile, amid fears that resurgent inflationary pressures in the US could derail the “Goldilocks scenario” of low inflation and stable growth. The absence of a rate hike was a further positive for UK equities, as it contributed to a renewed decline in the value of sterling against a strong US dollar. As a result, the more internationally exposed large caps outperformed mid caps. Ongoing merger and acquisition activity also supported returns over the period.

US equities advanced in Q2, with positive earnings momentum and supportive economic data ultimately outshining escalating US-China trade posturing. Consumer confidence remained strong and retail sales data suggested a rebound in consumption from a softer Q1. The unemployment rate also reached an 18-year low of 3.8%, accompanied by robust wage growth. Average earnings in May were 2.7% higher than a year earlier. As expected, the Federal Reserve (Fed) raised the target rate for Fed Funds by 0.25% and marginally increased its 2018 forecasts for growth and inflation. It now anticipates two further rate increases for this year and three for next. The positive economic data was, however, balanced by moves from the Trump administration to impose tariffs on Chinese imports, and withdraw from the Iran nuclear accord. In combination, the steps amounted to a more combative trade posture from the US, driving oil prices higher, and weighing on longer-term growth expectations.

Eurozone equities posted positive returns in the second quarter. Top performing sectors included energy, information technology and healthcare. Financials were among the main laggards, posting a negative return; Italian banks in particular struggled amid political uncertainty in May. Elsewhere, auto stocks fell against a backdrop of intensifying trade concerns as US President Trump threatened tariffs on imported vehicles. Economic data from the eurozone pointed to steady growth but at a slower pace than last year. GDP growth for the first quarter was 0.4%, down from 0.7% in Q4 2017. However, the flash eurozone composite purchasing managers’ index for June came in at 54.8, an improvement on the 18-month low of 54.1 seen in May. The European Central Bank (ECB) announced that it expects to end its quantitative easing programme in December 2018. The ECB added that interest rates would remain at current levels through the summer of 2019.

Emerging markets (EM) equities recorded a sharp fall in Q2 with US dollar strength a significant headwind. Escalation in global trade tensions also contributed to risk aversion as US-China trade talks failed to deliver a sustainable agreement. Meanwhile the US moved to extend steel and aluminium tariffs to the EU, Canada and Mexico, resulting in the announcement of retaliatory measures. The MSCI Emerging Markets Index recorded a negative return and underperformed the MSCI World.

Global bond markets suffered from bouts of volatility in Q2 due to a confluence of factors. These included a greater dispersion between accelerating US growth and a softening of economic activity elsewhere, escalating trade tensions between the US and China and the formation of a populist coalition government in Italy.
US 10-year Treasury yields rose from 2.74% to 2.86%. They rose significantly in April, touching a seven-year high in mid-May, as growth and inflation expectations continued to build, before risk aversion and “safe haven” buying led to a significant retracement. Bund 10-year yields fell from 0.50% to 0.30% on safe haven demand and as European data saw further softening.

4. Implementation of Long Dated Inflation Linked Property

Pensions Committee in March 2018 agreed to invest 5% of the portfolio in Long Lease Property: Long dated, inflation linked, contractual income. The committee discussed the direction to invest in this asset class at its meeting in July in light of access to this asset class not being available via the London CIV pool. Committee agreed to carry out its fiduciary duty and implement its strategy by undertaking due diligence of shortlisted managers with the view to invest outside the pool, until an offering is established when options would be reassessed. KMPG advised that the return on investment over the period in which it will take the London CIV to establish this asset class based on meetings with the CIV and the risk and return in going forward, coupled with the risk of unwinding in the future better meet the investment need of the beneficiaries of the fund than waiting.

KPMG carried out analysis into the best managers to meet the needs of the fund, that supply this product, and short listed 3 managers for selection to meet with and assess the best match for the Hillingdon Pension fund to match its investment strategy. Attached is a KPMG paper "Long Lease Property – Manager Selection Paper" which explains the process KPMG took to select and then shortlist opportunities for consideration, the report was written in advance of officers meeting the managers. On 21 September. Officers and Advisors met with the three shortlisted managers – Blackrock, LGIM and AEW - who each delivered a short presentation on their Funds.

All Funds would be capable of delivering value to the Hillingdon Fund and were relatively similar in costs. AEW and LGIM have pre-existing relationships with the Hillingdon Pension Fund. AEW were the most expensive provider but also offered a higher return. Blackrock and LGIM were similar in cost and return and both have an existing relationship with the London CIV; however, it is not clear that this investment would be taken on or possible to transfer to the CIV.

As each Fund had its own merits, the choice is largely subjective. Following a lengthy discussion, it was agreed that the LGIM offering would be recommended to Committee on the basis that we have existing investments with them, their inflation linkage was the strongest, there is significant government sector backing of leases and costs were lowest for this fund.

Recently, officers have been advised that the London CIV offering is expected to be rolled out sooner than expected, however there are currently no details of this offering. The LCIV expect this fund to launch in Q1 2019 and will be an inflation protection fund, which is likely to be wider than purely long dated inflation linked property and is expected to consist of two managers. The fund would also have a queue to deploy funds, although this may be quicker than the pooled funds in consideration. There are a lot of unknowns in relation to this offering at this time. A verbal update will provided if more details are available by the meeting date to take into consideration.

5. LCIV update

Sub funds available on the platform currently

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
Fixed Income		
LCIV Global Bonds Fund	Pyrford International Limited	Available pending capital
LCIV MAC Fund	CQS	31-May-18

The London CIV have been working on an infrastructure offering for London Boroughs and the full information pack should be available shortly, it is expected the product will be launched in Q4 2018.

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 £571m at 30 June 2018 accounting for 54% of total assets of the Pension Fund. Data from the London CIV shows the Hillingdon fund to be 6th out of the 32 boroughs in relation to the percentage of assets under management through the pool.

6. ESG, Voting and Engagement

As part of the Pension Committees role in making investment decisions it is required to take into account factors that 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, due to 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 30 June 2018 the Hillingdon, investment managers made the following votes:

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	6,217	68,12	59,052	9,069	0
JP Morgan	929	13,923	12,496	1,406	21
LGIM	2,235	32,063	26,519	5,269	275

Voting reports obtained from managers reflected the period of the year when most companies in Europe and America hold their AGMs. Hence, increased voting activities across the three fund managers reported. UBS were the most active fund manager by attending and voting at more meetings. On average, the reported managers opposed about 14% of proposals at meetings attended.

ESG and climate change within the pension investments has been prominent, as it has been in other sectors of the media and within parliament in the last quarter. The Department of Work and Pensions, laid revised regulations before parliament in September 2018, requiring pension funds to include a policy on how they take account of financially material ESG considerations, including specifically climate change, "over the appropriate time horizon of the investments" in their statement of investment principles (SIP) by October 2019. Although these regulations apply to occupational pension schemes and not the LGPS, it is expected MHCLG will amend the LGPS regulations to match these changes in the near future.

The Environmental Audit committee called for a requirement for schemes to actively seek the views of their members when producing the SIP. This can have implications for defined benefit schemes as funds need to be able to pay beneficiaries the amount laid out in statute rather than an amount dependant on investment returns, and as a result repercussions to funding levels.

In addition the top 14 largest pension funds in the UK were approached by lawyers in July 18 suggesting they could face legal action if they ignore the consequence of climate change for their investment portfolios.

The law relating to fiduciary duty is complex and is defined by the Law Commission as ‘ensuring that pensions can be paid, ensuring that this is undertaken at the best possible value’. The Law commission clarified that pension funds could take into account environmental and social factors in their investment decisions, and should take them into account if they are financially material. As part of the Paris 2015 Agreement the government has committed to keep the global temperature increase to under 2 degrees and aim for 1.5 degrees; reports from Intergovernmental Panel on Climate Change, United Nations suggest that to meet this target 60-80% of fossil fuels would need to stay in the ground and not be used for energy production. Pension funds as part of their legal duty are required to consider longer term impacts of the investment portfolios and interest of the younger members of the scheme who could be more effected as a result of environmental issues.

The London CIV has recently drafted a Responsible Investment Policy for ratification at the next Shareholder meeting which aligns with the Hillingdon Pension Fund Investment Strategy Statement policy on ESG and responsible investment. In the last quarter the LCIV have also become a UNPRI signatory and both the Hilligndon pension fund and the LCIV are signatories to the UK Stewardship code.

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, 2018

Table of Contents

Client Commentary

Total Scheme Commentary

The second quarter began with a reduction in tariffs; announced by President Xi Jinping in relation to imported vehicles. Baby steps towards global trading harmony ended there and the to and fro of “if you do this, then I’ll do that” began. China and the US have been batting back and forth throughout quarter 2, the UK is yet to establish a trade agreement with the EU and the US, again, is trying to renegotiate the North American free trade agreement with its neighbours and biggest trading partners.

The UK’s dominant services sector enjoyed its strongest growth in eight months, signalling a rebound for the UK economy and building the case for an imminent rate rise. At its May meet the Bank of England voted 6-3 to hold rates at 0.5% however as the Bank’s Chief Economist joined the hawks for the first time, speculation mounted that an August hike could be looming. Headline inflation stabilised at 2.4% for the second month running in May, its fall halted by a sharp rise in fuel costs and some upward pressure from air and sea fares. According to the Office for National Statistics fuel prices saw their largest monthly rise since January 2011, jumping from 4.6p per litre to 125.3p. These effects were however partially offset by a fall in the price of recreational and cultural goods and services. Core inflation also held steady at 2.1%

In the UK, Q2 2018 saw Sterling lose ground against the Dollar, Euro and Yen. The purchasing managers’ index (PMI) rose from 54.0 in May to 55.1 in June. The consumer price index including owner occupiers’ housing costs rose by 2.3% in the year to May 2018, up from 2.2% in April 2018. Rising motor fuel prices and air fares were the main upward contributors to the rise from April. The main downward contributors were from games, hobbies and toys where prices fell. The overall score of GfK’s Consumer Confidence Index fell to -9 in June compared to -7 in May. This was under the market’s expected value of -7, as positivity about the economy dropped off. The Nationwide House Price Index showed the annual rate of house price growth in May at 2.4%, slightly down from the April figure of 2.6%. The average house price is now £213,618.

Within this environment the London Borough of Hillingdon returned +4.08% which was below the Total Plan benchmark of +4.16%. In monetary terms this is a gain in assets of £41.4 million and the value of the combined scheme now stands at £1,053 million as at 30th June 2018. Looking further into the analysis the results seen were caused by allocation effects particularly within London CIV Ruffer and JP Morgan, the fund held overweight positions compared to the total benchmark for both these managers. While stock selection effects overall were positive, the most notable impacts were the positive effects of Macquarie and AEW UK which were partially reversed by the negative impacts in Epoch and JP Morgan.

The Scheme’s one year return of 6.16% is 0.79% behind the benchmark of 7.01% 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 9.37% over three year versus 9.09%. Then the excess marginally falls to 0.23% for the 5 year period where we see figures of 8.74% versus 8.49% per annum. Then since inception in September 1995, the Fund remains ahead of target by 10 basis points with an annualised return of 7.14% against a target of 7.03%.

Manager Commentary

AEW UK

Over the second quarter AEW UK Property produced a growth of 3.87%, which was 1.83% above the IPD UK PPFI All Balanced Funds index figure of 2.00%. They remain ahead of target over the year, and continue to be ahead over the three year period returning 11.59% against the benchmark of 8.11%. This translates as a +3.22% relative return. With positive absolute returns in all but one period and only five 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 12.12%, leading to an outperformance of 2.00% when compared to the IPD figure of 9.92%.

JP Morgan

In the latest quarter JP Morgan posted a reduction in assets of -1.72% leading to an underperformance of 2.69% when compared to the 1.00% target for the 3 Month LIBOR + 3% p.a. Then with positive results in two of the last four quarters, the one year return of 0.08% is in positive territory but is behind the 3.56% target by 3.37%. Then over three and five years they post returns closer to the benchmark with figures of 3.67% vs 3.63% and 3.44% vs 3.61% respectively. Since the mandate funded their return of 3.57% is +8 basis points below the target return of 3.65% on an annualised basis.

Legal & General 1

Over the last three months the Legal & General No. 1 mandate post a return of +4.78% against +4.97% for the custom fixed weight blended benchmark, an underperformance of +18 basis points. In the short period since inception in October 2016, they return 7.43%, which is below the benchmark return of 7.54.

Legal & General 2

During February 2017 the Legal & General mandate was funded, now in its first full year of investment they post a return of 0.33%% against 0.33% for the second 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 5.41% against 5.66% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

This quarter assets within the London CIV Ruffer portfolio saw a positive return at +2.30% when compared to the LIBOR 3 Month GBP figure of 0.26%, this leads to a relative return of +2.03%. This has improved the results from 2017 and the one year period now shows a positive return of 1.61% against the target of 0.56%. Outperformance remains in the longer periods. This is seen in a three year return of 3.37% versus 0.62%, then similarly for the five years with figures of 4.67% against 0.62%, culminating in since inception (May 2010) figures of 5.60% versus 0.82% per annum, which translates as a relative return of 4.74%. This manager shows the largest outperformance of all the schemes managers over the since inception period.

M&G Investments

M&G posted a loss (albeit small) in Q2 by producing a return of -0.38% against the 3 Month LIBOR +4% p.a. target of 1.25%, demonstrating an underperformance of 1.60%. Despite this the previous good results show the full year return lead the benchmark by 2.55%, coming from figures of 7.23% against 4.57%. Over the three and five year the account registers figures of 9.33% vs 4.62% and 8.80% vs 4.61% respectively; since inception (May 2010) return falls slightly to 7.29% pa whilst the benchmark is 4.68% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.59% opposed to the comparator of 4.41%.

Macquarie

Over the last three months, Macquarie produced a growth of 6.81%, against the 1.00% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 5.75%. With sixteen consecutive quarters of positive absolute and relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 11.91% beats the target of 3.56% by 8.05%, similarly the three year result of 19.41% versus 3.62% exhibits the best relative return at 15.24%. The annualised return over 5 years falls to 12.69%, but still ahead of the 3.60% seen for the benchmark; then since inception (September 2010) the 5.40% is ahead of the target of 3.67%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.88%, which is ahead of the benchmark figure of 3.61%.

UBS

During Q1 the UBS UK Equity investments returned +9.15%, just behind the +9.20% for the FTSE All Share. Looking into the attribution analysis this underperformance was a result of selection effects partially offset by allocation effects. The most significant being the selection decisions in Financials (-41bps), Industrials (-29bps) and Consumer Services (-27bps), while the largest positve impact comes from Healthcare (+17 bps). Allocation effects were also notable and made a positive impact with the most significant being the underweighting in Consumer Goods (+50 bps) as well as overweighting in Oil & Gas (+41bps). The manager is now ahead over the one year, figures of 12.23 vs 9.02% translates as a relative return of +2.94%. This is largely attributable to allocation effects, the biggest impacts come from both underweighting Consumer Goods (+165bps) and overweighting Oil & Gas (+98 bps). 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 10.34% versus 8.91% on an annualised basis

Manager Commentary

Premira Credit

The Premira Credit Fund saw a growth of 1.50% over the second quarter of 2018, this compares favourably with the 3 Month LIBOR +4% p.a. target of 1.25%. All four quarter's over the last year are still ahead of target, leading to an outperformance of 3.22%, created from figures of 7.93% against 4.57%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 9.13% against the benchmark of 4.59%, leading to a relative position of 4.35%. This manager shows one of the largest outperformance of all the schemes managers over the since inception period.

UBS Property

In contrast from the previous period, the latest quarter for the UBS Property posted an outperformance with

+0.20%, generated from a return of 2.21% against the IPD UK PPFI All Balanced Funds index of 2.00%. Over the one year an outperformance is recorded, with a full year return of 10.48% beating +0.68% ahead of the IPD target of 9.73%. The previous good run of results particularly during 2015 leads to high absolute returns staying ahead of the IPD target over the longer periods, peaking over the five year with a return of 11.44% against 10.61%. Then since inception, in March 2006, the fund return falls to 4.09% per annum which manages to stay just ahead of the benchmark figure of 4.02%.

Private Equity

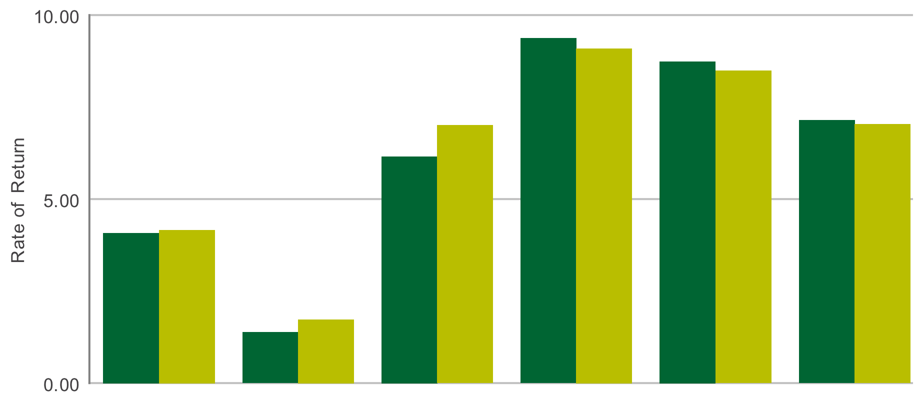
The private equity assets saw a 11.05% rise in value for LGT. Adam Street saw an increase of 9.15%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 17.32%, 24.81% and 16.56% for the one, three and five year periods respectively, while Adam Street posted 12.79%, 16.29% and 15.53% over the same periods. Although Adam St falls short of the proxy benchmark of MSCI AC World +4% p.a. which shows13.44%, 19.33% and 16.79%. LGT by contrast are ahead over the one and three year periods (outperforming by +3.41% and +4.60% respectively) but fall somewhat short over the five year underperforming by 19bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.91% pa, while LGT sees a more modest dip to 11.48%.

Epoch

Over the second quarter the relatively new investment in Epoch's income equity fund generated a return of +6.34%. Since inception (November 2017) the fund has observed a fall in value -2.60% compared to the MSCI World figure of +2.47%, this leads to a relative return of -4.95%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	4.08	1.38	6.16	9.37	8.74	7.14
Index	4.16	1.73	7.01	9.09	8.49	7.03

Index: Total Plan Benchmark

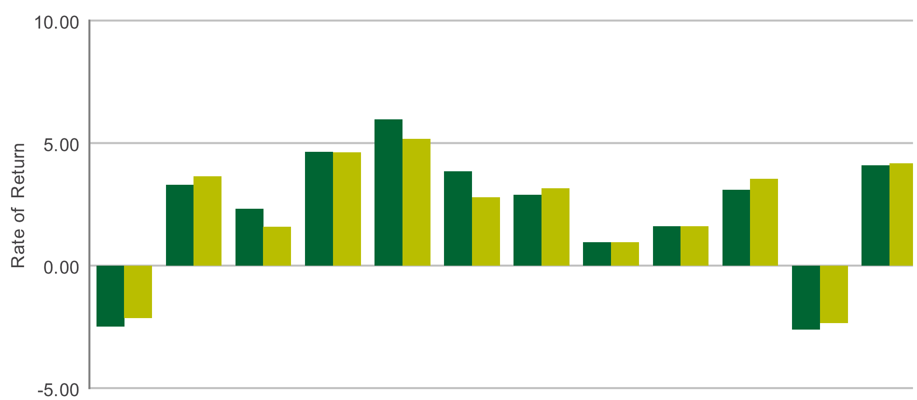
Page 21

RISK STATISTICS

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	6.16	9.37	8.74
Index Return	7.01	9.09	8.49
Relative Excess Return	-0.79	0.26	0.23
Standard Deviation	4.03	4.94	4.88
Index Standard Deviation	4.14	4.62	4.69
Tracking Error	0.90	1.24	1.04
Information Ratio	-0.94	0.23	0.24
Sharpe Ratio	1.39	1.77	1.67
Index Sharpe Ratio	1.56	1.83	1.68
Sortino Ratio	-	-	3.64
Treynor Ratio	5.91	8.47	8.00
Jensen's Alpha	-0.47	-0.01	0.12
Relative Volatility (Beta)	0.95	1.03	1.02
R Squared	0.95	0.94	0.95

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

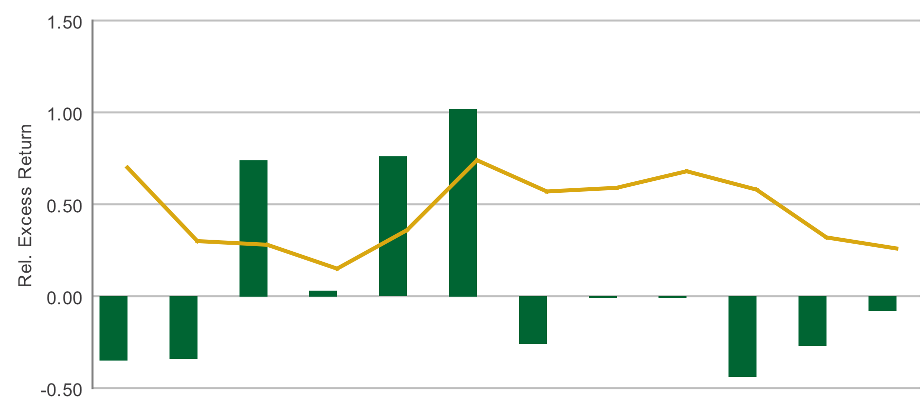
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18
Fund	-2.48	3.30	2.32	4.64	5.96	3.85	2.88	0.94	1.59	3.08	-2.60	4.08
Index	-2.14	3.64	1.57	4.61	5.17	2.79	3.14	0.95	1.60	3.53	-2.34	4.16

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18
3M R.Excess	-0.35	-0.34	0.74	0.03	0.76	1.02	-0.26	-0.01	-0.01	-0.44	-0.27	-0.08
3Y R.Excess	0.70	0.30	0.28	0.15	0.36	0.74	0.57	0.59	0.68	0.58	0.32	0.26

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	**1,053,934,020**	**100.00**	**4.08**	**4.16**	**-0.08**	**1.38**	**1.73**	**-0.34**	**6.16**	**7.01**	**-0.79**
Total Plan Benchmark											
AEW UK	**56,463,582**	**5.36**	**3.87**	**2.00**	**1.83**	**6.39**	**3.94**	**2.36**	**14.80**	**9.73**	**4.61**
LBH22 AEW Benchmark											
JP Morgan	**80,050,834**	**7.60**	**-1.72**	**1.00**	**-2.69**	**-2.10**	**1.88**	**-3.90**	**0.08**	**3.56**	**-3.37**
LBH15 JPM LIBOR +3%pa											
Legal & General 1	**240,240,695**	**22.79**	**4.78**	**4.97**	**-0.18**	**0.56**	**0.72**	**-0.16**	**6.57**	**6.73**	**-0.15**
LBH26 L&G Benchmark											
Legal & General 2	**86,794,371**	**8.24**	**0.33**	**0.33**	**-0.00**	**-0.96**	**-0.92**	**-0.04**	**5.45**	**5.57**	**-0.11**
LBH27 L&G Benchmark											
M&G Investments	**11,254,872**	**1.07**	**-0.38**	**1.25**	**-1.60**	**1.33**	**2.37**	**-1.02**	**7.23**	**4.57**	**2.55**
LBH10 3 Month LIBOR +4%pa											
Macquarie	**28,263,882**	**2.68**	**6.81**	**1.00**	**5.75**	**8.19**	**1.88**	**6.20**	**11.91**	**3.56**	**8.05**
LBH14 Macquarie LIBOR +3%pa											
Newton	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
LBH19 FTSE World Index +2%											
Premira Credit	**60,350,532**	**5.73**	**1.50**	**1.25**	**0.25**	**3.66**	**2.37**	**1.26**	**7.93**	**4.57**	**3.22**
LBH24 Premira LIBOR +4%pa											
UBS	**144,266,926**	**13.69**	**9.15**	**9.20**	**-0.05**	**4.05**	**1.69**	**2.31**	**12.23**	**9.02**	**2.94**
LBH04 UBS Benchmark											
UBS Property	**76,278,886**	**7.24**	**2.21**	**2.00**	**0.20**	**3.91**	**3.94**	**-0.03**	**10.48**	**9.73**	**0.68**
LBH06 UBS Property Benchmark											
Adam Street	**13,593,963**	**1.29**	**9.15**	**7.97**	**1.09**	**9.91**	**4.31**	**5.37**	**12.79**	**13.44**	**-0.57**
Adam Street PE Bmark											
LGT	**6,467,233**	**0.61**	**11.05**	**7.97**	**2.85**	**12.32**	**4.31**	**7.68**	**17.32**	**13.44**	**3.41**
LGT PE Bmark											
Epoch Investment P Income	**137,982,661**	**13.09**	**6.34**	**8.10**	**-1.62**	**-1.71**	**2.90**	**-4.48**	**-**	**-**	**-**
LBH11001 MSCI World ND											
London CIV Ruffer	**105,654,158**	**10.02**	**2.30**	**0.26**	**2.03**	**-0.30**	**0.39**	**-0.69**	**1.61**	**0.56**	**1.04**
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	9.37	9.09	0.26	8.74	8.49	0.23	7.14	7.03	0.10	30/09/1995
AEW UK LBH22 AEW Benchmark	11.59	8.11	3.22	-	-	-	12.12	9.92	2.00	30/06/2014
JP Morgan LBH15 JPM LIBOR +3%pa	3.67	3.63	0.04	3.44	3.61	-0.16	3.57	3.65	-0.08	08/11/2011
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	7.43	7.54	-0.11	31/10/2016
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	5.41	5.66	-0.24	22/02/2017
M&G Investments LBH10 3 Month LIBOR +4%pa	9.33	4.62	4.50	8.80	4.61	4.01	7.29	4.68	2.49	31/05/2010
Macquarie LBH14 Macquarie LIBOR +3%pa	19.41	3.62	15.24	12.69	3.60	8.77	5.40	3.67	1.66	30/09/2010
Newton LBH19 FTSE World Index +2%	-	-	-	-	-	-	-	-	-	24/01/2013
Premira Credit LBH24 Premira LIBOR +4%pa	8.99	4.62	4.17	-	-	-	9.13	4.59	4.35	30/11/2014
UBS LBH04 UBS Benchmark	12.63	9.59	2.77	11.09	8.84	2.07	10.34	8.91	1.31	31/12/1988
UBS Property LBH06 UBS Property Benchmark	8.34	7.61	0.68	11.44	10.61	0.75	4.09	4.02	0.07	31/03/2006
Adam Street Adam Street PE Bmark	16.29	19.33	-2.55	15.53	16.79	-1.08	6.91	-	-	31/01/2005
LGT LGT PE Bmark	24.81	19.33	4.60	16.56	16.79	-0.19	11.48	-	-	31/05/2004
Epoch Investment P Income LBH11001 MSCI World ND	-	-	-	-	-	-	-2.60	2.47	-4.95	08/11/2017
London CIV Ruffer LBH11003 Ruffer BM Libor	3.37	0.62	2.73	4.67	0.62	4.02	5.60	0.82	4.74	28/05/2010

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

Account/Group	31/03/2018 Market Value	31/03/2018 Weight	Net Contribution*	Income	Fees	Appreciation	30/06/2018 Market Value	30/06/2018 Weight	Change in Weight
London Borough of Hillingdon	**1,013,570,103**	**100.00**	**-1,008,427**	**4,734,737**	**8,427**	**36,637,607**	**1,053,934,020**	**100.00**	**0.00**
AEW UK	54,360,982	5.36	0	663,808	0	1,438,792	56,463,582	5.36	-0.01
JP Morgan	56,311,723	5.56	25,000,000	0	0	-1,260,889	80,050,834	7.60	2.04
Legal & General 1	229,282,791	22.62	-4,420	0	4,420	10,962,324	240,240,695	22.79	0.17
Legal & General 2	66,556,081	6.57	19,995,993	0	4,007	242,297	86,794,371	8.24	1.67
M&G Investments	15,363,766	1.52	-4,135,807	1,164	0	25,749	11,254,872	1.07	-0.45
Macquarie	27,421,776	2.71	-1,001,313	477,652	0	1,365,767	28,263,882	2.68	-0.02
Newton	0	0.00	0	0	0	0	0	0.00	0.00
Premira Credit	58,117,260	5.73	1,339,202	0	0	894,070	60,350,532	5.73	-0.01
UBS	133,132,863	13.14	-1,031,395	1,856,654	0	10,308,804	144,266,926	13.69	0.55
UBS Property	75,192,170	7.42	-567,890	624,860	0	1,029,746	76,278,886	7.24	-0.18
Adam Street	13,206,247	1.30	-764,102	0	0	1,151,818	13,593,963	1.29	-0.01
LGT	6,340,061	0.63	-532,583	12	0	659,743	6,467,233	0.61	-0.01
Cash & Other Assets	45,257,507	4.47	-39,306,109	32,917	0	287,111	6,271,425	0.60	-3.87
Epoch Investment P Income	129,750,098	12.80	0	1,077,595	0	7,154,968	137,982,661	13.09	0.29
London CIV Ruffer	103,276,776	10.19	0	75	0	2,377,308	105,654,158	10.02	-0.16
Cash & Other Assets	0	0.00	0	0	0	0	0	0.00	-0.00
Transition	4	0.00	-3	0	0	-0	0	0.00	-0.00

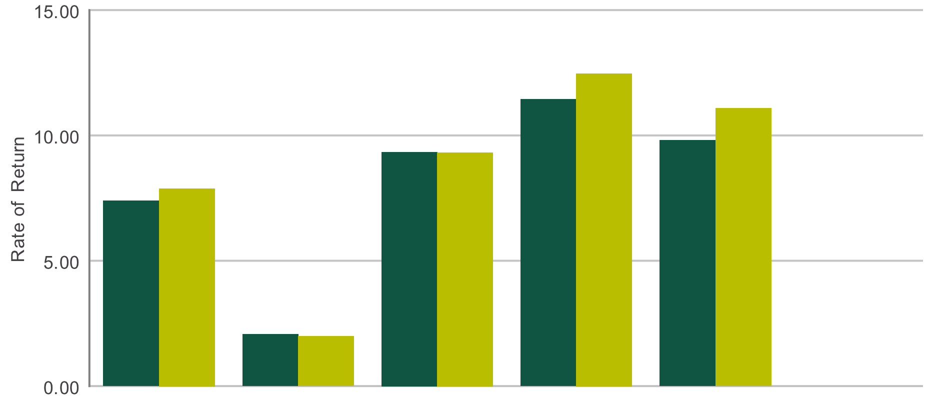
Min -3.87 2.04 Max

**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

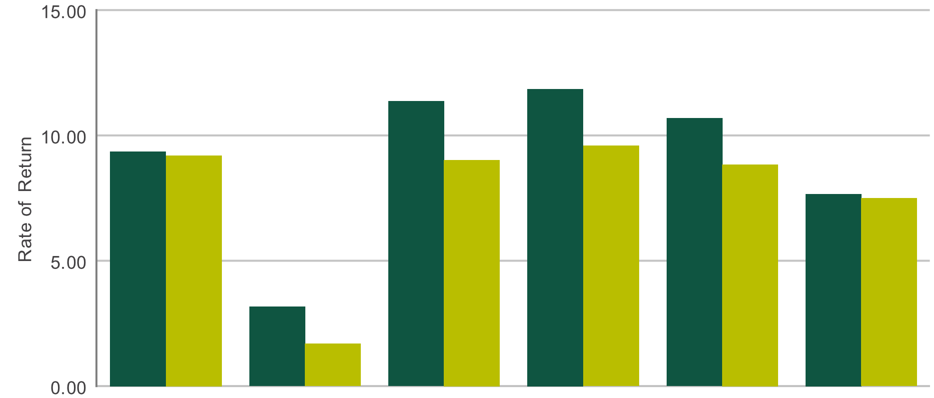
EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.39	2.07	9.34	11.44	9.81	-
Index	7.88	1.99	9.32	12.47	11.08	-

Index: Total Equity Benchmark

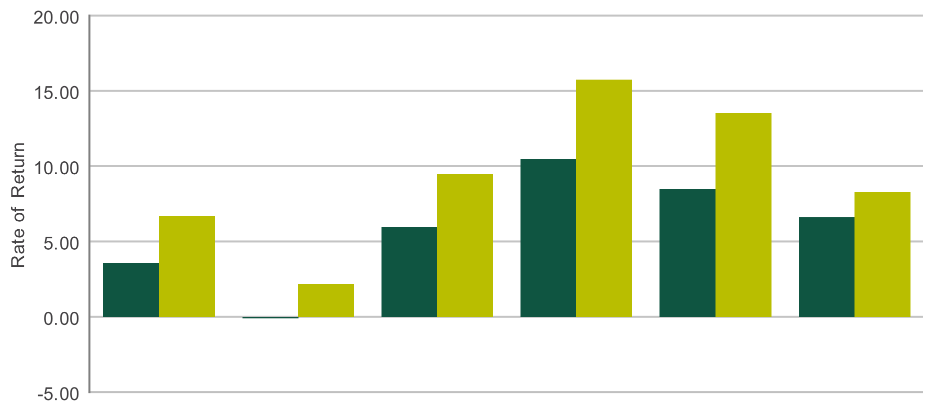
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	9.36	3.16	11.36	11.85	10.68	7.66
Index	9.20	1.69	9.02	9.59	8.84	7.50

Index: FTSE All Share UK Equity

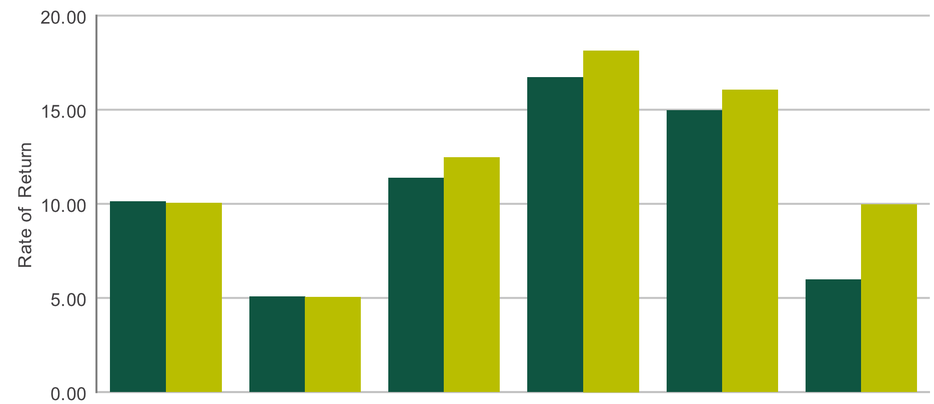
OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.58	-0.10	5.98	10.44	8.45	6.60
Index	6.69	2.18	9.45	15.73	13.50	8.25

Index: Total O'seas Equity Benchmark

NORTH AMERICA

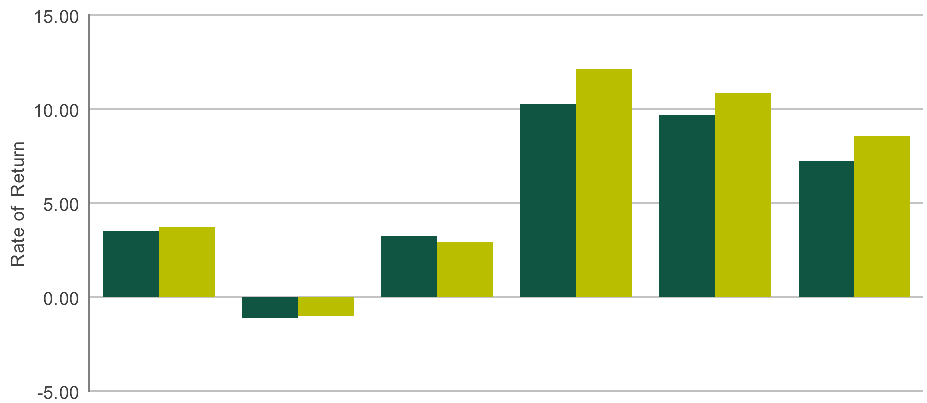


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.13	5.08	11.38	16.72	14.97	5.97
Index	10.05	5.05	12.47	18.14	16.06	9.97

Index: FTSE North America

Historical Performance

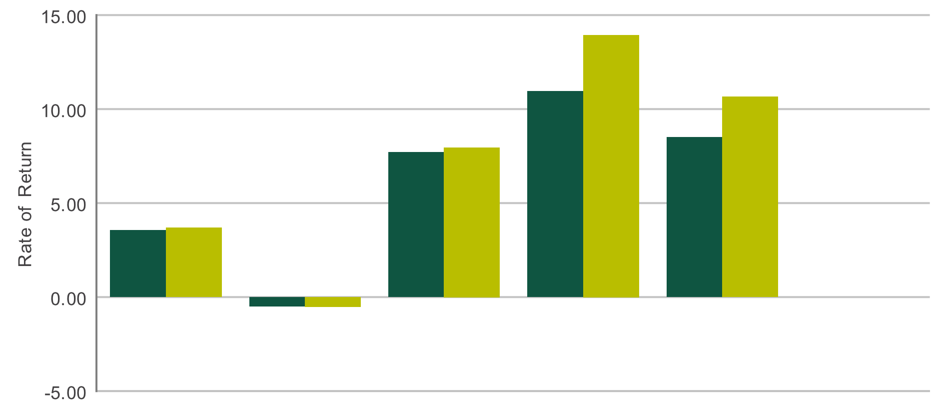
EUROPE EX UK



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.47	-1.13	3.25	10.26	9.66	7.21
Index	3.73	-1.01	2.92	12.12	10.81	8.56

Index: FTSE AW Dev Europe ex UK

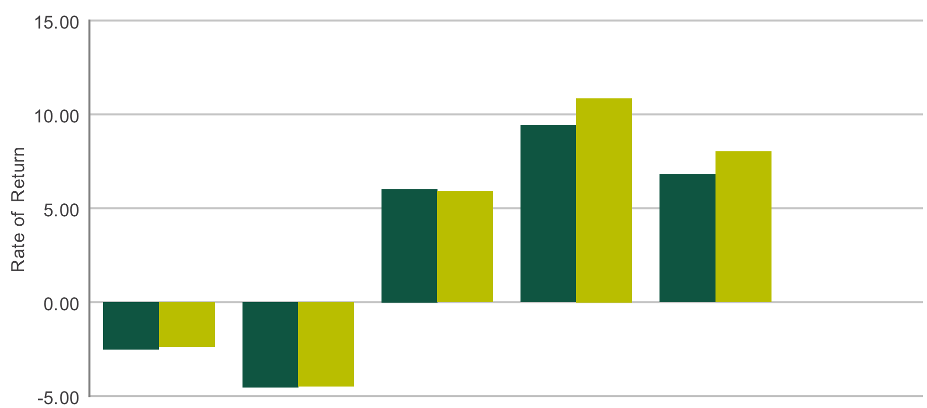
ASIA PACIFIC INC JAPAN



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.56	-0.50	7.71	10.95	8.50	-
Index	3.69	-0.53	7.96	13.94	10.66	-

Index: FTSE AW Dev Asia Pacific

EMERGING MARKETS

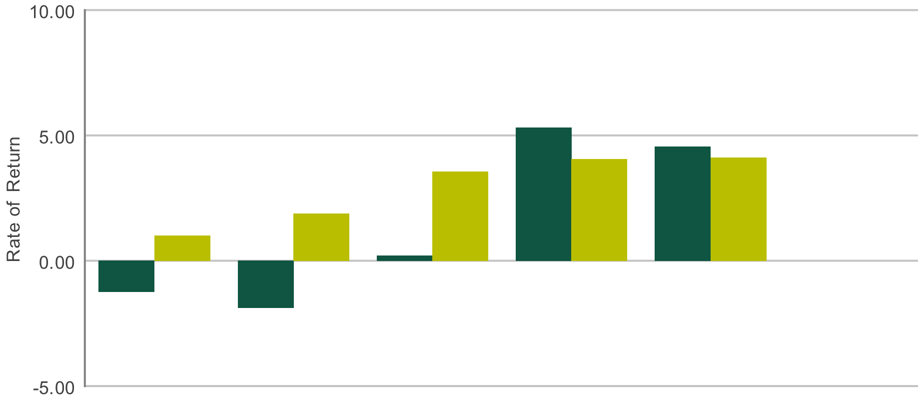


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-2.52	-4.53	6.02	9.43	6.83	-
Index	-2.38	-4.48	5.92	10.86	8.03	-

Index: LBH Emerging Markets

Historical Performance

FIXED INCOME

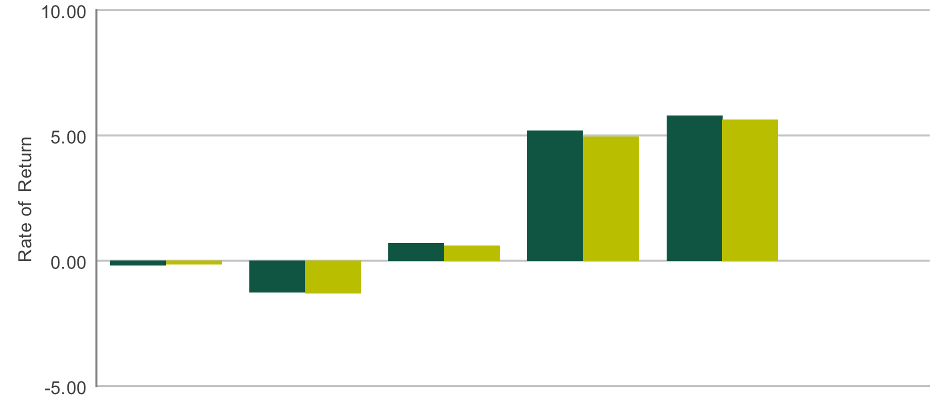


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-1.25	-1.88	0.22	5.32	4.55	-
Index	1.00	1.88	3.56	4.05	4.12	-

Page 27

Index: LBH Fixed Income Benchmark

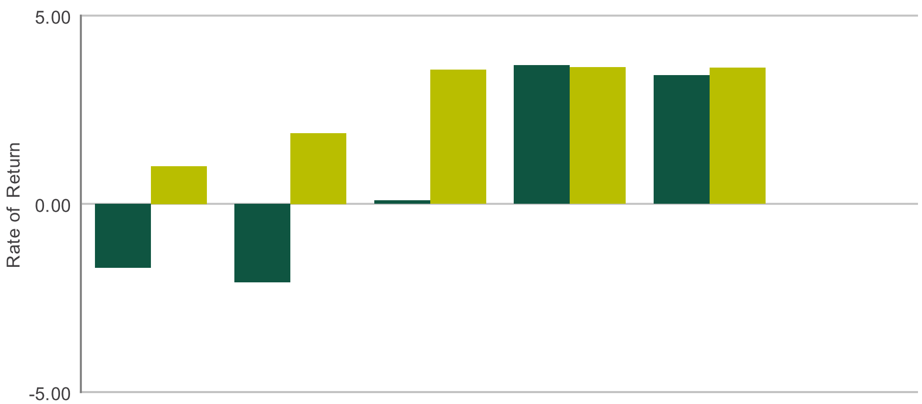
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.18	-1.27	0.71	5.20	5.79	-
Index	-0.15	-1.30	0.60	4.95	5.64	-

Index: LBH Non-Gilts Benchmark

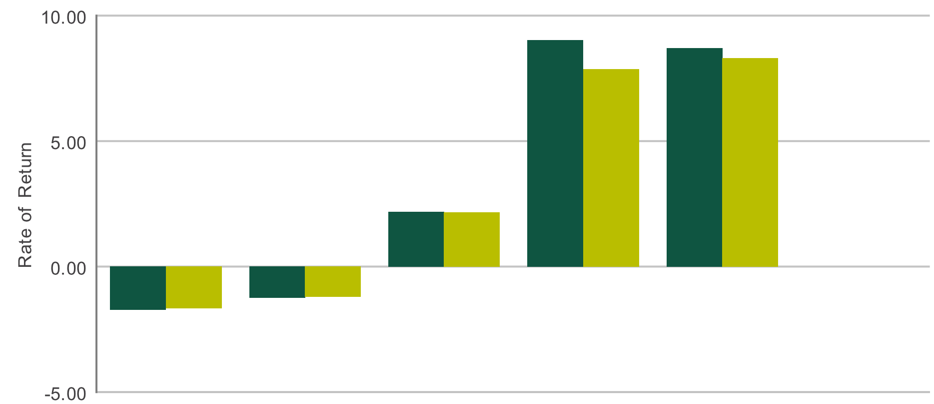
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-1.70	-2.08	0.09	3.68	3.41	-
Index	1.00	1.88	3.56	3.63	3.61	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

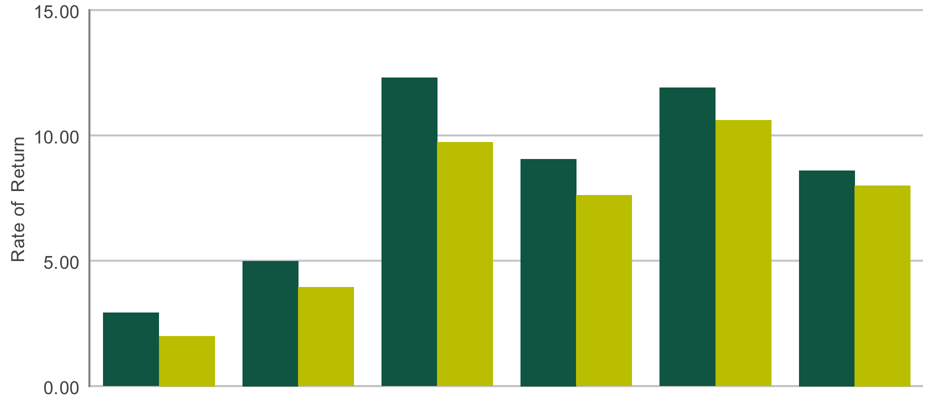


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-1.72	-1.24	2.19	9.02	8.70	-
Index	-1.67	-1.21	2.17	7.87	8.30	-

Index: LBH Index Linked Benchmark

Historical Performance

REAL ESTATES

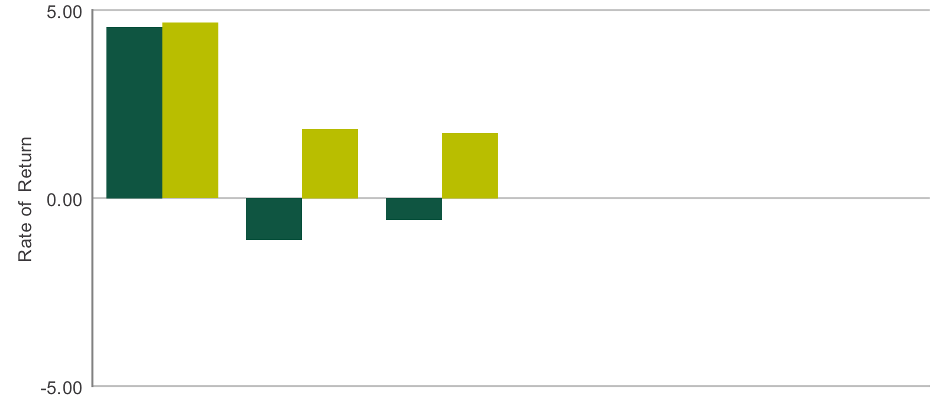


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.92	4.99	12.30	9.06	11.90	8.60
Index	2.00	3.94	9.73	7.61	10.61	8.00

Index: IPD UK PPFI All Bal Funds Index

Page 28

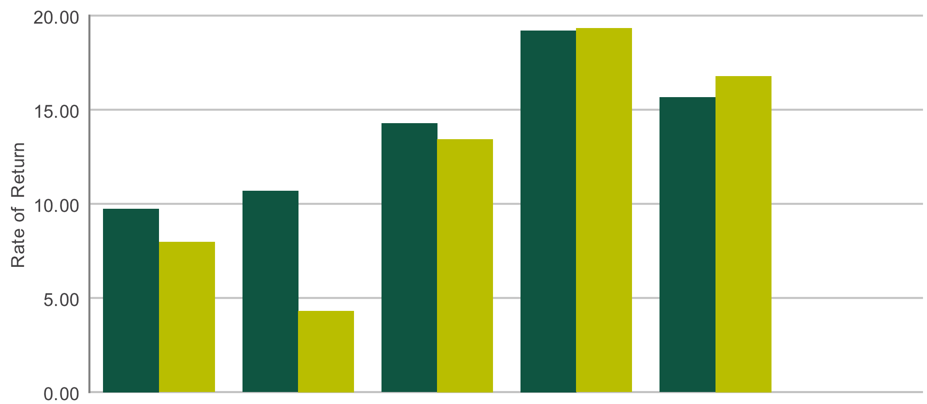
BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.55	-1.11	-0.58	-	-	-
Index	4.66	1.84	1.73	-	-	-

Index: Balanced Fund Benchmark

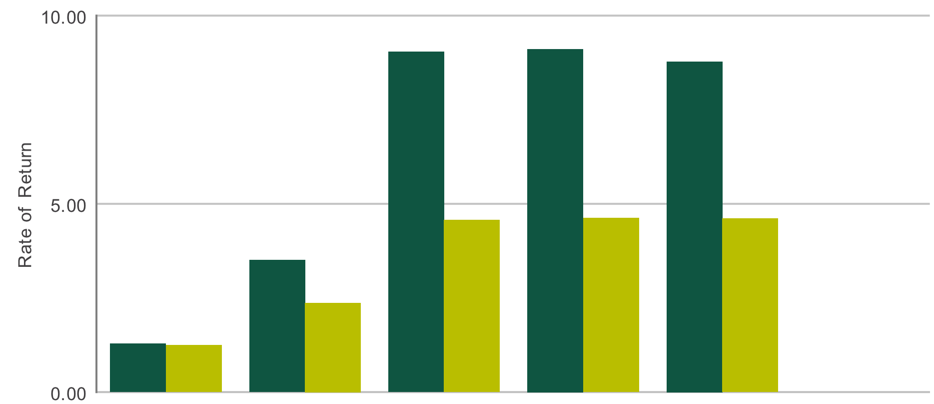
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	9.74	10.68	14.28	19.21	15.65	-
Index	7.97	4.31	13.44	19.33	16.79	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.29	3.51	9.04	9.11	8.78	-
Index	1.25	2.37	4.57	4.62	4.61	-

Index: LIBOR GBP 3 Month +4% pa

Total Plan Benchmark (from May 2018)

1.84	MSCI All Countries World Index + 4%
1.39	FT Japan
2.43	FT North America
0.97	FTSE Developed Asia Pacific ex Japan
2.25	FTSE Developed Europe ex UK
1.68	FTSE Developed GBP Hedged
22.78	FTSE All Share
3.60	FTSE Index Linked Gilts
4.66	FTSE Index Linked Gilts15+ Years
2.31	FTSE Emerging Markets
12.46	IPD UK PPFI All Balanced Funds Index
6.84	3 Month LIBOR +4%pa
10.09	3 Month LIBOR
10.25	3 Month LIBOR +3%pa
12.85	MSCI World
0.61	LIBID 7 Day
2.99	iBoxx Sterling Non-Gilts

Portfolio Benchmarks

AEW UK
100.00 IPD UK PPFI All Balanced Funds Index

JP Morgan
7.55 3 Month LIBOR +3%pa

Legal & General
6.00 FT Japan
10.35 FT North America
4.22 FTSE Developed Asia Pacific ex Japan
10.41 FTSE Developed Europe ex UK
38.58 FTSE All Share
20.8 FTSE Index Linked Gilts15+ Years
3.07 FTSE Emerging Markets
6.57 iBoxx Sterling Non-Gilts

Legal & General (LBH27)
23.77 FTSE Index Linked Gilts15+ Years
25.89 FTSE Emerging Markets
24.24 iBoxx Sterling Non-Gilts
26.10 FTSE Developed GBP Hedged

London CIV Ruffer
100.00 3 Month LIBOR

Epoch Ruffer
100.00 MSCI World Index (Net)

M&G Investments
100.00 3 Month LIBOR +4%pa

Macquarie
100.00 3 Month LIBOR +3%pa

Premira Credit
100.00 3 Month LIBOR +4%pa

UBS
100.00 FTSE All Share

UBS Property
100.00 IPD UK PPFI All Balanced Funds Index

Adam St
100.00 MSCI All Countries World Index + 4%

LGT
100.00 MSCI All Countries World Index + 4%

Disclaimer(s)

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

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

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

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

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

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

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

Please note that this report has been prepared using best available data. This report may also contain information provided by third parties, derived by third parties or derived from third party data and/or data that may have been categorized or otherwise reported based upon client direction - Northern Trust assumes no responsibility for the accuracy, timeliness or completeness of any such information. If you have questions regarding third party data or direction as it relates to this report, please contact your Northern Trust relationship team.

INVESTMENT ADVICE NOTICE: The data and analysis contained in this report is for informational purposes only. In providing the information contained herein, The Northern Trust Company is not undertaking to provide “investment advice” or to give advice in a fiduciary capacity for purposes of the Employee Retirement Income Security Act of 1974, as amended. Nothing in this report is intended as, or should be understood as, a recommendation to hire, retain, or terminate an investment manager or engage in any purchase or sale transaction with such a manager or any fund that it manages. The Northern Trust Company and/or its affiliates may have business relationships with one or more investment managers or funds for included in this report, and may receive compensation for providing custody, administration, banking, brokerage, foreign exchange or other services to such investment managers or funds. The Northern Trust Company and its affiliates shall have no responsibility for the consequences of investment decisions made in reliance on information contained in this report.

This page is intentionally left blank

Pensions Administration Report

Contact Officers	Sian Kunert 01895 556578
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.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note this report**

INFORMATION

Surrey Administration Update

Since reporting on the year end process in July, we can confirm all Annual Benefit Statements (ABS) were available by the deadline of 31st August. Hillingdon Council active scheme member's statements were available from the end of July. A further run of statements covering our external Employers, and Deferred Benefit members was made on 6 August. The final run covering any missed members, or members whose records needed amendment was run on the 28 August. One fund employer had data issues with the ABS's produced, however this was due to incorrect data being supplied by the payroll provider; this has since been resolved. Data quality with the schools returns was significantly improved this year, with reviews carried out by the internal team prior to submission to SCC. This ensured queries were dealt with quickly and a full suite of returns were provided to SCC in good time.

Those members without an email address held on the Surrey CC system were sent their statement by post. Any record with no email address and no current address had a statement produced and held on the individual's record.

By early September, 24% (2038) members of the scheme had logged on to member self service (MSS). The fund will continue to promote the advantages of registering for MSS.

SCC plan to issue three newsletters each calendar year, one each for actives, deferred and pensioners. The active member newsletter will be circulated by SCC shortly.

An invitation was sent to all external scheme employers, inviting them to "Meet the Actuary" where the Scheme Actuary discussed the upcoming scheme valuation, and informed Employers of their duties to supply timely and correct information to aid the completion of that exercise. A representative from SCC also attended. The turnout was poor, with only six employers represented. The session was specifically relevant for academies and other employers who received FRS102 reports to complete their accounts, as a result, would have been timely for the 35 academies with a July year end.

Key Performance Indicators from June to September 2018.

The attached report shows that SCC have maintained good performance in most areas to August, however there has been a fall in performance during September. As a result of investigation into the performance, the fall in KPI's have been found to be down in part to organisational issues of resourcing. This is due to timing of the ABS publications and resulting queries, loss of two staff members, poor legacy data to work with, as well as regulatory changes in relation to transfer values. SCC have been through a significant recruitment drive recently and are in the process of creating specialist teams within the team structure to ensure sensitive cases have a dedicated resource to ensure high level of performance.

SCC are also keen to increase engagement with employers within the fund, to provide education and guidance, to enable scheme employers to carry out employer estimates through the self service portal. This will increase the speed in which decisions can be made by employers and align SCC resources with more sensitive areas of the administration.

FINANCIAL IMPLICATIONS

There are no financial implications within this report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

Hillingdon Pensions

Activity	Apr-18		May-18		Jun-18		Jul-18		Aug-18		Sep-18		Commentary (September)
Scheme members													
New starters set up/welcome letters													
ABS sent - Councillors									*Achieved*				
ABS sent - Active									*Achieved*				
ABS sent - Deferred									*Achieved*				
	Volume	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	
Death notification acknowledged, recorded and documentation sent	17	**100%**	14	**100%**	15	**73%**	28	**89%**	24	**100%**	5	**60%**	**2 cases late**
Payment of death grant made	4	**100%**	2	**100%**	4	**100%**	3	**33%**	7	**86%**	7	**57%**	**3 cases late**
Retirement notification acknowledged, recorded and documentation sent	25	**100%**	27	**96%**	25	**88%**	37	**97%**	15	**100%**	29	**97%**	**1 case late**
Payment of lump sum made	22	**100%**	26	**100%**	22	**95%**	14	**93%**	22	**95%**	14	**93%**	**1 case late**
Calculation of spouses benefits	3	**100%**	5	**80%**	3	**66%**	1	**100%**	7	**57%**	5	**40%**	**3 cases late**
Transfers In - Quotes	6		3	**100%**	1	**100%**	10	**100%**	0	**N/A**	6	**17%**	**5 cases late**
Transfers In - Payments	0	**N/A**	0	**N/A**	0	**N/A**	2	**100%**	0	**N/A**	4	**100%**	
Transfers Out - Quote	13	**100%**	25	**88%**	12	**100%**	26	**73%**	14	**93%**	4	**75%**	**1 case late**
Transfers Out - Payments	3	**100%**	10	**80%**	3	**66%**	3	**67%**	6	**83%**	8	**88%**	**1 case late**
Employer estimates provided	3	**100%**	2	**100%**	11	**100%**	7	**100%**	25	**100%**	10	**100%**	
Employee projections provided	2	**100%**	2	**100%**	9	**100%**	7	**100%**	9	**100%**	7	**57%**	**3 cases late**
Refunds	3	**100%**	5	**100%**	3	**100%**	9	**77%**	5	**100%**	2	**100%**	
Deferred benefit notifications	30	**83%**	36	**92%**	17	**88%**	47	**91%**	27	**67%**	48	**79%**	**10 cases late**
Complaints received- Admin	0		3		4		0		1		1		
Complaints received- Regulatory	0		0		0		0		0		0		
Compliments received	0		0		0		0		0		0		
Queries Handled by Helpdesk	547		589		604		685		733		623		

Pension Fund Risk Register

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

REASON FOR ITEM

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

RECOMMENDATIONS TO THE PENSION COMMITTEE

1. **It is recommended that Pensions Committee 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 8 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.

There is a new risk in addition to those reported in July for Cyber Security as recommended by the Pensions Regulator and requested by members in July. Cyber Security is a risk on the Councils Corporate risk register with significant risk management in place. The Council also have disaster recovery plan and security software. This risk has been added to the Pension Fund register as, in addition to the risk within the Councils own systems that are covered under the corporate risk register; the Pension Fund has significant amounts of personal data held by SCC as its outsourced administrator on their systems. The fund has received details on the accreditation held by SCC in relation to security of their systems and are happy there are strong controls in place for this to be held as low risk.

There have been no changes to the status of all existing risks from those reported in July.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

Pension Fund Risk Register 2018/19

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 Page 39	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

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
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
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

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
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 subsidiary 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
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** **(Static)**	Sian Kunert / Cllr P Corthorne

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 08 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on teh Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from SCC and Hillingdon is sent via encryption software 4.Data between the fund, SCC and Hymans is distibuted via upload to an encrypted portal 5. Systems at Hillindon and SCC are protected against viruses and other system threats 6. SCC are accredited to ISO27001:2013 and applying for Cyber Essentials Plus accreditation. SCC are also PSN compliant (to June 2019)	This risk has been recognised in response to recommendations by the Pensions Regulator Certificates on SCC accreditation received SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3** **(New)**	Sian Kunert / Cllr P Corthorne

Page 42

Attributes:				Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score
Greater than 90%	This week	L	**Very High (A)**	**A4**	6	**A3**	12	**A2**	18	**A1**	24
70% to 90%	Next week / this month	I K	**High (B)**	**B4**	5	**B3**	10	**B2**	15	**B1**	20
50% to 70%	This year	E L	**Significant (C)**	**C4**	2	**C3**	4	**C2**	6	**C1**	8
30% to 50%	Next year	I H	**Medium (D)**	**D4**	1	**D3**	2	**D2**	3	**D1**	4
10% to 30%	Next year to five years	O	**Low (E)**	**E4**	0	**E3**	0	**E2**	0	**E1**	0
Less than 10%	Next ten years	O D	**Very Low (F)**	**F4**	0	**F3**	0	**F2**	0	**F1**	0
				Small (4)		**Medium (3)**		**Large (2)**		**Very Large (1)**	

Attributes:	**IMPACT**			
THREATS: Financial	up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
Reputation	Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

This page is intentionally left blank

TRAINING UPDATE

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	*None*

SUMMARY

This report provides an update on training and development of Pension Committee members in line with the Training Policy approved by Pensions Committee in December 2015 and an update on report to committee in March 2017.

RECOMMENDATIONS

It is recommended that Pensions Committee note the contents of this report

INFORMATION

Further to the adoption of the Training policy in December 2015, a training register is maintained to log training received by Pension Committee members, Local Pension Board members and Officers to record and track knowledge and skills.

Pensions Committee are responsible for exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund. Although there is not a statutory requirement for Pension Committee members to undertake training, there is such a statutory requirement for local Pension Board members. Due to the increased responsibility and decision-making requirements. It is recommended as best practice for Pensions Committee members to apply the same principles and to seek to develop a sound level of knowledge and understanding. As a result of the introduction of MIFID II in January 2018, Pension Committee need to evidence they have the relevant skills and knowledge to make decisions on behalf of the fund as a professional investor.

Utilising the training needs analysis and training plan adopted by committee in December 2015, officers have invited members of Pensions Committee and Pensions Board to relevant courses, seminars and workshops that will complement and enhance their existing knowledge.

Pension Committee Members Training Update

Subsequent to the last training update paper presented to Pensions Committee in March 2017. Members have undergone various training programmes both internally and externally on issues such ESG matters, Legislative framework and structure of LGPS, key governance requirements and investment strategy issues in relation to asset pooling.

An in-house information session was presented by KMPG to discuss financial risks associated with Environmental, Social & Corporate Governance (ESG). The report outlined the requirement for funds to have an ESG policy, the funds approach to ESG and the fund's investment managers' approaches to ESG including climate change.

During the month of July 2018, three new members of the Pensions Committee attended two full training days, conducted by Aon Hewitt on both regulatory and investment frameworks of LGPS funds to provide them with knowledge of the mode of operation consistent with operating an LGPS fund. The training also included understanding of actuarial methods utilised to determine the funding position of LGPS funds, thus driving the investment strategy.

Also in July 2018, an in-house training was conducted, through a presentation of detailed paper to all members of the Pensions Committee and attendees at the committee meeting by KPMG on an overview Hillingdon Pension Fund asset allocation and manager structure to support the future direction and proposed changes to strategy and asset allocation.

Over the next few months, officers have identified more training opportunities for committee members. Below are a list of such training programmes.

1. London CIV Infrastructure fund forum, November.

2. MHCLG and SAB Infrastructure event, November – Committee Chair to attend

3. The CIPFA Annual Pension Conference, 22nd November 2018, London. With a focus on the economy, good governance and the reform process, this Conference will provide the thought leadership for all those involved in the LGPS Scheme. It will enable delegates to come together and hear from experts on a range of topics and to discuss with peers how these changes will affect across Funds of all sizes and locations

4. 15th Annual LGPS Governance Conference 17-18 January 2019 – Bristol, titled "Clarity in Confusion". It is aimed at all persons involved in running LGPS funds including Committee and board members and officers. The event will provide:
   a. An update on the latest developments in the LGPS
   b. insight into the current governance and investment issues in the LGPS
   c. the opportunity to share experiences with local authority colleagues in a relaxed environment and discover how they are handling the challenging environment.

Information on future external training opportunities will be fed back to members as they are identified as an ongoing commitment to ensure their skills and knowledge required to administer the fund are up to date.

New members to the Pensions Committee will be asked to complete the CIPFA knowledge and Skills Learning needs analysis now they have started to obtain specialist knowledge in this area. Members who have completed the matrix will be asked to review and refresh. Training needs gaps will provide the basis for ongoing training provided in house.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

Agenda Item 9

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

STRICTLY NOT FOR PUBLICATION
PART II by virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

STRICTLY NOT FOR PUBLICATION
PART II by virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

STRICTLY NOT FOR PUBLICATION
PART II by virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

STRICTLY NOT FOR PUBLICATION
PART II by virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government (Access to Information) Act 1985 as amended.

Document is Restricted

This page is intentionally left blank