Public Document Pack

HILLINGDON
LONDON

A

Pensions Committee

Date: **WEDNESDAY, 18 JULY 2018**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 4 - CIVIC CENTRE, HIGH STREET, UXBRIDGE**

Meeting Details: Members of the Public and Press are welcome to attend this meeting

Councillors on the Committee

Philip Corthorne, Cabinet Member for Social Services, Housing, Health & Wellbeing (Chairman)

Martin Goddard (Vice-Chairman)

Teji Barnes

Tony Eginton

John Morse

Published: Tuesday, 10 July 2018

Contact: Liz Penny
Tel: 01895 250636
Email: epenny@hillingdon.gov.uk

This Agenda is available online at:
https://modgov.hillingdon.gov.uk/ieListMeetings.aspx?CId=125&Year=0

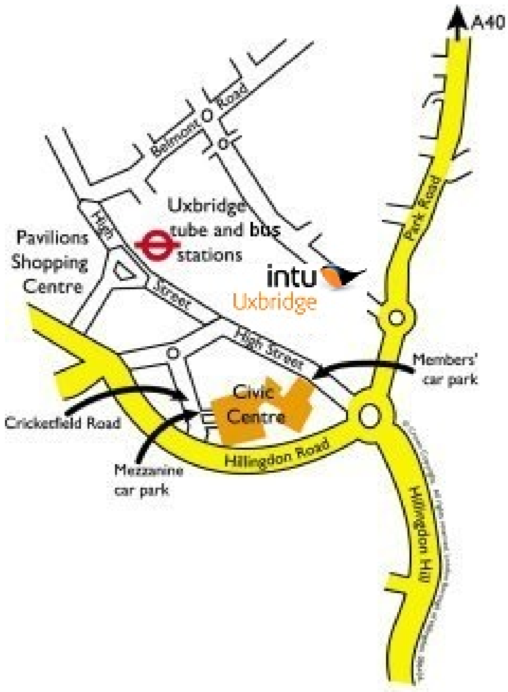
Putting our residents first

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

Useful information for residents and visitors

Travel and parking

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



Accessibility

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

Attending, reporting and filming of meetings

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

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

Emergency procedures

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

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

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

This page is intentionally left blank

Minutes

PENSIONS COMMITTEE

28 March 2018

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

	Committee Members Present: Councillors Michael Markham (Vice-Chairman) Peter Davis Beulah East Tony Eginton Susan O'Brien (Reserve) (In place of Philip Corthorne) **LBH Officers Present**: Tunde Adekoya - Pension Fund Accountant Ken Chisholm - Corporate Pensions Manager Paul Whaymand - Corporate Director of Finance Sian Kunert - Head of Pensions Treasury and Statutory Accounts James Lake - Lead Corporate Accountant Neil Fraser – Democratic Services Officer **Also Present**: David O'Hara - Investment Advisor Scott Jamieson – Investment Advisor
20.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies were received from Councillor Philip Corthorne. Councillor Susan O'Brien was present as his substitute.
21.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Tony Eginton declared a Non-Pecuniary Interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion on the items. Councillor Susan O'Brien declared a Non-Pecuniary Interest in all agenda items as she was a "deferred" member of the Local Government Pension Scheme. She remained in the room during discussion on the items.
22.	**MINUTES OF THE MEETING HELD ON 6 DECEMBER 2017** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting held on 6 December 2017 be approved as a correct record.**

23.	**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 those items marked as Part I would be heard in public, and that items marked as Part II would be heard in private.
24.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE (PART I)** *(Agenda Item 5)* Consideration was given to a report that provided Members with an overview of fund performance as at 31 December 2017, cash flow and expenditure summary for fund activity in the year, progress of the London CIV, regulatory updates and recent voting and engagement. The Committee was informed that the total size of the fund was £1,009m as at 31 December 2017, which was an increase of £31m from £978m at the end of the last quarter. This represented an overall investment return over the quarter of 3.08%, which was a relative underperformance of the benchmark by 0.44%. The Committee was presented with a draft Investment Strategy training presentation, which set out the current asset allocation and suggestions for changes to the strategy moving forward. The current asset allocation was confirmed to be well diversified, with the allocation exploiting long term investments, including Direct Lending, Infrastructure, and Private Equity; however with limited direct inflation protection. While there was some reliance on equity markets, the expected return was forecast to be above the Actuary's requirement. Consideration of the risks inherent to the current strategy resulted in the following proposed changes to the strategy: 1. Introduction of Long Lease Property: Long dated, inflation linked, contractual income (a change of +5%) 2. Reduce Equity: Trim equity exposure to reduce overall risk. Review regional allocations and consider different global indices 3. Restructure Bond Portfolio: Expected return has reduced; recommended to redeploy in diversified credit portfolio/index linked gilts 4. Tidy: Trim DGF in favour of revised bond portfolio (Ruffer remains defensively positioned and heavily weighted to index linked gilts) Regarding regional allocation, it was confirmed that the current allocation was significantly skewed towards UK Equities (>50% of allocation). While the UK was diversified, this exposed the Fund to specific concentration risks in terms of both sector and stock risk in relation to the market cap. To address this, the following changes were proposed: 1. Fund the reduction in listed equities form the UBS portfolio (to reduce the equity exposure and UK bias) 2. Redeploy the LGIM UK regional equity allocation (9% of total assets) into a

	developed marked cap 3. Move the US, Europe, Japan and Pacific overseas allocations with LGIM into a developed marked cap based fund Private credit was currently underweight while the fund awaited committed funds to be deployed. It was suggested that the Council consider the London CIV's imminent launch of a Direct Lending strategy to increase/maintain allocation in the longer term. In addition, the London CIV was to launch a Diversified Credit Fund, which was recommended to be reviewed against JP Morgan in due course, although it was anticipated that this fund may have higher fees than the current fund. The Committee approved the above changes, and agreed that the implementation of these changes be delegated to the Officer and Advisor Investment Strategy Group. It was recommended that the Committee request that officers review the potential use of AEW – UK Real Return Fund, who targeted a gap in the market between long lease or balanced funds. KPMG Investment Advisory viewed AEW as advantageous in that, as they did not follow an index, they were free to find smaller assets in alternative, often overlooked sectors, which were undervalued and could be missed by traditional approaches. The Committee requested that officers investigate further on AEW and other offerings and put forward a recommendation on allocating the funds at a future meeting of the Committee. In Part II of the agenda, the Committee received information on the current market update which covered the current market climate and performance of various investment vehicles, updates on Managers' reports, an update of the London CIV. **RESOLVED:** **1. That the Committee considered and discussed any issues raised in the training item;** **2. That the Committee discussed and noted the performance update and agreed any required decisions in respect of mandates or Fund Managers;** **3. That the implementation of strategic allocation weighting changes including bond restructure and regional allocations be delegated to the Officer and Advisor Investment Strategy Group;** **4. That further detail on proposed allocation to long dated inflation linked property be brought to a future meeting of the Pensions Committee.**
25.	**ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE (PART I)** *(Agenda Item 6)* Further to the report discussed at the Pensions Committee meeting on 6 December 2017, consideration was given to a report which provided details on fossil fuel impact from existing holdings. It was confirmed that investments with a 'green spin' were niche, but were becoming more mainstream. The 'ideal' was to find synergy between maximising returns while acting in an environmentally friendly way. Data from the Transition Pathway initiative had been reviewed, and details of

	investment within Fossil Fuel sectors was set out in the report. The Committee requested that officers continue to review available data to identify high quality, environmentally friendly investments that would maximise returns for the Fund. In Part II of the agenda, the Committee received information on how the Council could profit from an environmental tilt to the current passive equity allocation. **RESOLVED:** **1. That the report be considered;** **2. That officers continue to review the available data to identify high quality environmentally friendly investments that would maximise returns for the Fund.**
26.	**PENSIONS ADMINISTRATION REPORT** *(Agenda Item 7)* The Committee was provided with an update on the administration of the London Borough of Hillingdon Fund of the Local Government Pension Scheme, both in relation to Surrey, and internally at Hillingdon. The Committee was informed that the Council's year-end process had commenced, and that while previous years had seen issues relating to providing data to Surrey, this year, data had already been submitted by Hillingdon and over 50% of the fund employers already. Annual Benefit Statements were expected to be released in June 2018, ahead of the deadline. Since the rollout of the 'mypension' facility, 1,351 (16%) of active members had applied for and received their login details. Regarding the merger of Harrow College with Uxbridge College in August 2017, Hillingdon Pension Fund had taken on responsibility for all LGPS members formally employed by Harrow College. This was cost neutral, with any deficit applicable to the College. **RESOLVED: That the information contained in the report be noted.**
27.	**RISK MANAGEMENT REPORT** *(Agenda Item 8)* Consideration was given to a report providing details of the main risks to the Pension Fund, which enabled the Committee to monitor and review. Reference was made to Risk PEN07, which was confirmed to have reduced, to reflect the lower likelihood due to the successful completion of the opt up in 2018. However, there remained an ongoing risk due to changes in Committee members and officers, which would require the status to be reviewed. To help mitigate this risk, it was requested that officers convene a training course, and draft a training manual, for Members and officers following the forthcoming local election. **RESOLVED:** **1. That the Committee considered the Risk Register and noted the measures**

	which were being taken to mitigate the identified risks; **2. That officers convene a training course, and draft a training manual, for Members and officers following the forthcoming local election.**
28.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *(Agenda Item 9)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee received confidential information on the current market update which covered details on the current market climate and performance of various investment vehicles, updates on Managers' reports, an update of the London CIV. **RESOLVED: That the information be noted, together with the performance of Fund Managers.**
29.	**ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE (ESG - 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 on how the Council could profit from an environmental tilt to the current passive equity allocation. **RESOLVED: That the information be noted.**
	The meeting, which commenced at 5.00 pm, closed at 6.17 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Neil Fraser on 01895 250692. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

This page is intentionally left blank

EXTERNAL AUDITOR REPORT on the PENSION FUND ACCOUNTS	ITEM x

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	EY: Pension Fund Audit Results Report, year ended 31 March 2018 Pension Fund Annual Report 2017/18

SUMMARY

The Draft Pension Fund Annual Report for 2017/18 is attached to this report for Committee approval; which includes the Pension Fund Accounts from page 34.

The attached draft report details the work of the External Auditor – EY, on the audit of the 2017/18 Pension Fund Accounts. Due to the timing of the committee meeting and progress of the audit, a verbal update will be provided at the meeting on progress from the report date. The auditor has indicated that, they expect to issue an unqualified audit opinion on the financial statements; however, there are still a number of items not yet completed.

RECOMMENDATIONS

1. **To note the auditor's findings on the audit of the Pension Fund accounts for 2017/18.**
2. **To delegate authority to the Pension Committee Chairman to sign the Pension Fund accounts on completion of the audit.**
3. **To approve the Fund Annual Report for publication subject to no material changes resulting from the audit of the Pension Fund accounts.**

BACKGROUND

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

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

The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, EY LLP. 2017/18 is 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).

Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Pension Fund Accounts also come to Pensions Committee for approval as part of the Annual report. The Audit Report report on the Pension Fund accounts will also be taken to Audit Committee on 26 July 2018.

SCOPE OF THE EXTERNAL AUDIT

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

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

In addition, the Auditor requires a “Representation Letter” to be signed by management. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

ANNUAL REPORT

The fund is required to produce an Annual Report and to publish by 1 December each year. The draft report for 2017/18, attached, contains information on the Fund's activities over the last year and is brought to Committee for consideration and approval to publish.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

London Borough of Hillingdon Pension Fund Audit results report

Year ended 31 March 2018

9th July 2018

Building a better working world

9th July 2018

Members of the Audit Committee

Dear Audit Committee Members

Audit Results Report

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hillingdon Pension Fund for 2017/18.

We are in the process of completing our audit of Hillingdon Pension Fund for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Pensions Committee meeting on 18th July and also at the Audit Committee meeting on 26th July 2018.

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 11th April 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- **Changes in materiality:** In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £19.1m, but that we would update this at year-end. This level of materiality has increased to £20.3m based on the increase in Net Assets in the draft financial statements. The threshold for reporting misstatements that have an effect on the primary statements (fund account and net asset statement) has also increased from £0.96m to £1.0m.
- **Changes in risks:** In our Audit Planning Report, we communicated our significant risk of management override. We also included three other areas of audit focus. These were the two inherent risks in relation to the change of an investment manager in year and also in the valuation of complex investments. In addition we also included the earlier deadline for production of the financial statements as an area of focus. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

Status of the audit

Page 13

We are in the process of completing our audit of London Borough of Hillingdon Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Pension Fund's financial statements in the form which appears at Section 3. In order to meet Committee paper deadlines we have drafted our report based on the work so far, we will update the Committee on these areas at your meeting, however until work is complete, further amendments may arise:

- Completion of the purchases and sales of investments testing;
- Completion of cash testing;
- Completion of the pooled investment vehicles testing;
- Completion of contributions and benefits payable testing;
- Completion of journals testing;
- Completion of IAS 19 Protocol Procedures;
- Completion of work on Significant Risks and Other Areas of Audit Focus.
- Disclosure note testing;
- Review of the final version of the financial statements;
- Review of the draft and final version of the Annual Report;
- Completion of subsequent events review;
- Receipt of the signed management representation letter;
- Clearance of pre-issuance technical review;
- Completion of estimates testing; and
- Completion of minute review;

Executive Summary

Audit differences

Unadjusted differences

There are no unadjusted differences arising from our audit to date.

Adjusted differences

We have identified a small number of adjustments in disclosures which have been adjusted by management. These all fall below the level at which we need to report them to you. However, until the audit is complete there is always the possibility that further errors could be identified.

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

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and that is unknown to you.

We have adopted a fully substantive approach, so have not tested the operation of controls.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Management override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Valuation of Complex Investments (Unquoted Investments)

The Fund's investments include unquoted investments such as private equity. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. Management may be able to influence these judgements and thus the valuation. This especially applies to the private equity portfolio managed in-house.

What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or asset values, primarily:

- Material accounting estimates;
- Journal entries; and
- Unusual transactions.

What did we do?

In response to the risk, we:

- Asked management about risks of fraud and the controls in place to address those risks;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For level 3 investments we agreed information to source reports and the financial statements of the individual funds.

What are our conclusions?

Our work on this risk is still not complete. We will provide an update at the Committee meeting.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What did we do?
<u>Investment Manager Transition</u> We understand the significant changes to investment managers are: - Transfer of the Newton Investment Manger Portfolio into the London Collective investment Vehicle to be managed by Epoch Investments With any significant investment changes there is an audit risk that transactions may be omitted from the financial statements or not be reported fairly	As part of our audit work we: - Reviewed the audit trail of these movements and proceeds and verify significant transactions to external audit evidence; - Obtained adequate assurance to support that the changes have been accounted for and disclosed as expected; - Obtained and reviewed the Investment Manager contracts to understand the nature of the new investments, and any relevant audit risks; and - Obtained sufficient evidence to support the investment valuation. Our work on this area is still ongoing and we will provide an update at the Committee meeting.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What did we do?
Valuation of Complex Investments (Unquoted Investments) The Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments. Judgements are taken by the Investment Managers to value those investments whose prices are not publically available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements. The proportion of the fund comprising of these investment types in 2016/17 is at circa 12%, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.	In order to address this risk we: • Assessed the competence of management experts; • Reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used; • Where available, reviewed the latest audited accounts for the relevant fund managers and ensured there are no matters arising that highlight weaknesses in the funds valuation; and • Performed analytical procedures and checking the valuation output for reasonableness against our own expectations. Our work on this area is still ongoing and we will provide an update at the Committee meeting.

Other area of audit focus

What is the risk/area of focus?	What did we do?

Earlier deadline for production of the financial statements
 	
The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.
 	
These changes provide risks for both the preparers and the auditors of the financial statements.
 	
The Pension Fund now has less time to prepare the financial statements and supporting working papers. Risks to the Council include completing the IAS 19 assurance work we perform for auditors of admitted bodies.
 	
As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.
 	
To mitigate this risk we require:
• good quality draft financial statements and supporting working papers by the agreed deadline;
• appropriate Council staff to be available throughout the agreed audit period; and
• complete and prompt responses to audit questions.
	We
	▸ Engaged early with the Pension Fund to facilitate early substantive testing where appropriate and lessen pressure at year-end;
	▸ Provided an early review on the Pension Fund's streamlining of the Statement of Accounts where non-material disclosure notes are removed;
	▸ Facilitated faster close workshops providing an interactive forum for Local Authority accountants and auditors to share good practice and ideas for a successful faster closure of accounts;
	▸ Worked with the Pension Fund to implement EY Client Portal. This:
	    ▸ Streamlined our audit requests through reducing emails and improving communication;
	    ▸ Provided on-demand visibility into the status of audit requests and the overall audit status;
	    ▸ Reduced risk of duplicate requests; and
	    ▸ Provided better security for sensitive data.
	▸ Agreed the team and timing of each element of our work with you; and
	▸ Agreed the supporting working papers needed to complete the audit.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information .

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
26th July 2018

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

04 Audit Differences

Audit Differences

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

Summary of adjusted differences

We highlight corrected misstatements greater than £15.3m that were identified during the course of our audit and have been corrected by management.
We do not have any such misstatements to report as at the date of this report.

Some minor disclosure amendments have been made which do not need to be brought to the Committee's attention.

We highlight uncorrected misstatements greater than £1.0 m that were identified during the course of our audit.

There are currently no uncorrected misstatements. However as the audit is still ongoing it is possible that further errors need to be reported and communicated to the Committee. We will provide an update at the Committee meeting.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the London Borough of Hillingdon Pension Fund Annual Report.

We have yet to undertake this review. We will provide an update at the Audit Committee.

Other powers and duties

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

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

Other matters

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

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

We have no matters to report at present. However as work is ongoing across a number of these areas it is still possible that findings may arise. We will provide an update at the Committee meeting.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

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

07 Data Analytics

Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of the Fund's financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Are more likely to identify errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those we deem to have the highest inherent audit risk.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

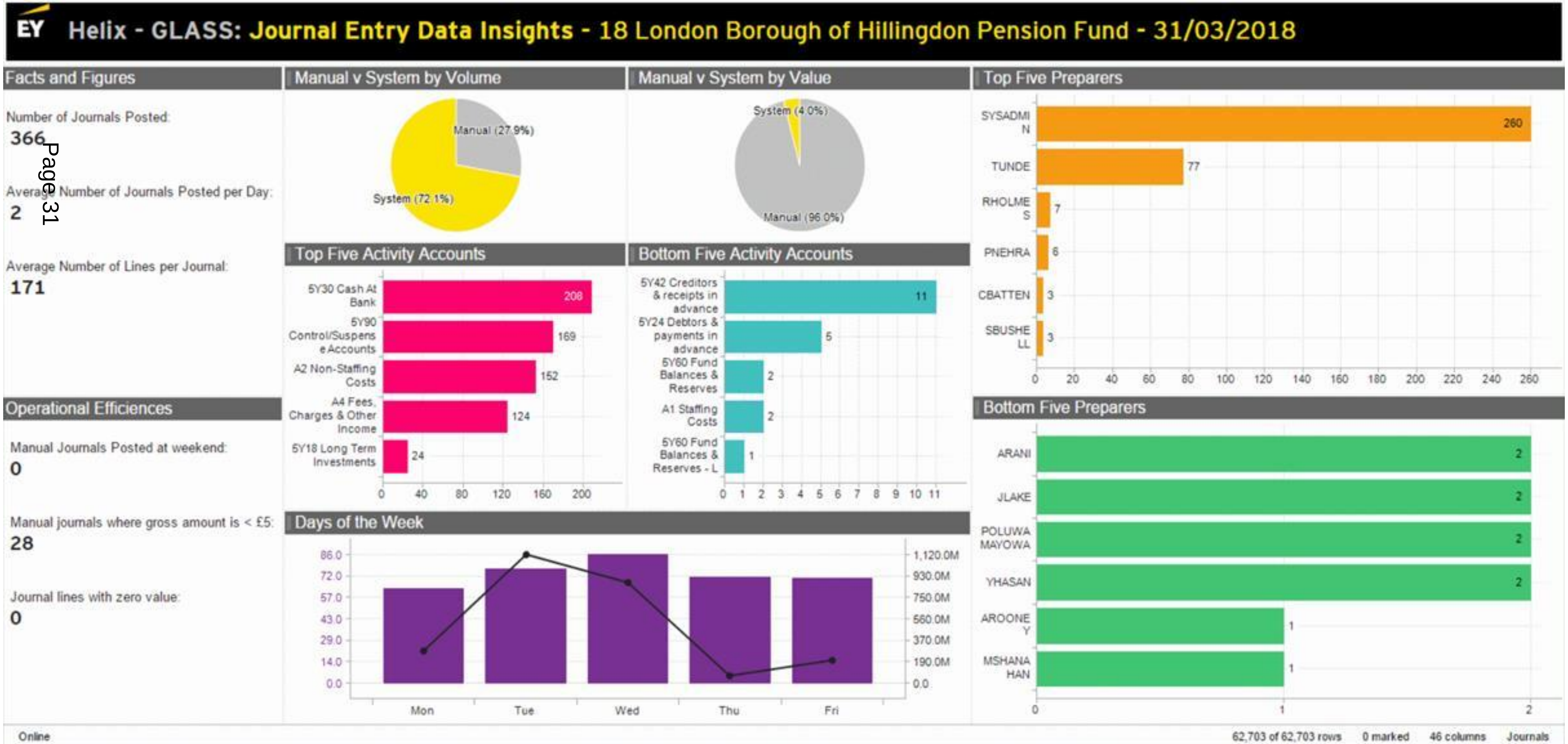
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing more effective identification and testing of journals that we consider to be higher risk, as identified in our audit planning report.

Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk-based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk-focused approach to auditing journal entries, minimising the burden of compliance on management by reducing randomly selected samples.



Journal Entry Testing

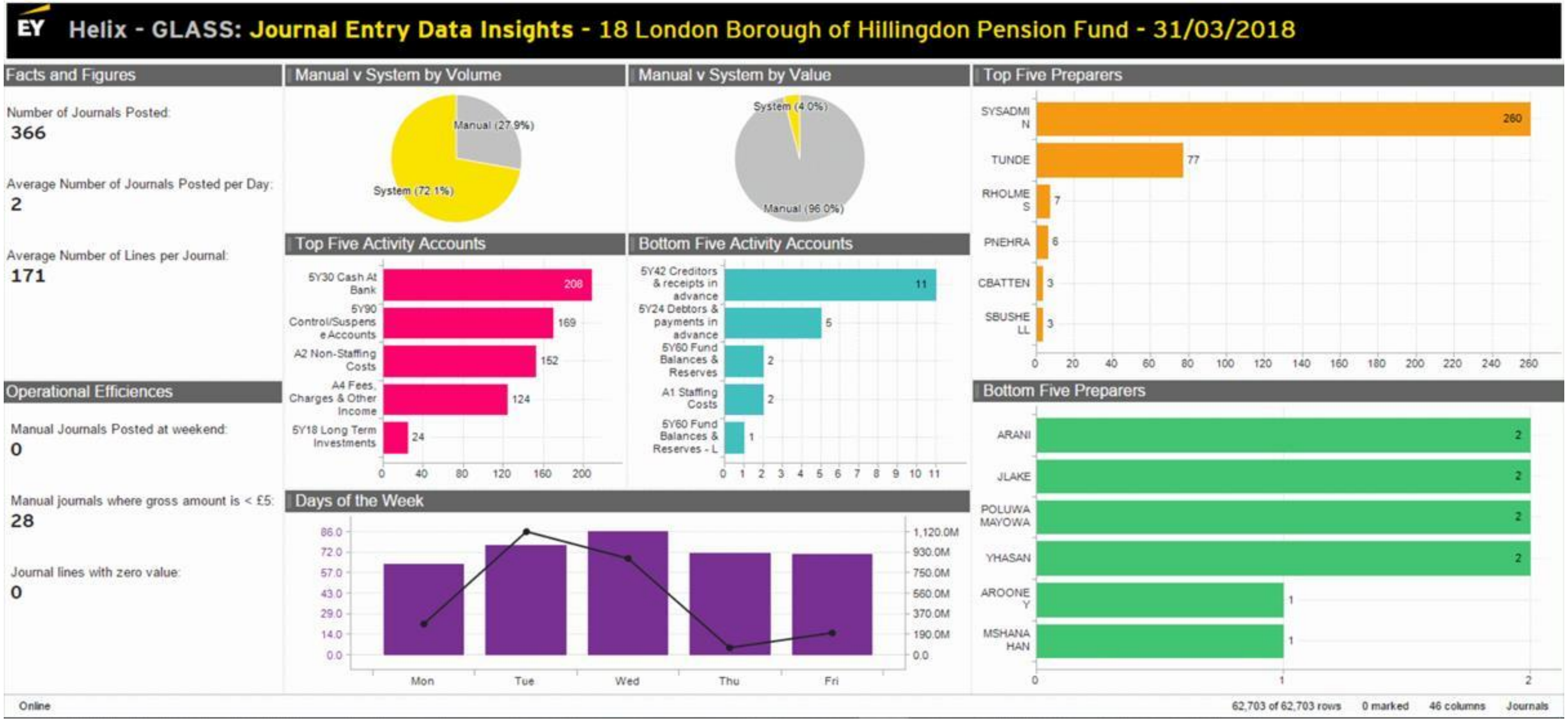
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2018



What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

8 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 11th April 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit and Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 26th July 2018.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC*	21,000	21,000	23,285
Total Fees	TBC*	**21,000**	**21,000**	**23,285**

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

TBC*

We will communicate our final fee at the end of the audit. We will discuss any adjustment to the scale fee with senior officers and provide an update as part of our communications at the end of the audit.

9 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Net Assets Statement category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment Assets and Liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Assets (excluding cash)	Immaterial - substantively tested all relevant assertions	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Current Liabilities	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Appendix B

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to 11th April 2018 Audit Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to 11th April 2018 Audit Committee
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit planning report presented to 11th April 2018 Audit Committee

Page 38

Appendix B

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit results report presented to 26th July 2018 Audit Committee No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon's Pension Fund's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report presented to 26th July 2018 Audit Committee
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report presented to 26th July 2018 Audit Committee
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report presented to 26th July 2018 Audit Committee

Page 39

Appendix B

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Authority	Audit results report presented to 26th July 2018 Audit Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report presented to 11th April 2018 Audit Committee & Audit results report presented to 26th July 2018 Audit Committee

Appendix B

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report presented to 26th July 2018 Audit Committee
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report presented to 26th July 2018 Audit Committee We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report presented to 26th July 2018 Audit Committee
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report presented to 26th July 2018 Audit Committee
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report presented to 26th July 2018 Audit Committee
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report presented to 11th April 2018 Audit Committee & Audit results report presented to 26th July 2018 Audit Committee

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Maria Grindley
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Hillingdon Pension Fund ("the Fund") for the year ended 31st March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1st April 2017 to 31st March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Appendix C

Management representation letter

Management Rep Letter

B. Non Compliance with Laws and Regulations including Fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - Involving financial improprieties;
    - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
    - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
    - Involving management, or employees who have significant roles in internal control, or others; or
    - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

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

2. You have been informed of all changes to the Fund rules.

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

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held through the period to the most recent meeting of the Pensions Committee on 28th March 2018 and the Audit Committee on 11th April 2018.

Management representation letter

Management Rep Letter

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

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

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

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

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

D. Liabilities and Contingencies

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

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

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

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

E. Subsequent Events

1. As described in Note 23 to the London Borough of Hillingdon Pension Fund financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Hillingdon Pension Fund Annual Report 2017/18.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

Management representation letter

Management Rep Letter

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

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

I. Pooling Investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial Valuation
1. The latest report of the actuary Hymans Robertson as at 31st March 2018 and dated April 2018 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report

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

L. Estimates
1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

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

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

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

Yours faithfully,

Paul Whaymand – Corporate Director of Finance

Councillor Philip Corthorne – Chairman of Pensions Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

London Borough of Hillingdon Pension Fund Annual Report 2017/18

HILLINGDON
LONDON

www.hillingdon.gov.uk

CONTENTS

CHAIRMAN'S FOREWORD

By the end of 2017/18 the Fund had grown to just over £1 billion, a record level for the Fund. Membership of the scheme also continued to increase over the previous year; however, by the end of the year active membership had fallen slightly. As a result, the Fund is seeing the scheme maturing with new contributions equivalent to monies paid out in benefits; making cash flow an ongoing focus for the Committee.

Monitoring the Fund's specific investments and its strategy has kept Committee busy over the last 12 months, particularly looking at opportunities to invest via the London Collective Investment Vehicle (LCIV); which is becoming business as usual for the Fund. The Fund moved its income focused investment from Newton into the LCIV pool managed by Epoch during 2017/18 generating further fee savings for the Fund from pooling investments. As of 31 March 2018, 52% of the Fund's assets were held with the LCIV compared to 41% at the end of 2016/17. We have taken active participation in the development of the LCIV to date with membership on the Joint Committee and on the Investment Advisory Committee. We are keen to see how the governance of the pool and investment offerings develop over the coming year as a result of a governance review recently carried out by the LCIV.

The Fund has a further layer of governance through the Pension Board where key focuses to date have related to improving and drafting policy documentation and in ensuring compliance with the Pension Regulator's code of practice. In 2017/18 we saw the Pensions Board complete its second self-assessment against the Pension Regulator's compliance checklist and agreement of actions for improvement. The board was restructured to give greater independence in November 2017; however, the new board configuration had yet to meet by March 2018.

The Fund has now seen a full year with the new administration arrangements in place, which is now undertaken by the pension team at Surrey County Council, with whom we have a collaborative working arrangement. The transfer from Capita was a major project and the Fund, along with Surrey, is still working through legacy historic cases, which were transferred; however, day-to-day activity and new cases have seen significantly improved key performance indicators, through contract management and the strong relationship with the teams.

The Committee and Fund have many challenges coming up, including a strategy to transition further towards a fully pooled position over the longer-term whilst also reducing fees. Other challenges will arise out of known and unknown political and economic challenges, including how to ensure the Fund continues to invest responsibly in changing worldviews and priorities. The Fund has a number of strategic changes lined up to reduce the Fund risk while continuing to match investment return to meet the agreed funding strategy.

Cllr Philip Corthorne
Chairman Pensions Committee

FUND GOVERNANCE and STATUTORY INFORMATION

FUND GOVERNANCE

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

Pension Committee

The Pension Committee consists of five Councillor Members. During 2017/18 these were:

Councillor
Philip Corthorne
(Chairman)

Councillor
Michael Markham
(Vice-Chairman)

Councillor
Peter Davis

Councillor
Tony Eginton
(Labour Lead)

Councillor
Beulah East

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

Local Pension Board

The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee met on a quarterly basis. The Board was reconfigured in November 2017 with a change to membership and terms of reference.

The members of the Board meetings during 2017/18 were:

Employer Representatives:
Councillor David Simmonds (Chairman)
Councillor Alan Chapman (Vice-Chairman)
Councillor John Morse
Scheme Member Representatives:

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

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

Corporate Director of Finance

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

FUND MANAGEMENT and ADVISORS

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

Officers Responsible for the Fund

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

Sian Kunert	Head of Pensions Treasury and Statutory Accounts
Ken Chisholm	Corporate Pensions Manager
Tunde Adekoya	Pension Fund Accountant
James Lake	Lead Corporate Accountant

Scheme Administration

Administration of the scheme was contracted out to Surrey County Council (SCC) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. Surrey maintains pension scheme membership records and calculates benefits.

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

Fund Custodian and Performance Monitoring

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

Northern Trust
50 Bank Street
Canary Wharf
LONDON
E14 5NT

Fund Actuary

The Fund's actuary is Hymans Robertson

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

Fund Managers

Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2017/18, the Fund used the following external managers:

Fund Manager
Adam Street Partners
AEW UK
JP Morgan Asset Management
Legal & General Investment Management
London CIV - Epoch
London CIV - Ruffer
LGT Capital Partners
M&G Investments (Direct Investment)
Macquarie Investment
Newton Investment Management (defunded Nov 2017)
Permira LLP
UBS Global Asset Management

Advisors to the Fund

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

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

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

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

Aon Hewitt
25 Marsh Street
BRISTOL
BS1 4AQ

Legal Services

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

Auditor

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

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

Banker

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

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

AVC Provider

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

Prudential AVC Customer Services
Prudential
CRAIGFORTH
FK9 9UE

OVERVIEW OF THE SCHEME

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

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

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

The Pension Scheme during the financial year 2017/18 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

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

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

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

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

<u>REGULATIONS</u>

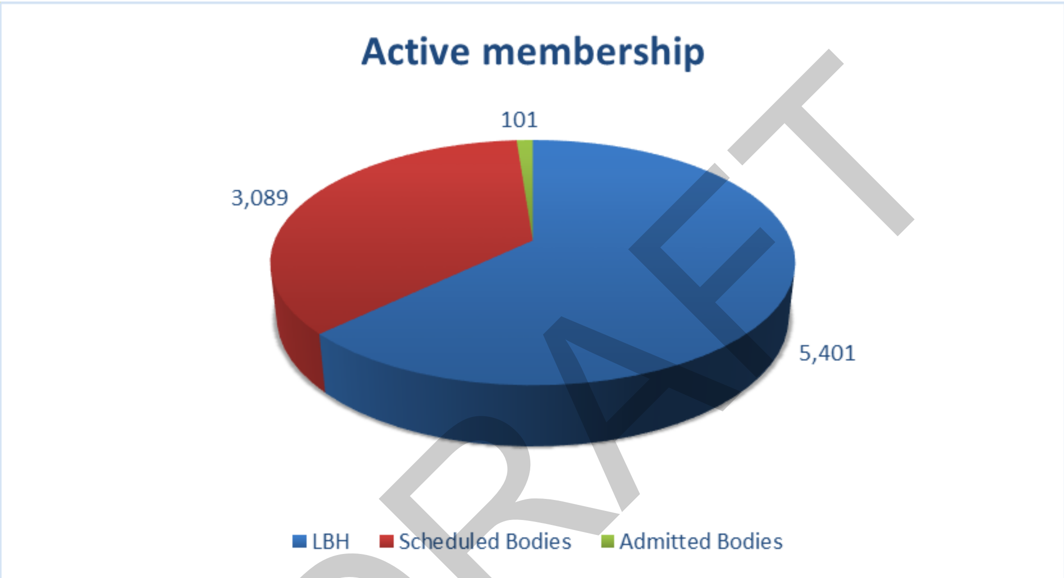
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

FUND MEMBERSHIP

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

Active Membership

As at 31 March 2018 there were 8,591 members actively contributing to the Fund. The diagram below shows a breakdown by employer type:



General Scheme membership

Membership of the scheme is split between

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

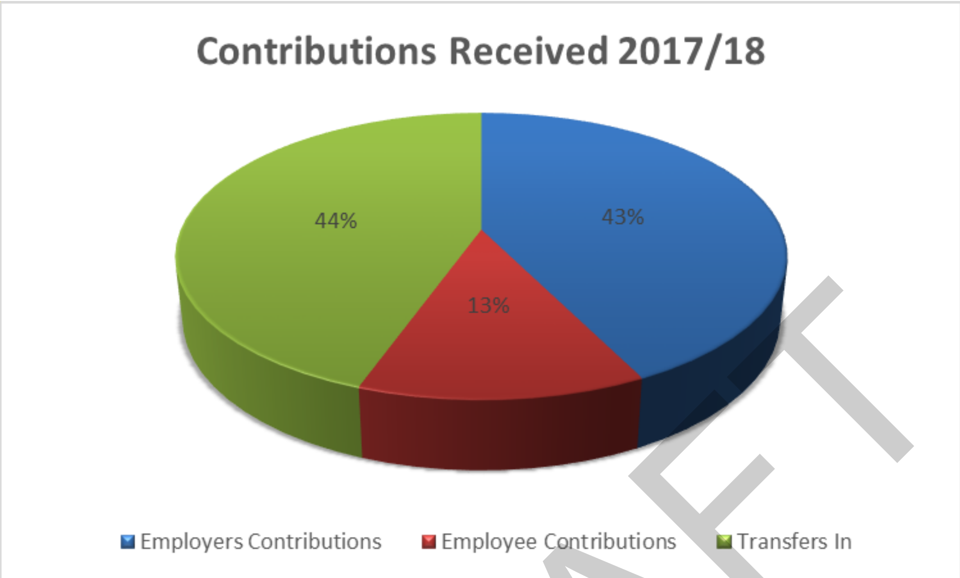
The membership of the scheme analysed over the relevant membership profile is shown below:

As can be seen from the following chart, active membership continued to grow over the last financial year. The most significant movement year-on-year is the increase in deferred membership by 1,285 and overall scheme membership increased year-on-year by 6.2% to 23,554 scheme members. The membership profile over the last five years is shown below:

CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2017/18 amounted to £77.2m compared to £42.7m for the previous year. The 45% increase from previous year is attributable to the receipt of Bulk transfer sum of £30.1m from Harrow College because of its merger with Uxbridge College. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2017/18 were set from the 2016 valuation.

The chart below shows the split between employee and employer contributions and transfers in. Employers contributed £32.9m compared to Employee's contributions of £9.9m and Transfers In of £34.3m during 2017/18.



The current employer contribution rates and the total contributions paid by each Employer in 2017/18 are shown in the table below.

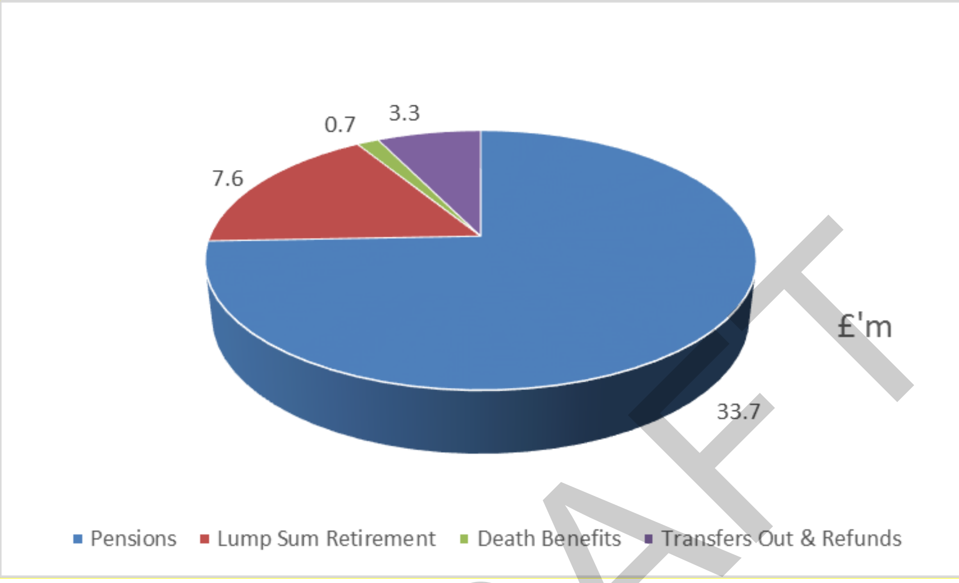
Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	23,510,163.32	23.1
Barnhill Academy	Scheduled Body	292,676.48	24.9
Belmore Academy	Scheduled Body	202,478.97	24.1
Bishop Ramsey Academy	Scheduled Body	283,996.43	25.2
Bishopshalt Academy	Scheduled Body	299,879.27	28.8
Charville Academy	Scheduled Body	235,716.77	24.3
Coteford Academy	Scheduled Body	119,427.77	27.1
Cowley St. Laurence School	Scheduled Body	171,551.51	24.9
Cranford Park Academy	Scheduled Body	309,028.29	24.8
Douay Martyrs Academy	Scheduled Body	238,739.36	26.9
Eden Academy	Scheduled Body	192,870.64	21.7
Global Academy	Scheduled Body	53,049.00	17.3
Grangewood School	Scheduled body	284,998.32	21.7
Guru Nanak Academy	Scheduled Body	294,006.90	22.4
Harefield Academy	Scheduled Body	227,538.39	22.3
Haydon Academy	Scheduled Body	368,608.78	25.1
Heathrow Aviation	Scheduled Body	39,158.87	18.8
Hillingdon Primary School	Scheduled Body	187,285.15	23.5
John Locke Academy	Scheduled Body	64,024.87	19.1
Lake Farm School	Scheduled Body	101,003.59	18.9
Laurel Lane Academy	Scheduled Body	124,934.95	24.9

London Housing Consortium	Scheduled Body	264,453.03	23.1
Moorcroft School	Scheduled Body	201,264.30	21.7
Nanaksar Primary School	Scheduled Body	42,579.31	20.4
NHS – Michael Sobel House	Scheduled Body	13,526.99	23.1
Northwood Academy	Scheduled Body	103,472.02	23.8
Park Federation	Scheduled Body	68,510.42	24.8
Park West Academy	Scheduled Body	124,409.77	21.0
Pentland Field School	Scheduled Body	244,441.46	21.7
Pinkwell School	Scheduled Body	285,644.22	26.6
Queensmead Academy	Scheduled Body	271,396.01	21.8
Rosedale Hewens Academy	Scheduled Body	268,427.92	23.9
Ruislip Academy	Scheduled Body	185,450.17	25.9
Ryefield Academy	Scheduled Body	136,869.29	28.9
Skills HUB	Scheduled Body	84,644.07	29.6
St. Matthews Primary School	Scheduled Body	113,379.95	24.9
St. Martins primary School	Scheduled Body	55,299.81	24.9
Swakeleys Academy	Scheduled Body	201,340.31	23.9
Uxbridge College	Scheduled Body	1,459,432.75	21.8
Uxbridge Academy	Scheduled Body	271,533.17	21.5
Vyners Academy	Scheduled Body	235,455.74	25.7
Willows Academy	Scheduled Body	50,886.96	32.5
Wood End Academy	Scheduled Body	254,384.26	23.0
Young Peoples Academy	Scheduled Body	62,801.62	29.6
Bellrock	Admitted Body	18,673.39	47.0
Braybourne Facilities	Admitted Body	12,740.65	29.3
Caterlink	Admitted Body	1,119.30	28.3
Caterlink – Frays Academy	Admitted Body	25,166.97	28.3
Caterplus	Admitted Body	5,593.18	31.1
Churchill (was Mitie Cleaning)	Admitted Body	13,157.86	42.1
Cucina - Haydon Academy	Admitted Body	17,377.89	34.4
Cucina – Ruislip Academy	Admitted Body	1,708.21	25.9
Greenwich Leisure	Admitted Body	84,332.48	26.2
Hayward Services	Admitted Body	2,178.60	34.2
Heathrow Travel Care	Admitted Body	35,841.26	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	43,882.47	25.2
Kingdom Security	Admitted Body	14,140.94	26.3
Mitie Facilities Management	Admitted Body	2,133.69	29.5
Queensmead QED – Paul Holliday	Admitted Body	14,580.00	21.8
Taylor Shaw/Pantry – Whiteheath Infant & Warrender Schools	Admitted Body	3,905.47	29.6
Taylor Shaw/Frithwood & Hillside Schools	Admitted Body	2,896.05	31.8
Taylor Shaw/ West Drayton Primary School	Admitted Body	9,081.53	32.4
Total		**32,909,251.12**	

BENEFITS

The benefits paid out from the Fund comprise annual pensions, lump sum retirement payments, death benefits and transfers to other funds. Total benefits paid out during 2017/18 amounted to £45.3m, an increase of £3.7m compared to the previous year of £41.6m.

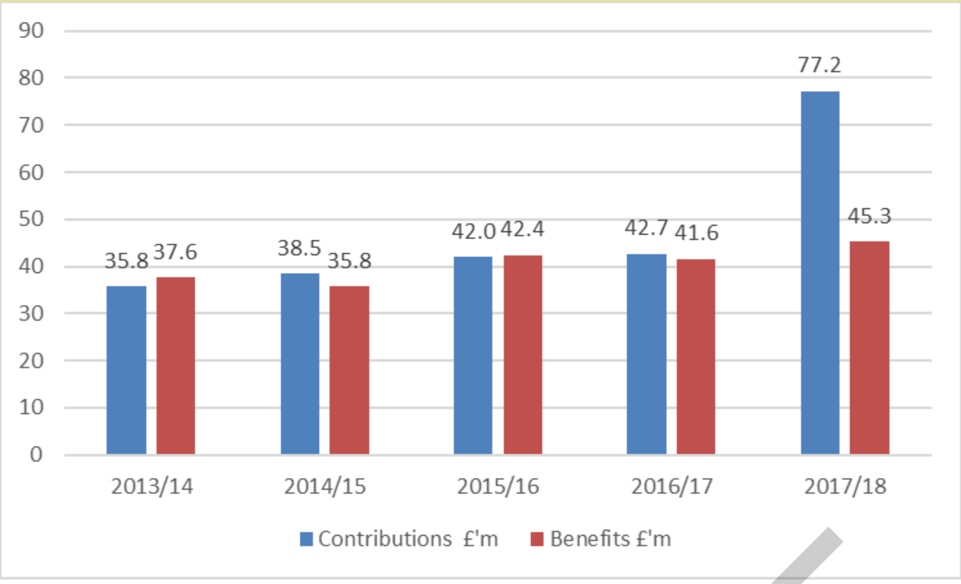
Benefits paid during 2017/18



CASHFLOW

The graph below illustrates contributions received and benefits paid out over the last five years. Over the illustrated period, benefits have marginally outstripped contributions twice and there is a significant difference in contributions compared to benefits in 2017/18 of about £31.9m, due to bulk transfers received as a result of acceptance of Harrow college into the fund after its' merger with Uxbridge College in October 2017.

Contributions Received against Benefits Paid



Management Expenses

Management expenses for 2017/18 were £7.3 million, a decrease of £1.1 million compared to 2016/17. The decrease in management expenses is mostly attributable to more assets being held within the passive mandate and the savings from passive management via the London CIV pool.

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

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

PERFORMANCE REVIEWS and REPORT of the FUND ACTUARY

INVESTMENT REVIEW

Market background for the year ended 31 March 2018

Economic Summary

The period from the end of March 2017 to end of January 2018 was arguably the best for risk-adjusted returns in equity market in history. For example, US markets never had a down month and many indices printed new all-time highs; at one stage, world equities had returned nearly 11%. These outcomes were the result of strong and synchronised economic growth almost everywhere in the world, monetary policies – set by the major central banks – that remained very accommodative and surging corporate profitability in most markets. Reinforcing these positive influences was the election of Emmanuel Macron in France as President meaning that, with the spectre of M. Le Penn avoided, the Eurozone once again became an investible region; international investors returned in their droves. To round 2017 off, President Trump lived up to his promise and fast-tracked a significant set of tax cuts that, as we now know, fuelled fresh gains in US equity markets and quickened the pace of domestic economic activity.

The early weeks of 2018 saw these influences continue to drive 'risk' markets with equity analysts engaging in a bidding war (trying to out-do each other with, ever more buoyant, forecasts of corporate profits growth). This phase could not endure, and by mid-February, a soberer perspective was adopted as equity markets encountered a sharp correction. The catalyst was Trump's next promise fulfilment - to ensure that from a trade perspective, America came first. As this year has progressed, the threat of a trade war has intensified with Trump repeatedly challenging trade-relations orthodoxy head-on.

Another significant feature has been the sharp slowing of economic activity in the UK and Eurozone economies. Initially the 'Beast from the East' (poor weather kept shoppers indoors and led to sharp increases in workplace absenteeism in Germany) explained this; with the onset of summer this excuse is starting to wear thin as pan-European economic growth remains sub-par. The Eurozone now has to contend with fresh existential threats from Italy and to an extent Spain, where populist politics have come to the fore.

Finally, we have seen an interesting succession of mini emerging market crises. First in Argentina, then Turkey, then Brazil and most recently Pakistan and South Africa. Every major cycle of US monetary tightening in the past fifty years has spawned a crisis – sometimes in the US, sometimes elsewhere; why should this phase be any different? This week the US Federal Reserve raised its policy rate for the seventh time and the strains are beginning to show.

The year ahead looks much more challenging than it did a year ago. The World's largest economy (the US) is growing, raising the global cost of capital just at the time when significant economies in the rest of the World have seen activity soften. At the same time US, trade policy is determined to ensure that less US demand is satisfied by imports. The oil price is rising on strong US growth and falling stockpiles and, in contrast with previous cycles, this is unlikely to check the US economy; thanks to shale production, the US is not now dependent on energy imports. These are challenging contrasts and breaks with precedent. Investors have enjoyed good gains for several years; future victories will be harder won.

Key asset class information

In the fiscal year 2017/18, financial market gains were extremely modest: UK equities returned 1.2% while world equity markets, from a UK perspective, delivered +2.6%. Ten-year gilt yields rose 0.3% to 1.4%, consumer price inflation rose to 2.5% and the UK real economy expanded by 1.2% - below the global average; Sterling rose 2.9%. UK base rates have returned to 0.5% with the Bank of England reversing the ‘emergency’ cut of 0.25% implemented after the EU Referendum in 2016; base rates expected to remain very low for the foreseeable future.

Investment Strategy

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

Fund Managers

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

JP Morgan mandate, a corporate bond portfolio with an investment objective to achieve a return in excess of benchmark by investing in an unconstrained portfolio of debt securities and currencies and using financial derivative instruments where appropriate.

London CIV (LCIV) is a collective investment vehicle set up by all London boroughs in line with DCLG directive to pool investment assets of local authority pension funds striving to reduce cost of managing assets through economies of scale. As part of the process, the Fund has to date transferred 23% of its investments to be managed by the LCIV as consolidated mandates in both LCIV-Epoch Income Equity and LCIV-Ruffer Absolute Return Funds, resulting in savings from reduced fees. The plan is for all fund assets to be migrated into management by LCIV in the future and further reduce fund management costs. Ruffer is an Absolute Return manager and the manager has two goals: not to lose money on a rolling 12-month basis and to grow funds at a rate higher than would be achieved by depositing in cash. The asset allocation is driven by two selections: those investments likely to deliver the required growth over the longer term ('Greed' assets) and those, which should rise in response to conditions under which the Greed assets lose value ('Fear' assets). Historically Fear and Greed weightings have been broadly comparable. Epoch manage a Global Equity Income Fund geared towards achieving total returns over the long-term, with a bias towards income and aims to achieve a level of income greater than the MSCI World Index (Net).

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

M&G - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. As at the end of March 2018, all three invested funds are fully drawn down. The pension fund has already received more than the value of cash invested in the M&G Companies Fund, including promised returns on investment. Some returns have been received from investments in the Debt opportunities funds. Repayment of invested cash in all three funds should accelerate over the next year as they mature.

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

Permira were appointed in November 2014 and aims to deliver a superior return from lending directly to corporate borrowers. The manager will generally lend on a fully secured basis although may lend sparingly on a weaker basis. To augment the lending rate, Permira will generally secure arrangement fees in respect of each loan advanced. The manager will normally secure strong position or fully control the board of most companies it lends money. Current investments with the manager in both the Permira Credit Solutions II and III equates to 5.73% of total fund assets as at 31 March 2018.

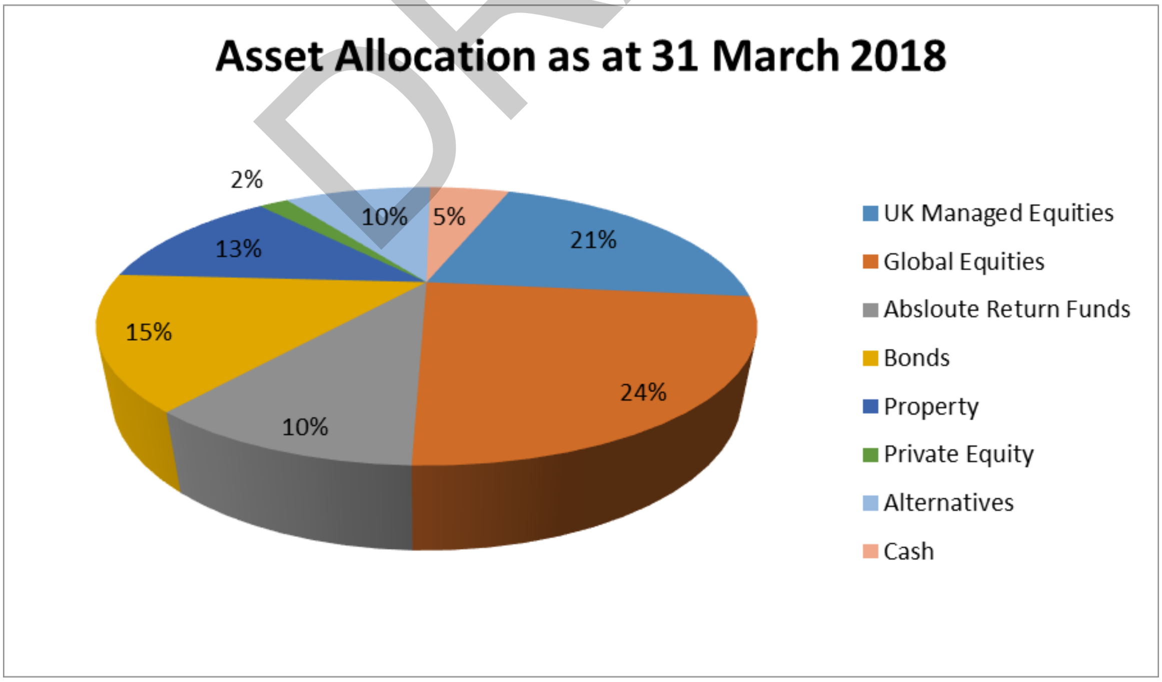
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 2% of assets invested in private equity; the assets are split between Adams Street Partners, which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT), which operates out of Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification. The majority of the investments are being returned and should be wound down over the next four years. There are currently no plans to make further commitments to this asset class by the Pension Committee, but the decision could be reviewed if it meets the future strategic direction of the fund.

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

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

Fund Value and Asset allocation

At 31 March 2018, the total value of the pension fund investment assets and liabilities was £1,015,771k. The following diagram identifies the allocation by asset class:



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity and alternative investments during the year. The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2018.

INVESTMENT MANAGER	as at 31 March 2018		as at 31 March 2017	
	£'000	%	£'000	%
Adams Street	13,206	1.30	17,532	1.84
AEW UK	54,361	5.36	47,565	4.98
JP Morgan	56,312	5.56	54,622	5.72
LGIM	295,839	29.19	287,498	30.10
LGT	6,339	0.63	9,596	1.00
London CIV – Ruffer/Epoch	233,020	22.99	104,454	10.94
M&G	13,220	1.30	22,447	2.35
Macquarie	27,374	2.70	27,002	2.83
Newton	0	0	137,948	14.44
Permira	58,114	5.73	38,233	4.00
UBS Equities	133,133	13.14	130,119	13.62
UBS Property	75,192	7.42	68,499	7.17
Other	47,460	4.68	9,675	1.01
Total	**1,013,570**	**100.0**	**955,190**	**100.0**

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

The largest five holdings in the fund as at 31 March 2018 were:

Top 5 Holdings	Market Value as at 31 March 2018 £000s	Percentage of Fund Value
EPOCH INVESTMENT P INCOME EQUITY A GBP DIS	129,750	12.80%
LONDON LGPS CIV LT RF ABSOLUTE RETURN A GBP DI	103,270	10.19%
Legal & General Investments UK EQUITY INDEX (OFC)	86,500	8.53%
JPMORGAN ASSET MGM GLOBAL BOND OPPORTUNITIES X	56,312	5.56%
AEW UK Investment Management LLP AEW UK Core Property Fund A	54,361	5.36%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2018 £000s	Percentage of Fund Value
Royal Dutch Shell 'B'ord Eur0.07	10,302	1.02%
Bp Ord Usd0.25	10,275	1.01%
Hsbc Hldgs Ord Usd0.50(Uk Reg)	7,634	0.75%
Barclays Plc Ord Gbp0.25	6,436	0.63%
Lloyds Banking Gp Ord Gbp0.1	5,743	0.57%
Glaxosmithkline Ord Gbp0.25	5,579	0.55%
Glencore Plc Ord Usd0.01	5,085	0.50%
Anglo American Usd0.54945	4,692	0.46%
3i Group Ord Gbp0.738636	4,553	0.45%
Rio Tinto Ord Gbp0.10	4,229	0.42%

Investment Performance

Over the financial year under review, the fund grew by 2.96%, underperforming its' benchmark figure of 3.71%. Over a three-year period to 31 March 2018, the fund has outperformed with a relative return, exceeding the benchmark by 0.32% pa.

Performance by asset class

Performance	1 Year			3 Year		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equities	3.24	1.25	1.97	8.20	5.86	2.21
Overseas Equities	3.50	3.06	0.43	7.62	11.25	(3.26)
Balanced Funds (LCIV)	(5.34)	(2.69)	(2.72)	-	-	-
Bonds	2.37	3.41	(1.01)	4.57	3.65	0.88
Index Linked Gilts	0.99	0.99	0.00	8.57	7.48	1.01
Private Equity	7.36	6.62	0.69	14.87	14.68	0.17
Property	10.78	10.05	0.66	9.10	8.06	0.96
Infrastructure	9.49	3.41	5.88	18.12	3.59	14.03
Private Credit	9.53	4.41	4.91	9.84	4.59	5.02
Total Portfolio	**2.96**	**3.71**	**(0.73)**	**7.42**	**7.08**	**0.32**

Note: Excess returns calculated using relative methodology

Performance by manager

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
Adams Street	3.37	6.62	(3.05)	11.54	14.68	(2.74)	6.34	-	-
AEW UK	14.29	10.05	3.85	10.85	8.57	2.10	11.84	10.03	1.64
JP Morgan	3.09	3.41	(0.31)	4.06	3.60	0.44	3.99	3.63	0.34
London CIV - Epoch	-	-	-	-	-	-	(8.41)	(5.20)	(3.38)
London CIV- Ruffer	(1.12)	0.41	(1.52)	2.87	0.59	2.27	5.48	0.81	4.63
LGIM I	2.11	2.24	(0.13)	-	-	-	5.26	5.26	0.00
LGIM II	5.04	5.38	(0.32)	-	-	-	6.35	6.66	(0.29)
LGT Capital	15.21	6.62	8.05	21.14	14.68	5.63	10.85	-	-
Macquarie	9.33	3.41	5.72	17.74	3.59	13.66	4.66	3.66	0.97
M&G	10.23	4.41	5.58	10.61	4.59	5.76	7.58	4.67	2.79
Permira	7.83	4.41	3.27	9.92	4.59	5.10	9.36	4.55	4.60
UBS Equities	4.31	1.25	3.02	8.99	5.86	2.95	10.10	8.66	1.32
UBS Property	8.31	10.05	(1.58)	8.83	8.06	0.71	3.99	3.94	0.05
Total Portfolio	**2.96**	**3.71**	**(0.73)**	**7.42**	**7.08**	**0.32**	**7.03**	**6.92**	**0.11**

Note: Excess returns calculated using relative methodology

Performance over one year was 0.73% behind the benchmark return of 2.96%, with UBS Property, Ruffer and Adams Street accountable for a large proportion of the underperformance, whilst LGT Capital, Macquarie and M&G were the best performing managers over the period.
Three year and since inception figures were ahead of the fund benchmark with relative outperformance of 0.32% and 0.11% respectively.

Custody

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

Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. External investment managers are expected to undertake appropriate monitoring of underlying investments with regard to their policies and practices on all issues that could present a material financial risk to the long-term performance of the

Fund such as corporate governance and environmental factors, integrating material ESG factors within its investment analysis and decision-making.

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

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

The Fund complies with the UK Stewardship Code and a statement of compliance that explains the arrangements supporting its commitment to each of the seven principles.

Exercise of voting rights

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	9,940	101,956	91,128	10,828	-
JP Morgan	1,374	18,853	16,897	1,937	20
LGIM	3,785	46,446	40,408	6,038	1

The above table details some of the Fund’s investment managers voting activities for the period under review.

REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund ("the Fund") Actuarial Statement for 2017/18

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

Description of Funding Policy

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

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

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at

£810 million, were sufficient to meet 75% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £269 million.
Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.
The key financial assumptions adopted for the 2016 valuation were as follows:

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

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

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

*Aged 45 at the 2016 Valuation.

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

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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

Catherine McFadyen FFA
For and on behalf of Hymans Robertson LLP
20 April 2018

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

SCHEME ADMINISTRATION REPORT

Administrators

Administration of the scheme is undertaken under delegated authority by the Pensions Team at Surrey County Council. Surrey are responsible for:

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

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

The agreement with Surrey details agreed performance targets and key performance indicators are reviewed quarterly at Pensions Committee and Pensions Board.

Early Retirement

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

Type of Retirement	2013/14	2014/15	2015/16	2016/17	2017/18
Redundancy or Efficiency	50	23	19	63	45
Ill Health	3	8	6	5	6
Total	**53**	**31**	**25**	**68**	**51**

Complaints

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

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

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

   The Corporate Director of Finance has also:

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

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31st March 2018 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
{INSERT DATE}

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that these accounts were considered and approved by Pensions Committee at the meeting held on 18 July 2018.

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

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

PAGE INTENTIALLY BLANK

Pension Fund Account

FUND ACCOUNT

	Note	31 March 2018 £000's	31 March 2017 £000's
Contributions	*4*	42,829	41,466
Transfers In from other pension funds	*5*	34,362	1,241
		77,191	**42,707**
Less: Benefits	*6*	(42,003)	(39,353)
Less: Payments to and on account of leavers	*7*	(3,297)	(2,243)
		(45,300)	**(41,596)**
Net additions/(withdrawals) from dealings with members		**31,891**	**1,111**
Less: Management expenses	*8*	(7,332)	(8,385)
Net additions/(withdrawals) including fund management expenses		**24,559**	**(7,274)**
Return on investments			
Investment income	*9*	15,289	16,004
Profit and losses on disposal of investments and changes in market value of investments	*10A*	19,302	137,690
Taxes On Income		(86)	0
Net return on investments		**34,505**	**153,694**
Net Increase in the fund during the year		**59,064**	**146,420**
Net Assets at start of year		**956,707**	**810,287**
Net Assets at end of year		**1,015,771**	**956,707**

NET ASSETS STATEMENT

		31 March 2018 £000's	31 March 2017 £000's
Investment Assets	*10*	1,013,896	955,190
Investment Liabilities	*10*	(326)	0
Total net investments		**1,013,570**	**955,190**
Current Assets	*11*	2,480	2,198
Current Liabilities	*12*	(279)	(681)
Net assets of the fund available to fund benefits at the end of the reporting		**1,015,771**	**956,707**

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

Paul Whaymand
Corporate Director of Finance
31 May 2018

Notes to Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

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

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

Admitted Bodies:

Bellrock
Braybourne Facilities
    Bishop Ramsey Cleaners
Caterlink
    Frays Academy
Caterplus
Churchill Services - Mitie & McMillan Cleaning
Cucina
    Haydon Academy
    Ruislip High School
Greenwich Leisure
Hayward Services
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Kingdom Security
Mitie Facilities Management
NHS - Michael Sobel House
The Pantry
    Whiteheath Infant
    Warrender School
    Frithwood School
    Hillside School
Taylor Shaw
    West Dayton Primary School

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Douay Martyrs Academy
Eden Academy Trust
    Moorcroft School
London Housing Consortium
Orchard Hill College Academy Trust
    Skills HUB (formerly Hillingdon Tuition Centre)
    Young Peoples Academy
Park Federation Trust
    Central Payroll
    Cranford Park Academy
    Lake Farm Park Federation

Pentland Field School
Grangewood School
Elliot Foundation Trust
Hillingdon Primary School
John Locke Academy
Pinkwell School
Guru Nanak Academy Trust
Nanak Sar Primary School
Guru Nanak Sikh Academy
Global Academy
Harefield Academy
Harrow & Uxbridge College
Haydon Academy
Heathrow Aviation Engineering
LBDS Frays Academy Trust
Cowley St. Lawrence Academy
Laurel Lane Academy
St. Matthews Primary School
St. Martins Primary School
Central Payroll
Wood End Academy
West Drayton Academy
QED Academy Trust
Coteford Academy
Queensmead Academy
Northwood Academy
Rosedale Hewens Academy Trust
Rosedale College
Mellowlane School
Brookside Primary School
Ruislip High School
Ryefield Primary School
Vyners Academy
Stockley Academy
Swakeleys Academy
Uxbridge Academy
William Byrd School
Willows Academy

As at 31 March 2018 there were 8,591 active members contributing to the fund, with 6,453 members in receipt of benefit and 8,510 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2018	31 March 2017
Number of employers with active members	62	53
Number of employees in scheme		
London Borough of Hillingdon	5,401	5,862
Other employers	3,190	2,822
Total	**8,591**	**8,684**
Number of Pensioners		
London Borough of Hillingdon	6,106	5,314
Other employers	347	880
Total	**6,453**	**6,194**
Deferred Pensioners		
London Borough of Hillingdon	7,135	6,279
Other employers	1,375	946
Total	**8,510**	**7,225**

c. Funding

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

d. Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Newton Asset Management (assets transferred to London CIV Nov 2017), Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

Notes to Pension Fund Account

e. Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2017/18:

Pensions Committee

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

Pensions Board

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

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis, and summarise the fund transactions and report on the net assets available to pay pension benefits as at 31 March 2018.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2018).

3. ACCOUNTING POLICIES

a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.

- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.

- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used.

- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

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

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

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

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

Notes to Pension Fund Account

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

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

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

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

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

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

Critical Judgements and Uncertainties

l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2018 was £118,347k (£114,851k at 31 March 2017).

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

Notes to Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £19,545k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2018. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £27,374k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £13,220k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £58,114k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivty analysis to the method of assumptions used for year ended 31 March 2018 by the fund's actuaries.

Sensitivity to Unquoted Alternative Assets valuation and Pricing: Information on sensitivities of the valuation and pricing methodologies of these asset classes are disclosed in notes 14 and 16.

Notes to Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	122
0.5% p.a. increase in the Salary Increase Rate	1%	20
0.5% p.a. decrease in the Real Discount Rate	10%	150

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

4. CONTRIBUTIONS

By category	31 March 2018 £000's	31 March 2017 £000's
Employees	9,920	9,356
Employers Contributions:		
Normal	27,356	27,134
Deficit Funding	5,553	4,976
	42,829	**41,466**

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

By authority	31 March 2018 £000's	31 March 2017 £000's
LB Hillingdon	30,938	30,535
Scheduled Bodies	11,484	10,459
Admitted Bodies	407	472
	42,829	**41,466**

5. TRANSFERS IN

	31 March 2018 £000's	31 March 2017 £000's
Individual transfers in from other schemes	3,313	1,241
Bulk Transfers In	31,049	0
	34,362	**1,241**

6. BENEFITS

By category	31 March 2018 £000's	31 March 2017 £000's
Pensions	(33,721)	(32,435)
Commutations and Lump Sum Retirement Benefits	(7,607)	(6,236)
Lump Sum Death Benefits	(675)	(682)
	(42,003)	**(39,353)**

By authority	31 March 2018 £000's	31 March 2017 £000's
LB Hillingdon	(40,220)	(37,561)
Scheduled Bodies	(1,428)	(1,443)
Admitted Bodies	(355)	(349)
	(42,003)	**(39,353)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2018 £000's	31 March 2017 £000's
Refunds to members leaving service	(62)	(81)
Individual transfers out to other schemes	(3,235)	(2,162)
	(3,297)	**(2,243)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2018 as follows:

	31 March 2018 £000's	31 March 2017 £000's
Administrative Costs	(753)	(902)
Investment Management Expenses	(6,392)	(6,761)
Oversight and Governance	(187)	(722)
	(7,332)	**(8,385)**

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2018 £000's	31 March 2017 £000's
Management Fees	(5,291)	(5,359)
Performance Related Fees	(525)	(917)
Custody Fees	(56)	(96)
Transaction Costs	(520)	(389)
	(6,392)	**(6,761)**

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2018 £000's	31 March 2017 £000's
Equities	(14)	(72)
Pooled Investments	(506)	(317)
	(520)	**(389)**

8C. EXTERNAL AUDIT COSTS

	31 March 2018 £000's	31 March 2017 £000's
Payable in Respect of External Audit	(20)	(21)
	(20)	**(21)**

External Audit costs are included in Oversight and Governance within Management Expenses

Notes to Pension Fund Account

9. INVESTMENT INCOME

	31 March 2018 £000's	31 March 2017 £000's
Income from Equities	5,294	5,071
Income from Bonds	0	37
Private Equity Income	11	4,209
Pooled Property Investments	4,838	4,774
Pooled Investments- Unit trusts and other managed funds	5,496	2,669
Interest on cash deposits	55	63
Other (for example from stock lending or underwriting)	(405)	(819)
	15,289	**16,004**

10. INVESTMENTS

	31 March 2018 £000's	31 March 2017 £000's
Investment Assets		
Bonds		0
Equities	128,306	123,992
Pooled investments	683,922	672,256
Pooled property investments	127,808	114,894
Private equity	19,545	27,128
Other Investment balances		
Cash deposits	53,558	16,276
Investment income due	757	644
Total investment assets	**1,013,896**	**955,190**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(326)	0
Total investment liabilities	**(326)**	**0**
Net investment assets	**1,013,570**	**955,190**

Notes to Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2017/18	**Value 1 April 2017 £000's**	**Purchases at cost £000's**	**Sales proceeds £000's**	**Change in market value £000's**	**Value 31 March 2018 £000's**
Bonds	0				0
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	3,218	683,922
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	1,716	19,545
	938,270	**459,130**	**(452,627)**	**14,808**	**959,581**
Forward Foreign Exchange	**0**	12	(19)	7	(0)
	938,270	**459,142**	**(452,646)**	**14,815**	**959,581**
Other investment balances					
Cash Deposits	16,276			(575)	53,558
Investment Income Due	644				757
Adjustments to Market Value Changes				5,062	
Total Investment Assets	**955,190**			**19,302**	**1,013,896**
2016/17	**Value 1 April 2016 £000's**	**Purchases at cost £000's**	**Sales proceeds £000's**	**Change in market value £000's**	**Value 31 March 2017 £000's**
Bonds	34,898	4,704	(40,461)	859	0
Equities	123,599	139,652	(167,581)	28,322	123,992
Pooled Investments	495,752	721,833	(645,615)	100,286	672,256
Pooled Property Investments	106,360	11,904	(4,825)	1,455	114,894
Private Equity	30,082	865	(5,287)	1,468	27,128
	790,691	**878,958**	**(863,769)**	**132,390**	**938,270**
Forward Foreign Exchange	(317)	4,367	(3,152)	(898)	0
	790,374	**883,325**	**(866,921)**	**131,492**	938,270
Other investment balances					
Cash Deposits	17,296			**256**	16,276
Investment Income Due	980				644
Adjustments to Market Value Changes				5,942	0
Total Investment Assets	**808,650**			**137,690**	**955,190**

Outstanding trade of settlements (liabilities) are not included in the above reconciliation

10B. ANALYSIS OF INVESTMENTS

	31 March 2018 £000's	31 March 2017 £000's
Equities		
UK		
Quoted	128,306	123,992
	128,306	**123,992**
Pooled funds - additional analysis		
UK		
Fixed income unit trust	56,312	54,622
Unit trusts	233,063	242,454
Unitised insurance policies	295,839	287,498
Limited liability partnerships	98,708	87,682
	683,922	**672,256**
Pooled property Investments	127,808	114,894
Private equity	19,545	27,128
Cash deposits	53,558	16,276
Investment income due	757	644
	201,668	**158,942**
Total investment assets	**1,013,896**	**955,190**
Investment liabilities		
Purchase Settlements Outstanding	(326)	0
Total investment liabilities	(326)	0
Net investment assets	**1,013,570**	**955,190**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2018 £000's	%	Market Value 31 March 2017 £000's	%
Adams Street Partners	13,206	1	17,532	2
AEW UK	54,361	5	47,565	5
JP Morgan Asset Management	56,312	6	54,622	6
Legal & General Investment Management	295,839	29	287,498	30
LGT Capital Partners	6,339	1	9,596	1
London CIV - Ruffer	233,020	23	104,440	11
M&G Investments	13,220	1	22,447	2
Macquarie Infrastructure	27,374	3	27,002	3
Newton Asset Management	0	0	137,948	14
Permira Credit Solutions	58,114	6	38,233	4
UBS Global Asset Management (Equities)	133,133	13	130,119	14
UBS Global Asset Management (Property)	75,192	7	68,499	7
Other*	47,460	5	9,689	1
Total	**1,013,570**	**100**	**955,190**	**100**

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

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

10D. STOCK LENDING

The fund’s investment strategy sets the parameters for the fund’s stock-lending programme. At the year-end, the value of quoted equities on loan was £31,377k (31 March 2017: £21,444k). These equities continue to be recognised in the fund’s financial statements.

Counterparty risk is managed through holding collateral at the fund’s custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £34,288k (31 March 2017: £23,412k) representing 109% of stock lent. Collateral consists of acceptable securities and government debt.

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

11. CURRENT ASSETS

	31 March 2018 £000's	31 March 2017 £000's
Debtors		
Employers' contributions due	50	68
Employees' contributions due	16	19
Cash balances	2,414	2,111
	2,480	**2,198**

12. CURRENT LIABILITIES

	31 March 2018 £000's	31 March 2017 £000's
Creditors		
Other local authorities (LB Hillingdon)	(8)	(227)
Other entities	(271)	(454)
	(279)	**(681)**

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2018 £000's	Market Value 31 March 2017 £000's
Prudential Assurance Company	5,546	5,975

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, £220k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

14. FAIR VALUE - BASIS OF VALUATION

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

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

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2018 £000's	Value on Increase £000's	Value on Decrease £000's
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	27,373	30,111	24,636
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	71,388	78,526	64,248
Private Equity	5%	19,545	20,522	18,568
Venture Capital	5%	41	43	39
Total		**118,347**	**129,202**	**107,491**

14A. FAIR VALUE HIERARCHY

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

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

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

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

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

Values as at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	118,347	959,581
Loans and Receivables	54,315	0	0	54,315
Financial Liabilities at Fair Value through Profit and Loss	(326)	0	0	(326)
Net investment Assets	**182,296**	**712,927**	**118,347**	**1,013,570**

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

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2017/18.

14C.RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2017	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2018
	£000's	£000's	£000's	£000's	£000's	£000's
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	27,128	370	(9,670)	(1,798)	3,514	19,545
Private Finance - M&G	22,447	3	(11,176)	(2,522)	4,521	13,273
Infrastructure - Maquarie	27,002	99	(1,315)	1,396	192	27,373
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	38,233	34,725	(16,208)	1,120	245	58,114
	114,851	**35,197**	**(38,368)**	**(1,805)**	**8,472**	**118,347**
Other investment balances	0				0	0
Total Investment Assets	**114,851**				**8,472**	**118,347**

There were no transfers in or out of level 3 assets in 2017/18.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

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

Private Finance: M&G
The assets are mostly floating rate notes and held at par value.

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

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

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

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

Description of Valuation Process

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

available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

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

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

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

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

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

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

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

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

Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund’s assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk “life-cycle”, whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

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

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

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

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

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

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Loans & receivables	Financial Liabilities At amortised Cost	Total	Designated as fair value through P&L	Loans & receivables	Financial Liabilities At amortised Cost	Total
	31 March 2018 £000's	31 March 2018 £000's	31 March 2018 £000's	31 March 2018 £000's	31 March 2017 £000's	31 March 2017 £000's	31 March 2018 £000's	31 March 2017 £000's
Financial Assets								
Equities	128,306	0	0	128,306	123,992	0	0	123,992
Pooled Investments	683,922	0	0	683,922	672,256	0	0	672,256
Pooled property investments	127,808	0	0	127,808	114,894	0	0	114,894
Private Equity	19,545	0	0	19,545	27,128	0	0	27,128
Cash	0	53,558	0	53,558	0	16,276	0	16,276
Other Investment balances	0	757	0	757	0	644	0	644
	959,581	**54,315**	**0**	**1,013,896**	**938,270**	**16,920**	**0**	**955,190**
Financial Liabilities								
Purchase Settlements Outstanding		0	(326)	(326)	0	0	0	0
	0	**0**	**(326)**	**(326)**	**0**	**0**	**0**	**0**
Total	**959,581**	**54,315**	**(326)**	**1,013,570**	**938,270**	**16,920**	**0**	**955,190**

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following potential change in market price risk are reasonably possible for the relevant reporting periods.

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

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

Asset Type	Value as at 31 March 2018 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Global Equity	344,271	8.40%	373,190	315,352
UK Equity	214,794	10.00%	236,273	193,315
Bonds	154,478	4.30%	161,121	147,835
Alternatives	118,253	5.10%	124,284	112,222
Property	127,785	5.40%	134,685	120,885
Total	**959,581**		**1,029,553**	**889,609**

Asset Type	Value as at 31 March 2017 (Restated) £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Global Equity	348,733	8.70%	379,073	318,393
UK Equity	210,953	9.60%	231,204	190,702
Bonds	148,817	5.20%	156,555	141,079
Alternatives	114,851	6.20%	121,972	107,730
Property	114,916	3.40%	118,823	111,009
Total	**938,270**		**1,007,628**	**868,912**

Note: changes in asset values as at 31 March 2017 restated by asset type for comparative reason based on the current analysis provided by PIRC, our fund's analytics information provider.

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

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

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

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

	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	53,558	535	54,093	53,023
Bonds - pooled funds	154,478	1,545	156,023	152,934
Total change in assets available	**208,036**	**2,080**	**210,116**	**205,957**

	Value as at 31 March 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	16,276	163	16,439	16,113
Bonds - pooled funds	148,817	1,488	150,305	147,329
Total change in assets available	**165,093**	**1,651**	**166,744**	**163,442**

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

The pension fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2018 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period ending 31 March 2017.

Notes to Pension Fund Account

Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 8.70%, based on the data provided by PIRC. A 8.70% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. Mangers that hedge against currency risk are not included in this sensitivity analysis. An 8.70% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	**Asset Value 31 March 2018**	**Potential market movement**	**Value on increase**	**Value on decrease**
		8.70%		
	£000's	**£000's**	**£000's**	**£000's**
Overseas Managed Funds	111,250	9,679	120,929	101,571
Private Equity/Infrastructure	46,919	4,082	51,001	42,837
	158,169	**13,761**	**171,929**	**144,408**

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

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

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

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The pension fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2018 was £55,972k (31 March 2017: £18,387k) and this was held with the following institutions

Notes to Pension Fund Account

Summary	Rating S&P	Balances as at 31 March 2018 £000's	Rating S&P	Balances as at 31 March 2017 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAf S1+	200	AAAf	200
Bank current accounts				
Lloyds	A	2,214	A	1911
Global Custody Cash				
Northern Trust Company	AA-	53,558	AA-	16276
Total		**55,972**		**18,387**

Liquidity Risk - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.

The pension fund holds a working cash balance in its own bank accounts with Lloyds and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,414k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2018 these assets totalled £713,477k, with a further £53,558k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

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

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 2017 to March 2020. The next triennial valuation will take place as at 31 March 2019.

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

1. to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

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

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

Notes to Pension Fund Account

Contribution rates

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

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

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

At the previous formal valuation at 31 March 2016, a different regulatory regime was in force. Therefore a contribution rate that is directly comparable to the rates above is not provided.

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

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

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

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

Assumptions

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

Financial Assumptions

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

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

Demographic Assumptions

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

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

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

Description	31 March 2018 % per annum	31 March 2017 % per annum
Inflation /Pensions Increase Rate	2.4%	2.4%
Salary Increase Rate	2.8%	2.8%
Discount Rate	2.6%	2.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2018 by Hymans Robertson with the following results:

Description	31 March 2018 £000's	31 March 2017 £000's
Present Value of Promised Retirement Benefits	1,548	1,522
Active Members	624	569
Deferred Members	350	355
Pensioners	574	598

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

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

19. RELATED PARTY TRANSACTIONS

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

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

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

Governance

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

Key Management Personnel

Three employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, Deputy Director - Strategic Finance (post deleted September 2017) and the Head of Pensions, Treasury & Statutory Accounts. Total remuneration payable to key management personnel is set out below:

Notes to Pension Fund Account

	31 March 2018 £000's	31 March 2017 £000's
Short term benefits	82	69
Post employment benefits	84	31
	166	**100**

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

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

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

20. BULK TRANSFER

There was a bulk transfer of £31,049k into the fund from Harrow College as a result of a merger with Uxbridge College during the 2017/18 financial year. There were no bulk transfers in 2016/17.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2018 totalled £23,859k (£46,472k at 31 March 2017).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

There were no contingent liabilities outstanding for the fund at the end of the financial year 2017/18.

22. CONTINGENT ASSETS

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

23. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

POLICY STATEMENTS

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

Investment Strategy Statement

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

Funding Strategy Statement

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

Communication Strategy

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

Governance Policy Statement

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

Risk Management Policy

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

Administration strategy

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

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

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

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

Broker

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

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

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

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

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

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

Creditors
Amounts owed by the pension fund.

Custody
Safekeeping of securities by a financial institution. The custodian keeps a record of the client’s investments and may also collect income; process tax reclaims and provide other services such as performance measurement.

Debtors
Amounts owed to the pension fund.

Defined Benefit
A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the

employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

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

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

Dividend

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

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

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

Equity
Stock or any other security representing an ownership interest.

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

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

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

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

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

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

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

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

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

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

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transition
To move from one set of investment managers to another

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

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

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

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

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

This page is intentionally left blank

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

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 covering the roles and responsibilities with in the Pension Fund and a recap on the fund investment strategy and asset classes

This report focuses on the investment of the Fund's assets. The report includes 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.

As part of this item KMPG will present a paper looking into the implementation options of investing in long-dated inflation linked property.

The total size of the fund was £1,014m at 31 March 2018 an increase £5m from £1,009m at the end of last quarter. There was an overall investment return over the quarter of -2.6%; mitigating the negative returns the fund received a bulk transfer in relation to the Harrow College merger. Included with this report is the Northern Trust performance report.

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

RECOMMENDATIONS

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

1. **Consider and discuss any issues raised in the training item**
2. **Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
3. **Discuss implementation options for 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 31 March 2018, the Fund returned -2.60%, an under-performance of 27 basis points relative to the fund benchmark of -2.34%. The Fund value increased over the quarter by £5m, to £1,014m as at 31 March 2018. A fall in market value was mitigated by dividends and the cash inflow from Harrow College as a result of the merger with Uxbridge College.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	(2.60)	(2.34)	(0.26)
1 Year	2.96	3.71	(0.75)
3 Year	7.42	7.08	+0.34
5 Year	7.92	7.56	+0.36
Since Inception (09/1995)	7.03	6.92	+0.11

During the quarter, distributions received from Private Equity (€3.1m, & $200k) and Permira (£1.7m) were utilised to fund drawdowns of outstanding commitments. All fund managers except London CIV, JP Morgan, UBS property and LGIM had positive returns, relative to their respective benchmarks.

Relative performance over a one-year rolling period was 0.73% behind the benchmark with the largest detractors being Adams Street Partners, UBS Property and London CIV (Ruffer). Macquarie, Permira, LGT Capital and UBS Equity portfolios significantly outperformed their relative benchmarks during this period.

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 31 March 2018 £'000	Actual Asset Allocation %	Benchmark Allocation %
UK Equities	214,730	21.2	47.0
Global Equities	240,999	23.8	
UK Index Linked Gilts	66,778	6.6	12.0
Corporate Bonds (Global)	87,702	8.7	
Property	127,807	12.6	12.0
DGF/Absolute Returns	103,270	10.2	12.0
Private Equity	19,585	1.9	4.0
Infrastructure	27,374	2.7	3.0
Private Credit	71,334	7.0	10.0

Cash & Cash Equivalents	53,991	5.3	0.0
Totals	**1,013,570**	**100.0**	**100.0**

The underweight position in Private Equity is due the maturity profile of the investments, with more distributions than drawn-downs. The underweight position in Private Credit is due to committed funds in Permira yet to be drawn-down, totalling £18m.

The Benchmark allocations above are those in place during the quarter and do not take into account the strategy decisions made at the March committee.

The Fund received £31.0m from the Harrow and Uxbridge College merger in March 2018, this cash was immediately deposited in the custody account at Northern Trust. The funds have since been invested temporarily with JP Morgan and LGIM in bond products in line with investment management advice and the revised investment strategy.

Current Asset Allocation by Manager

		Market Value As at 31 Mar 2018	**Actual Asset Allocation**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**
ADAMS STREET	Private Equity	13,206	1.3
LGT	Private Equity	6,338	0.6
AEW	Property	54,361	5.4
JP MORGAN	Corporate Bonds (Global)	56,312	5.6
LCIV - EPOCH	Global Equities	129,750	12.8
LCIV - RUFFER	DGF/Absolute Returns	103,270	10.2
M&G	Private Credit	13,220	1.3
MACQUARIE	Infrastructure	27,374	2.7
PERMIRA	Private Credit	58,114	5.7
LGIM	UK Equities	86,422	8.6
	Global Equities	111,249	11.0
	UK Index Linked Gilts	66,778	6.6
	Corporate Bonds (Global)	31,390	3.1
UBS EQUITIES	UK Equities	128,308	12.7
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	4,762	0.5
UBS PROPERTY	Property	73,424	7.2
	Cash & Cash Equivalents	1,768	0.2
Non Custody	Cash & Cash Equivalents	47,461	4.68
		1,013,570	**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 fell 6.9% over the period under review. UK equities performed poorly as gilt yields rose in line with a broad-based sell-off in global bonds. Bond market yields rose amid signs that the world economy is moving from the recovery to expansion phase of the economic cycle, with a consequent increase in inflationary pressures and tighter monetary policy.

As bond yields rose there was movement away from more stable and defensive areas of the market, a trend exacerbated by sterling strength. Sterling was supported by expectations that the Bank of England could increase base rates faster than previously anticipated, albeit the currency's relative strength was partly a function of weakness in the US dollar. While UK economic growth remained sluggish, it continued to surpass low expectations. In its February inflation report, the Bank of England nudged up its growth forecast for 2018, from 1.7% to 1.8%. There was further progress with Brexit negotiations over the period with an initial agreement struck on the terms of a transition period for after the UK formally exits the EU.

US equities began 2018 strongly, buoyed by ongoing strength in economic data, robust earnings and the confirmation of a major tax reform package. US business confidence reached an unexpected, multi-decade high in March. GDP for Q4 2017 was revised upwards to show growth of 2.9%, and while industrial activity slowed, it continued to indicate expansion. However, the latter part of the quarter saw a marked increase in volatility. Investors first digested the destabilising potential of an elevated US inflation reading and the possibility that the Federal Reserve (Fed) may need to become more proactive in raising interest rates in order to keep upward price pressures under control. The Fed raised rates by 25 basis points (bps) in March and escalating US-China trade sanctions precipitated a renewed bout of turbulence in March. Eurozone equities delivered negative returns in the first quarter, with the bulk of the declines coming in March.

4. Implementation of strategy and decisions from March Pensions Committee

Pensions Committee in March 2018 agreed to a number of changes to the strategy, some of which are long-term directional changes and will take longer to implement.

Within the strategy changes agreed, Committee agreed to invest 5% of the portfolio in Long Lease Property: Long dated, inflation linked, contractual income. Existing manager AEW provides a product that can provide this strategy as can a number of other managers. Pensions Committee asked officers investigate further into AEW and other offerings and put forward a recommendation on allocating the funds to a future meeting of the Committee. KPMG have carried out analysis into the best managers to meet the needs of the fund to supply this product, and discussions were held with the London CIV to understand how the pool will provide for this strategy now and into the future.

Pensions Committee need to consider whether to invest now outside the pool to implement current strategy to comply with fiduciary responsibilities; with consideration of unwinding at a later point when an offering is available with the pool. Otherwise, the Pensions Committee could defer investment until the LCIV is able to provide a suitable product, which would be a number of years away, during which time the fund could hold the allocation in index linked yields in the interim. KMPG have shortlisted potential managers to meet the investment strategy and meet the specific requirements of the fund, if Pensions Committee decide to implement this strategy as early as possible. Alternatively, the fund can defer implementation of this asset class until the London CIV has a suitable platform. The London CIV option could take a number of years before the investment would be placed in cash terms. If the decision to invest is deferred the funds could be held in index linked gilts to provide the same risk parameters, although return would be significantly lower. KPMG will present on this item to provide further information, associated costs and returns of the two options.

As a result of the revised strategy and requirement to invest all cash balances, which are not immediately required to make payments, excess cash held by the fund has been invested. The excess cash includes the £31m asset transfer received from Harrow College; cash has been placed in JP Morgan (£25m) and LGIM index Linked Gilts (£20m). The funds will be retained here until the new asset allocation can be fully implemented and committed cash calls are made. These two mandates allow cash to be drawn down as required to meet liquidity on cash calls. Investments were placed over a phased schedule to reduce the risk of any dilution levy costs being charged.

5. LCIV update

LCIV currently has 13 open sub-funds. LCIV RBC Sustainable Equity Fund opened in April enabling investment in active equities focusing on sustainable investments and the LCIV MAC Fund opened in May invested through CQS as a multi asset credit fund investing in a range of liquid / leveraged loans, high yield corporate credit, convertible bonds, and asset-backed securities.

Sub funds available and coming soon 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	London CIV	Not yet launched
LCIV Liquid Loans Fund	London CIV	Not yet launched
LCIV Long Short MAC Fund	London CIV	Not yet launched
LCIV MAC Fund	CQS	31-May-18
LCIV Private Debt Fund	London CIV	Not yet launched

The LCIV undertook a governance review in 2017, which resulted in a number of areas for suggested improvement. There have been a number of structural governance changes implemented as a result including the revocation of the Pensions Sectorial Joint Committee and introduction of a Shareholder Committee as well as the addition of two non-executive Directors, a Treasurer Observer, and a member of the Shareholder Committee.

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 £529m at 31 March 2018 accounting for 52.3% of total assets of the Pension Fund.

6. 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 31 March 2018 the Hillingdon, investment managers made the following votes

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,302	10,598	9,249	1,349	0
JP Morgan	188	2,442	2,247	195	3
LGIM	555	5,711	4,997	649	65

Voting reports obtained from managers mirrored the pattern of the last three quarters. UBS were the most active fund manager by attending and voting at more meetings. On average, the reported managers opposed about 12% of proposals at meetings attended.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

This page is intentionally left blank

NORTHERN TRUST

London Borough of Hillingdon

Investment Risk & Analytical Services

March 31, 2018

Table of Contents

Client Commentary

Total Scheme Commentary

Volatility returned to equity markets in quarter 1.Global equities rode a virtual see-saw. Tech stocks took a bit of a battering in February following allegations of the misappropriate use of Facebook data and other leaks even prior to the fallout from the looming tariff war. Apple's iPhone X sales were down resulting in a production cut but the world's biggest company still reported a record Q4 profit of $20.1bn. Globally, Technology had the strongest quarter and year. Telecoms was the lowest performing sector over both periods. Oil ended March at $69 per barrel, marginally up from the end of 2017. The FTSE World was down by -4.3% (GBP) over quarter one 2018 and returned 2.6% (GBP) over the year.

One year on from the triggering of Article 50, UK sentiment readings continue to surprise investors and forecasters by pointing to an economy resilient amidst ongoing Brexit uncertainty. The squeeze on households' spending power showed signs of easing as UK wages rose at the fastest pace in nearly two and a half years and the unemployment rate edged lower. The closely-watched IHS Markit / CIPS UK Services PMI disappointed however, recording a reading of 51.7 in March, down from 54.5 in February. The barometer slipped to its lowest level since July 2016 as inclement weather disrupted business operations and subdued consumer spending. Sterling remained buoyed as Britain and the European Union agreed to a 21-month Brexit transition period and a potential solution to a hard border in Northern Ireland. Following the announcement, 2-year and 10-year gilt yields also rose, hitting highs of 0.92% and 1.65% respectively before falling back to 0.82% an 1.35% at period end. The FTSE All-Stock index delivered a total return of 0.26% in Sterling terms over the quarter whilst the ML Sterling Non-Gilts index returned -1.15% for the same period. In the UK, Q1 2018 saw Sterling strengthen against the Dollar and Euro. The consumer price index including owner occupiers' housing costs rose by 2.5% in the year to February 2018, down from 2.7% in January 2018. The main downward contributors were food and transport. These were partially offset by the rising prices of footwear. The Nationwide House Price Index showed the annual rate of house price growth in February at 2.2%, markedly down from the January figure of 3.2%.

Within this environment the London Borough of Hillingdon returned -2.60% which was below the Total Plan benchmark of -2.34%. In monetary terms this is a loss in assets of £26.3 million and the value of the combined scheme now stands at £1,013 million as at 31st March 2018. Looking further into the analysis the results seen were caused by some underperformance particularly with London CIV Ruffer and the newer Epoch investment. While allocation effects overall were positive, the most notable impacts were the positive effects of LGT and Epooch which were partially reversed by the negative impacts in UBS and M&G

The Scheme's one year return of 2.96% is 0.73% behind the benchmark of 3.71% following four consecutive quarters of underperformance. While over the longer periods, with nine positive quarters over the last 3 years, the Scheme has outperformed, producing a return of 7.42% over three year versus 7.08%. Then the excess marginally increases to 0.33% for the 5 year period where we see figures of 7.92% versus 7.56% per annum. Then since inception in September 1995, the Fund remains ahead of target by 11 basis points with an annualised return of 7.03% against a target of 6.92%.

Manager Commentary

AEW UK

Over the first quarter AEW UK Property produced a growth of 2.43%, which was 0.52% above the IPD UK PPFI All Balanced Funds index figure of 1.90%. They remain ahead of target over the year, and continue to be ahead over the three year period returning 10.85% against the benchmark of 8.57%. This translates as a +2.10% relative return. However, 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 11.84%, leading to an outperformance of 1.64% when compared to the IPD figure of 10.03%.

JP Morgan

In the latest quarter JP Morgan produces a reduction in assets of -0.38% leading to an underperformance of 1.24% when compared to the 0.87% target for the 3 Month LIBOR + 3% p.a. Then with positive results in the three of the last four quarters, the one year return of 3.09% is in positive territory but is behind the 3.41% target by 0.31%. Then over three and five years they post returns closer to the benchmark with figures of 4.06% vs 3.60% and 3.47% vs 3.58% respectively. Since the mandate funded their return of 3.99% is +34 basis points above the target return of 3.63% on an annualised basis.

Legal & General 1

Over the last three months the Legal & General No. 1 mandate post a return of -4.03% against -4.05% for the custom fixed weight blended benchmark, a slight outperformance of +2 basis points. In the short period since inception in October 2016, they return 5.26%, which is in line with the benchmark return. Further analysis demonstrates the passive strategy with all funds neutral when compared to the benchmark weights and in line with their respective benchmark returns.

Legal & General 2

During February 2017 the new Legal & General mandate was funded, now in its first full year of investment they post a return of -1.29%% against -1.25% for the first 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 6.35% against 6.66% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

This quarter assets within the London CIV Ruffer portfolio saw a negative return at -2.55% when compared to the LIBOR 3 Month GBP figure of 0.12%, this leads to a relative return of -2.67%. This has dampened the results from 2017 and the one year period now shows a negative return of -1.12% against the target of 0.41%. Outperformance remains in the longer periods. This is seen in a three year return of 2.87% versus 0.59%, then similarly for the five years with figures of 4.23% against 0.59%, culminating in since inception (May 2010) figures of 5.48% versus 0.81% per annum, which translates as a relative return of 4.63%. This manager shows the largest outperformance of all the schemes managers over the since inception period.

M&G Investments

For the fourth consecutive period M&G posted gains in Q1 by producing a return of 1.71% against the 3 Month LIBOR +4% p.a. target of 1.11%, demonstrating an outperformance of 0.59%. Coupled with the previous good results, the full year return leads the benchmark by 5.58%, coming from figures of 10.23% against 4.41%. Over the three and five year the account registers figures of 10.61% vs 4.59% and 9.14% vs 4.58% respectively; since inception (May 2010) return falls slightly to 7.58% pa whilst the benchmark is 4.67% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.71% opposed to the comparator of 4.40%.

Macquarie

Over the last three months, Macquarie produced a growth of 1.29%, against the 0.87% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 0.42%. With fifteen consecutive quarters of positive absolute and relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 9.33% beats the target of 3.41% by 5.72%, similarly the three year result of 17.74% versus 3.59% exhibits the best relative return at 13.66%. The annualised return over 5 years falls to 12.37%, but still ahead of the 3.58% seen for the benchmark; then since inception (September 2010) the 4.66% is ahead of the target of 3.66%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.01%, which is ahead of the benchmark figure of 3.59%.

UBS

During Q1 the UBS UK Equity investments returned -4.68%, ahead of the -6.87% for the FTSE All Share. Looking into the attribution analysis this outperformance was a combined result of good selection effects and allocation effects. The most significant being the allocation decisions in underweighting Consumer Goods (+69bps) and underweighting Technology (+25 bps), while the largest negative impact comes from underweighting Healthcare (-9 bps). Selection effects were also notable and made a positive impact with the most significant being in Consumer Goods (+46 bps) as well as in Basic Materials (+38bps). The manager is now ahead over the one year, figures of 4.31 vs 1.25% translates as a relative return of +3.02%. This is largely attributable to allocation effects, the biggest impacts come from both underweighting Consumer Goods (+121bps) and overweighting basic Materials (+58 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 10.10% versus 8.66% on an annualised basis

Manager Commentary

Premira Credit

The Premira Credit Fund saw a growth of 2.13% over the first quarter of 2018, this compares favourably with the 3 Month LIBOR +4% p.a. target of 1.11%. All four quarter's over the last year are still ahead of target, leading to an outperformance of 3.27%, created from figures of 7.83% against 4.41%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 9.36% against the benchmark of 4.55%, leading to a relative position of 4.60%. 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 underperformance with -0.23%, generated from a return of 1.67% against the IPD UK PPFI All Balanced Funds index of 1.90%. Over the one year a deficit is recorded, with a full year return of 8.31% falling -1.58% behind the IPD target of 10.05%. However, 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 11.31% against 10.49%. Then since inception, in March 2006, the fund return falls to 3.99% per annum which manages to stay just ahead of the benchmark figure of 3.94%.

Private Equity

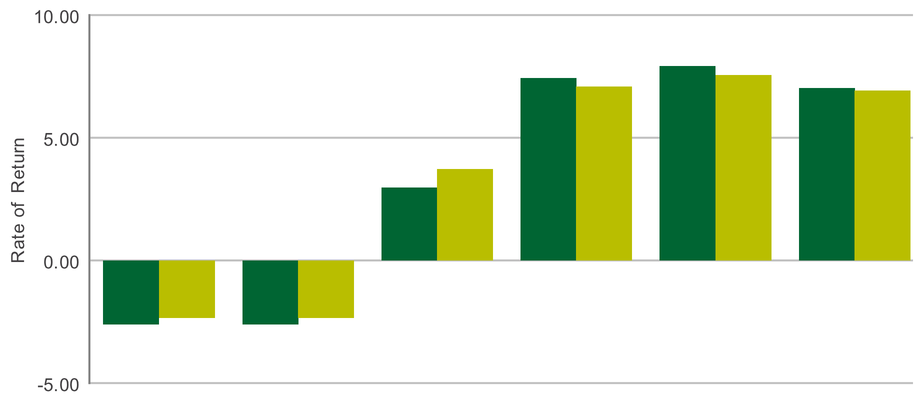
The private equity assets saw a 1.14% rise in value for LGT. Adam Street saw an increase of 0.70%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 15.21%, 21.14% and 14.89% for the one, three and five year periods respectively, while Adam Street posted 3.37%, 11.54% and 14.05% over the same periods. Although Adam St falls short of the proxy benchmark of MSCI AC World +4% p.a. which shows 6.62%, 14.68% and 14.98%. LGT by contrast are ahead over the one and three year periods (outperforming by +8.05% and +5.63% respectively) but fall somewhat short over the five year underperforming by 8bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.34% pa, while LGT sees a more modest dip to 10.85%.

Epoch

This quarter saw a full 3 month performance for the relatively new investment in Epoch's income equity fund of -7.57%. Since inception (November 2017) the fund has observed a fall in value -8.41% compared to the MSCI World figure of -5.20%, this leads to a relative return of -3.38%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	-2.60	-2.60	2.96	7.42	7.92	7.03
Index	-2.34	-2.34	3.71	7.08	7.56	6.92

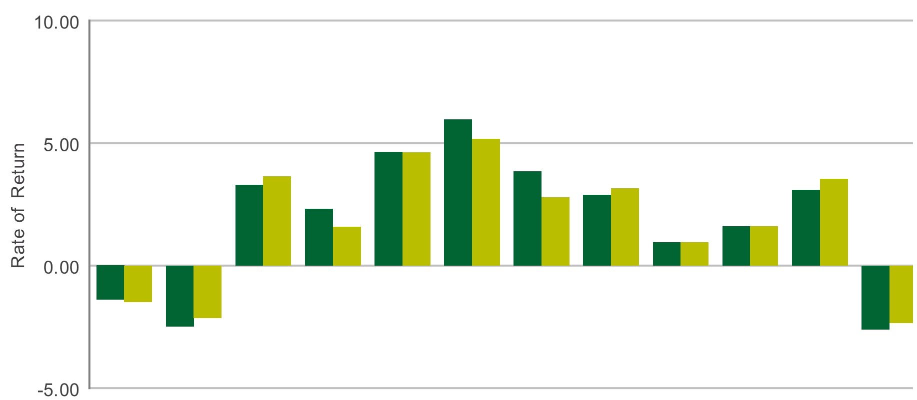
Index: Total Plan Benchmark

RISK STATISTICS

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	2.96	7.42	7.92
Index Return	3.71	7.08	7.56
Relative Excess Return	-0.73	0.32	0.33
Standard Deviation	4.12	5.23	5.03
Index Standard Deviation	3.91	4.90	4.77
Tracking Error	0.99	1.22	1.07
Information Ratio	-0.76	0.28	0.33
Sharpe Ratio	0.62	1.31	1.46
Index Sharpe Ratio	0.85	1.33	1.46
Sortino Ratio	-	2.85	2.96
Treynor Ratio	2.50	6.58	7.11
Jensen's Alpha	-0.79	0.08	0.14
Relative Volatility (Beta)	1.02	1.04	1.03
R Squared	0.94	0.95	0.96

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

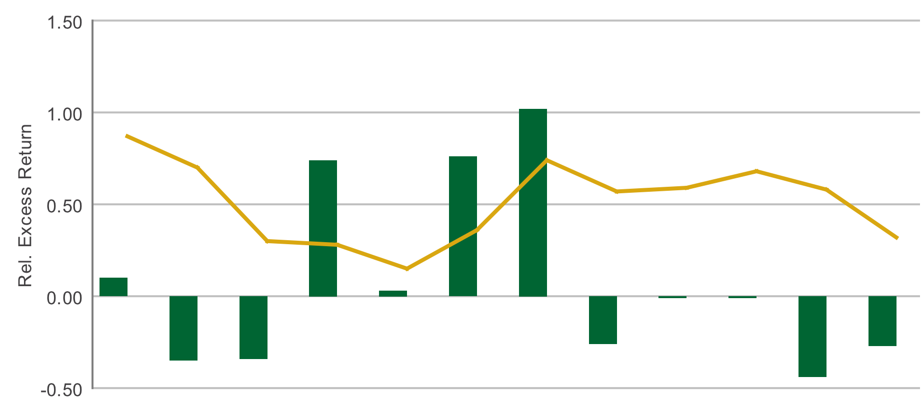
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
Fund	-1.39	-2.48	3.30	2.32	4.64	5.96	3.85	2.88	0.94	1.59	3.08	-2.60
Index	-1.48	-2.14	3.64	1.57	4.61	5.17	2.79	3.14	0.95	1.60	3.53	-2.34

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
3M R.Excess	0.10	-0.35	-0.34	0.74	0.03	0.76	1.02	-0.26	-0.01	-0.01	-0.44	-0.27
3Y R.Excess	0.87	0.70	0.30	0.28	0.15	0.36	0.74	0.57	0.59	0.68	0.58	0.32

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	**1,013,570,103**	**100.00**	**-2.60**	**-2.34**	**-0.27**	**-2.60**	**-2.34**	**-0.27**	**2.96**	**3.71**	**-0.73**
Total Plan Benchmark											
AEW UK	**54,360,982**	**5.36**	**2.43**	**1.90**	**0.52**	**2.43**	**1.90**	**0.52**	**14.29**	**10.05**	**3.85**
LBH22 AEW Benchmark											
JP Morgan	**56,311,723**	**5.56**	**-0.38**	**0.87**	**-1.24**	**-0.38**	**0.87**	**-1.24**	**3.09**	**3.41**	**-0.31**
LBH15 JPM LIBOR +3%pa											
Legal & General 1	**229,282,791**	**22.62**	**-4.03**	**-4.05**	**0.02**	**-4.03**	**-4.05**	**0.02**	**2.11**	**2.24**	**-0.13**
LBH26 L&G Benchmark											
Legal & General 2	**66,556,081**	**6.57**	**-1.29**	**-1.25**	**-0.04**	**-1.29**	**-1.25**	**-0.04**	**5.04**	**5.38**	**-0.32**
LBH27 L&G Benchmark											
M&G Investments	**15,363,766**	**1.52**	**1.71**	**1.11**	**0.59**	**1.71**	**1.11**	**0.59**	**10.23**	**4.41**	**5.58**
LBH10 3 Month LIBOR +4%pa											
Macquarie	**27,421,776**	**2.71**	**1.29**	**0.87**	**0.42**	**1.29**	**0.87**	**0.42**	**9.33**	**3.41**	**5.72**
LBH14 Macquarie LIBOR +3%pa											
Newton	**0**	**0.00**	-	-	-	-	-	-	-	-	-
LBH19 FTSE World Index +2%											
Premira Credit	**58,117,260**	**5.73**	**2.13**	**1.11**	**1.01**	**2.13**	**1.11**	**1.01**	**7.83**	**4.41**	**3.27**
LBH24 Premira LIBOR +4%pa											
UBS	**133,132,863**	**13.14**	**-4.68**	**-6.87**	**2.36**	**-4.68**	**-6.87**	**2.36**	**4.31**	**1.25**	**3.02**
LBH04 UBS Benchmark											
UBS Property	**75,192,170**	**7.42**	**1.67**	**1.90**	**-0.23**	**1.67**	**1.90**	**-0.23**	**8.31**	**10.05**	**-1.58**
LBH06 UBS Property Benchmark											
Adam Street	**13,206,247**	**1.30**	**0.70**	**-3.39**	**4.23**	**0.70**	**-3.39**	**4.23**	**3.37**	**6.62**	**-3.05**
Adam Street PE Bmark											
LGT	**6,340,061**	**0.63**	**1.14**	**-3.39**	**4.69**	**1.14**	**-3.39**	**4.69**	**15.21**	**6.62**	**8.05**
LGT PE Bmark											
Epoch Investment P Income	**129,750,098**	**12.80**	**-7.57**	**-4.80**	**-2.91**	**-7.57**	**-4.80**	**-2.91**	-	-	-
LBH11001 MSCI World ND											
London CIV Ruffer	**103,276,776**	**10.19**	**-2.55**	**0.12**	**-2.67**	**-2.55**	**0.12**	**-2.67**	**-1.12**	**0.41**	**-1.52**
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	**7.42**	**7.08**	**0.32**	**7.92**	**7.56**	**0.33**	**7.03**	**6.92**	**0.11**	**30/09/1995**
AEW UK LBH22 AEW Benchmark	**10.85**	**8.57**	**2.10**	-	-	-	**11.84**	**10.03**	**1.64**	**30/06/2014**
JP Morgan LBH15 JPM LIBOR +3%pa	**4.06**	**3.60**	**0.44**	**3.47**	**3.58**	**-0.11**	**3.99**	**3.63**	**0.34**	**08/11/2011**
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	**5.26**	**5.26**	**0.00**	**31/10/2016**
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	**6.35**	**6.66**	**-0.29**	**22/02/2017**
M&G Investments LBH10 3 Month LIBOR +4%pa	**10.61**	**4.59**	**5.76**	**9.14**	**4.58**	**4.36**	**7.58**	**4.67**	**2.79**	**31/05/2010**
Macquarie LBH14 Macquarie LIBOR +3%pa	**17.74**	**3.59**	**13.66**	**12.37**	**3.58**	**8.49**	**4.66**	**3.66**	**0.97**	**30/09/2010**
Newton LBH19 FTSE World Index +2%	-	-	-	-	-	-	-	-	-	**24/01/2013**
Premira Credit LBH24 Premira LIBOR +4%pa	**9.92**	**4.59**	**5.10**	-	-	-	**9.36**	**4.55**	**4.60**	**30/11/2014**
UBS LBH04 UBS Benchmark	**8.99**	**5.86**	**2.95**	**9.83**	**6.59**	**3.05**	**10.10**	**8.66**	**1.32**	**31/12/1988**
UBS Property LBH06 UBS Property Benchmark	**8.83**	**8.06**	**0.71**	**11.31**	**10.49**	**0.74**	**3.99**	**3.94**	**0.05**	**31/03/2006**
Adam Street Adam Street PE Bmark	**11.54**	**14.68**	**-2.74**	**14.05**	**14.98**	**-0.81**	**6.34**	-	-	**31/01/2005**
LGT LGT PE Bmark	**21.14**	**14.68**	**5.63**	**14.89**	**14.98**	**-0.08**	**10.85**	-	-	**31/05/2004**
Epoch Investment P Income LBH11001 MSCI World ND	-	-	-	-	-	-	**-8.41**	**-5.20**	**-3.38**	**08/11/2017**
London CIV Ruffer LBH11003 Ruffer BM Libor	**2.87**	**0.59**	**2.27**	**4.23**	**0.59**	**3.62**	**5.48**	**0.81**	**4.63**	**28/05/2010**

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

Account/Group	31/12/2017 Market Value	31/12/2017 Weight	Net Contribution*	Income	Fees	Appreciation	31/03/2018 Market Value	31/03/2018 Weight	Change in Weight
London Borough of Hillingdon	**1,008,836,599**	**100.00**	**31,042,738**	**4,834,001**	**8,373**	**-31,143,235**	**1,013,570,103**	**100.00**	**0.00**
AEW UK	53,072,998	5.26	0	716,927	0	571,056	54,360,982	5.36	0.10
JP Morgan	56,529,035	5.60	0	0	0	-217,312	56,311,723	5.56	-0.05
Legal & General 1	238,916,988	23.68	-4,440	0	4,440	-9,629,756	229,282,791	22.62	-1.06
Legal & General 2	67,428,860	6.68	-3,933	0	3,933	-868,846	66,556,081	6.57	-0.12
M&G Investments	15,103,419	1.50	2,319	3,219	0	254,809	15,363,766	1.52	0.02
Macquarie	27,071,739	2.68	0	12	0	350,026	27,421,776	2.71	0.02
Newton	0	0.00	0	0	0	0	0	0.00	0.00
Premira Credit	55,632,218	5.51	1,300,000	983,645	0	201,397	58,117,260	5.73	0.22
UBS	139,662,286	13.84	0	1,089,631	0	-7,619,054	133,132,863	13.14	-0.71
UBS Property	73,960,152	7.33	0	623,084	0	608,935	75,192,170	7.42	0.09
Adam Street	14,382,397	1.43	-1,222,046	4,018	0	41,878	13,206,247	1.30	-0.12
LGT	7,594,764	0.75	-1,317,900	-18	0	63,215	6,340,061	0.63	-0.13
Cash & Other Assets	13,120,894	1.30	32,288,738	28,495	0	-180,621	45,257,507	4.47	3.16
Epoch Investment P Income	140,383,728	13.92	0	686,478	0	-11,320,108	129,750,098	12.80	-1.11
London CIV Ruffer	105,977,118	10.50	0	698,473	0	-3,398,816	103,276,776	10.19	-0.32
Cash & Other Assets	0	0.00	0	0	0	0	0	0.00	-0.00
Transition	4	0.00	0	36	0	-36	4	0.00	-0.00

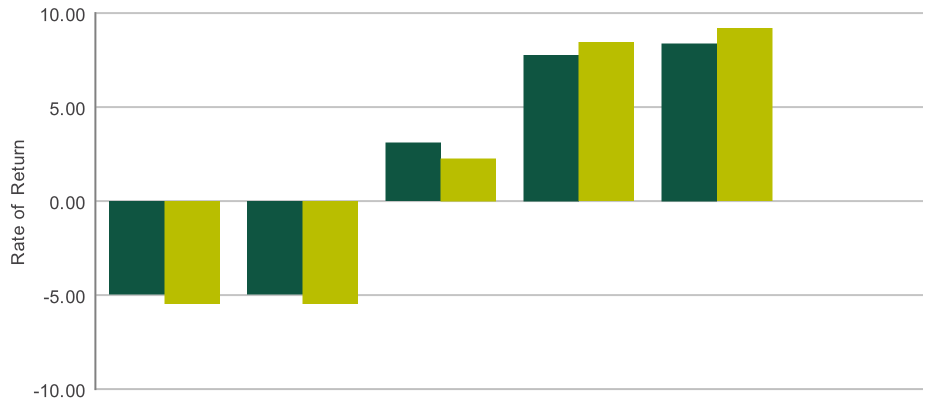
Min -1.11 … 3.16 Max

**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

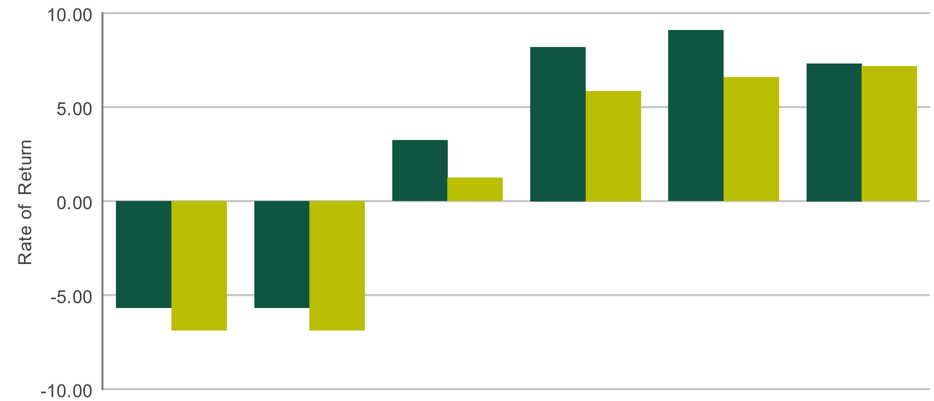


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-4.95	-4.95	3.11	7.77	8.38	-
Index	-5.46	-5.46	2.27	8.45	9.19	-

Index: Total Equity Benchmark

Page 129

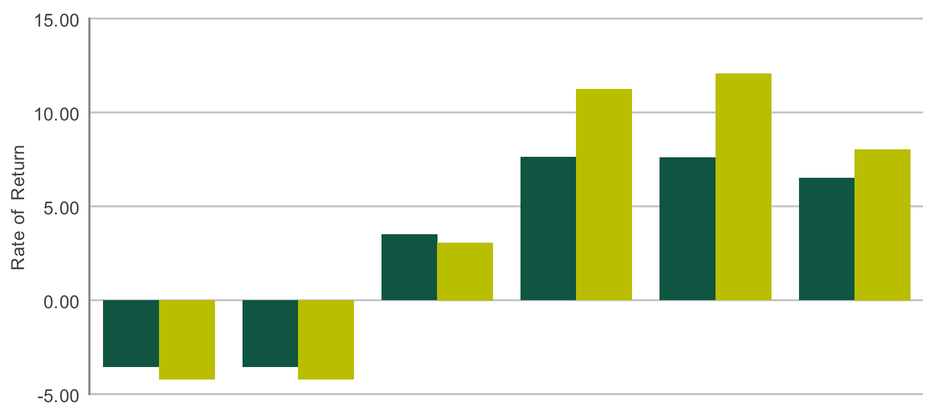
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-5.67	-5.67	3.24	8.20	9.08	7.32
Index	-6.87	-6.87	1.25	5.86	6.59	7.17

Index: FTSE All Share UK Equity

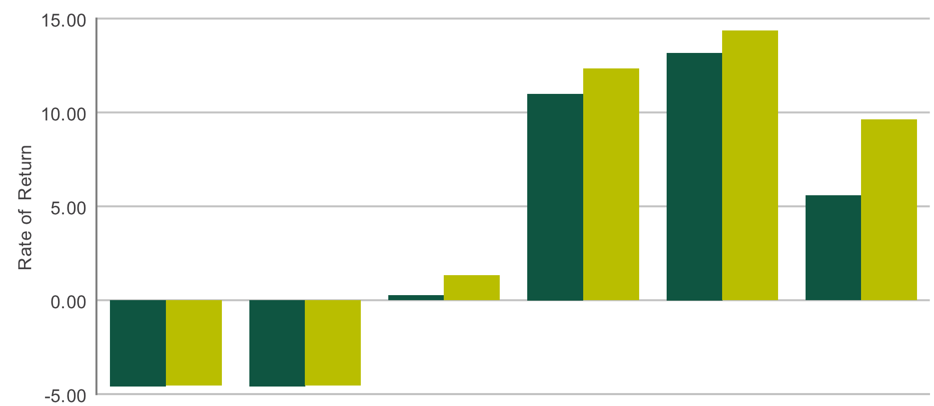
OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-3.56	-3.56	3.50	7.62	7.60	6.51
Index	-4.22	-4.22	3.06	11.25	12.07	8.04

Index: Total O'seas Equity Benchmark

NORTH AMERICA

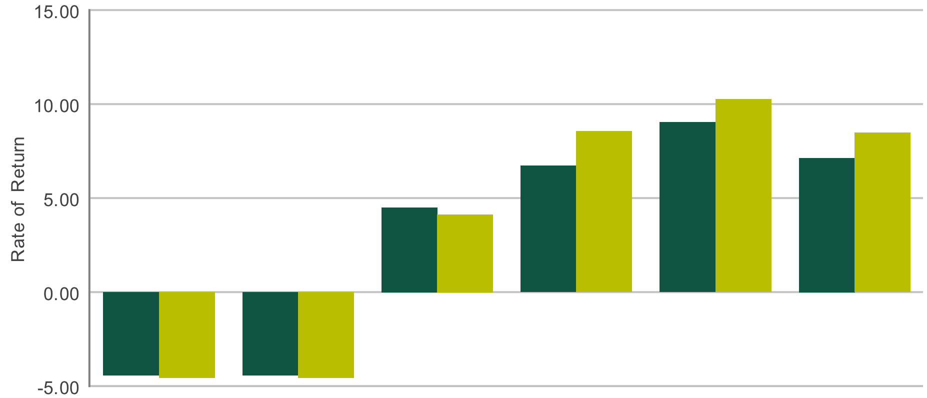


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-4.59	-4.59	0.25	10.99	13.17	5.58
Index	-4.54	-4.54	1.33	12.33	14.36	9.62

Index: FTSE North America

Historical Performance

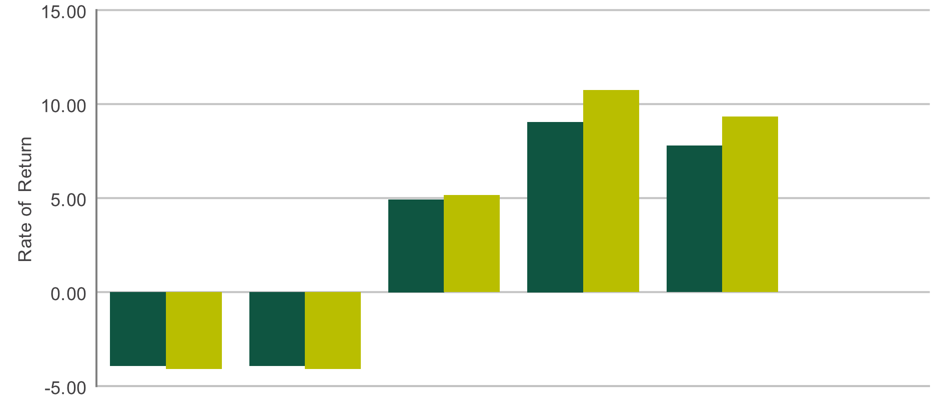
EUROPE EX UK



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-4.44	-4.44	4.50	6.72	9.04	7.13
Index	-4.57	-4.57	4.13	8.56	10.26	8.48

Index: FTSE AW Dev Europe ex UK

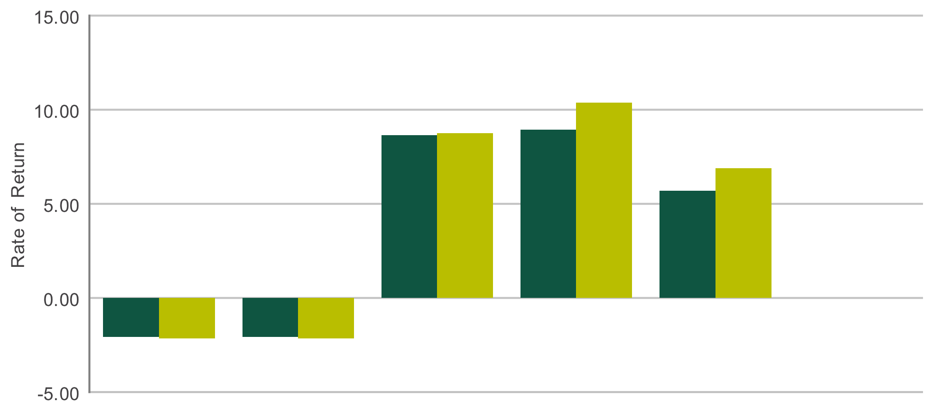
ASIA PACIFIC INC JAPAN



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-3.93	-3.93	4.93	9.05	7.79	-
Index	-4.07	-4.07	5.16	10.73	9.32	-

Index: FTSE AW Dev Asia Pacific

EMERGING MARKETS

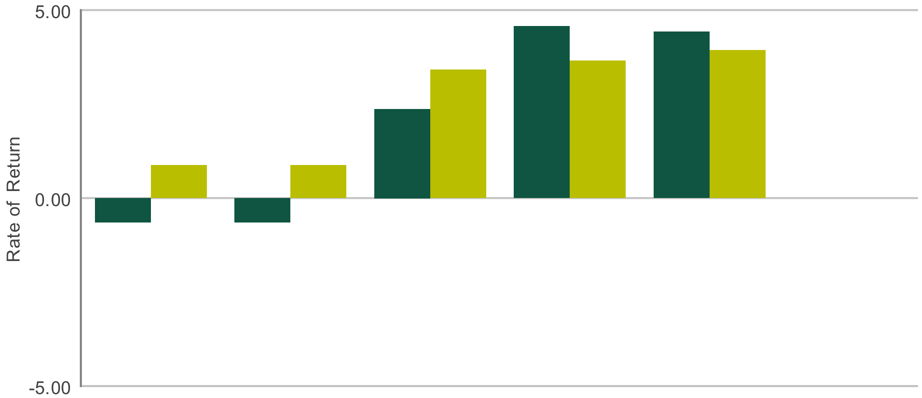


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-2.06	-2.06	8.63	8.93	5.68	-
Index	-2.15	-2.15	8.75	10.36	6.88	-

Index: LBH Emerging Markets

Historical Performance

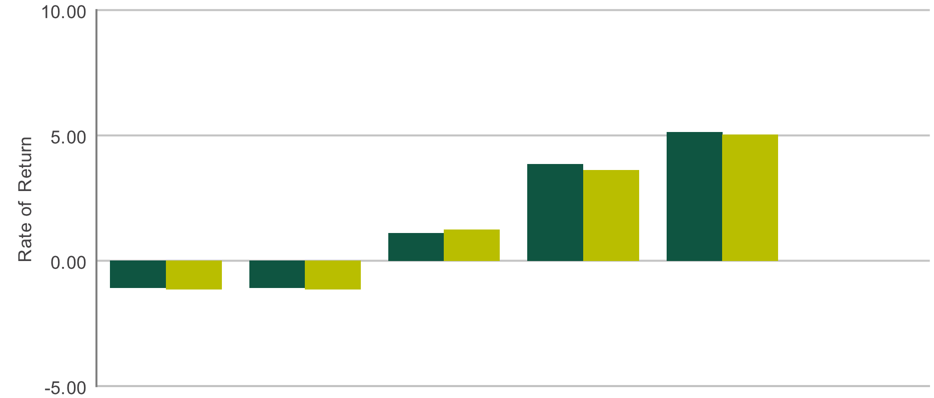
FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.64	-0.64	2.37	4.57	4.42	-
Index	0.87	0.87	3.41	3.65	3.93	-

Index: LBH Fixed Income Benchmark

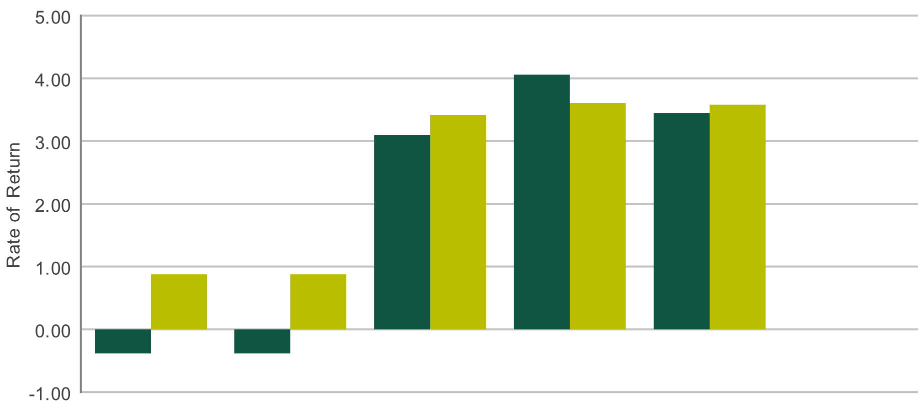
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-1.09	-1.09	1.10	3.87	5.14	-
Index	-1.15	-1.15	1.24	3.63	5.03	-

Index: LBH Non-Gilts Benchmark

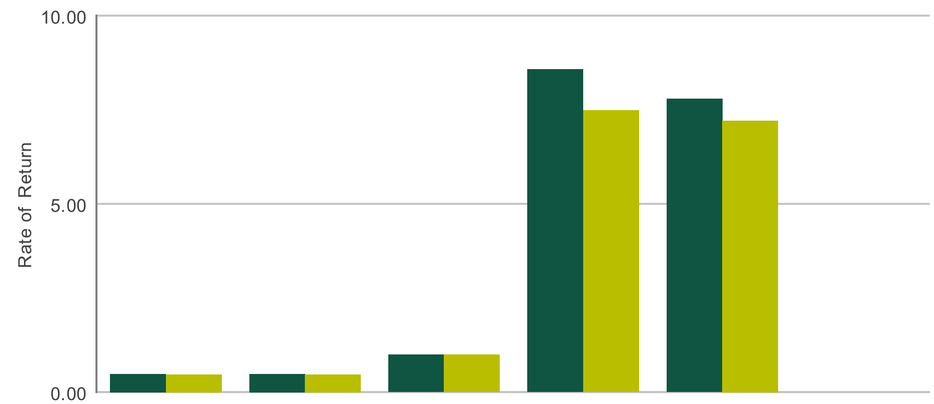
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.38	-0.38	3.09	4.06	3.44	-
Index	0.87	0.87	3.41	3.60	3.58	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

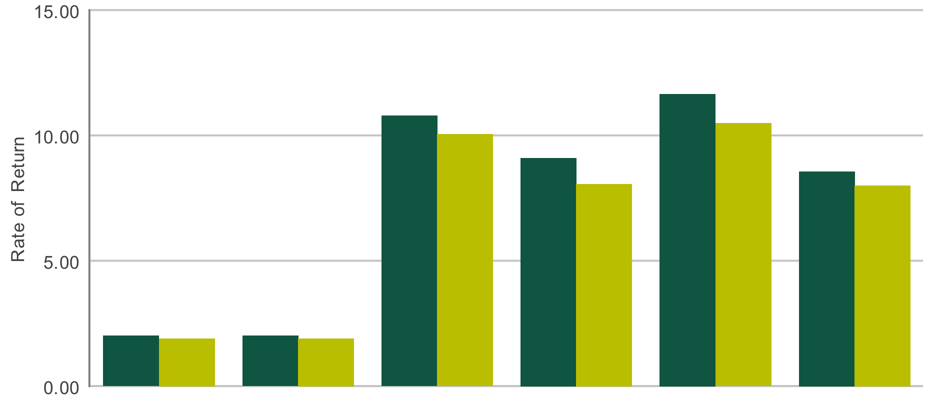


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.48	0.48	0.99	8.57	7.79	-
Index	0.47	0.47	0.99	7.48	7.21	-

Index: LBH Index Linked Benchmark

Historical Performance

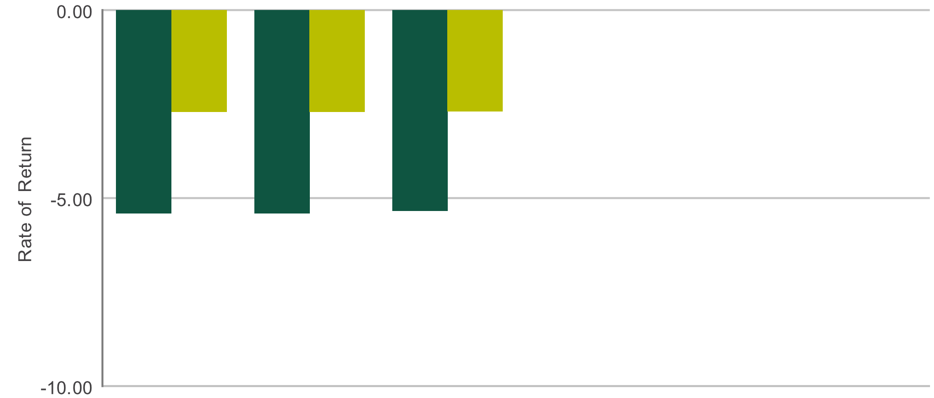
REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.01	2.01	10.78	9.10	11.65	8.56
Index	1.90	1.90	10.05	8.06	10.49	8.00

Index: IPD UK PPFI All Bal Funds Index

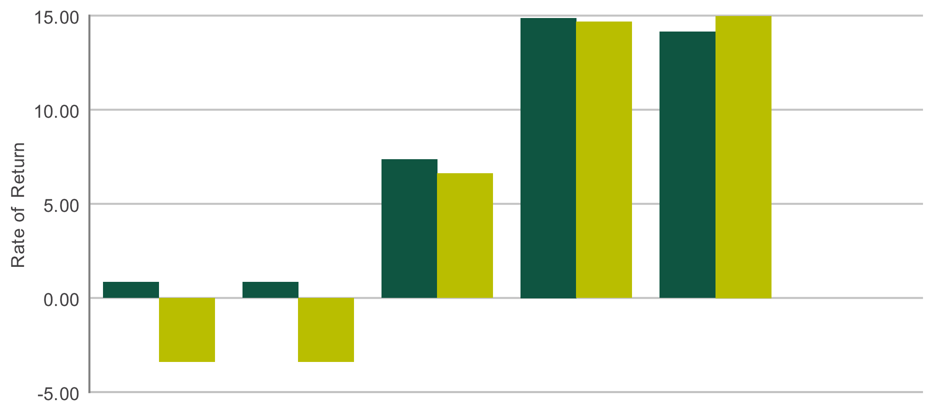
BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-5.41	-5.41	-5.34	-	-	-
Index	-2.70	-2.70	-2.69	-	-	-

Index: Balanced Fund Benchmark

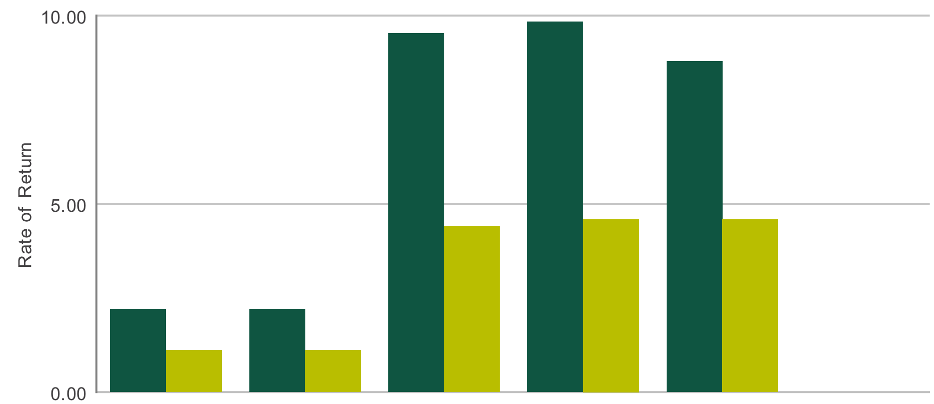
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.85	0.85	7.36	14.87	14.14	-
Index	-3.39	-3.39	6.62	14.68	14.98	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.20	2.20	9.53	9.84	8.79	-
Index	1.11	1.11	4.41	4.59	4.58	-

Index: LIBOR GBP 3 Month +4% pa

Benchmark Composition

...

Total Plan Benchmark

2.21	MSCI All Countries World Index + 4%
1.42	FT Japan
2.45	FT North America
1.00	FTSE Developed Asia Pacific ex Japan
2.46	FTSE Developed Europe ex UK
1.74	FTSE Developed GBP Hedged
22.57	FTSE All Share
1.71	FTSE Index Linked Gilts
4.81	FTSE Index Linked Gilts15+ Years
2.44	FTSE Emerging Markets
12.62	IPD UK PPFI All Balanced Funds Index
7.21	3 Month LIBOR +4%pa
10.67	3 Month LIBOR
8.44	3 Month LIBOR +3%pa
14.22	MSCI World
0.86	LIBID 7 Day
3.17	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
23.[illegible]7 FTSE Index Linked Gilts15+ Years
25.[illegible]9 FTSE Emerging Markets
24.[illegible]4 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

Agenda Item 7

Pensions Administration Report	

Contact Officers	Ken Chisholm, 01895 250847
Papers with this report	KPI report

SUMMARY

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

Attached to the report is the latest KPI Report from Surrey CC.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note this report**
2. **Ratify the appointment of JLT to carry out GMP reconciliation work for the fund**

INFORMATION

Surrey Administration Update

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

The year-end process is now completed and all information checked and sent to SCC. During the process, approximately 1300 records were discovered where no previous pay details had been recorded, or the member has left employment and the administration system had not been updated. The majority of these cases were legacy cases from the previous administrators. The in-house team are working to clear these records.

The introduction of the LGPS (Amendment) Regulations 2018 came into force on 14 May 2018. These regulations created a retrospective effect on the timing of when members with Deferred Benefits can elect to receive payment of their benefits. As a result of these changes, Deferred Members Annual Benefit statements were not processed as early as previously expected. Details of the changes will be included in the notes to Deferred Benefit members when statements are sent, and has been published on our pensions website. Deferred Benefit statements are now due to be produced in July.

GMP Reconciliation

The Pension Fund has until October 2018 to identify and analyse differences between administration records and HMRC records for GMP pensions with all queries raised with HMRC before this date.

The Hillingdon fund have appointed JLT Benefit Solutions Limited to carry out a GMP reconciliation of all pension fund members records with HMRC records to ensure members of the fund have a correct and reconciled GMP. This work will be broken down into 3 stages –
Stage 2 Bulk reconciliation
Stage 3 Individual reconciliation
Stage 4 Rectification

The contract was called down from the National ' Local Government Pension Service (LGPS)' Framework for Third Party Administration Services, Lot 2 - Pensions Administration Support Services. Work has commenced with the first queries being sent to HMRC in the first week of July.

Key Performance Indicators from December 2017 to May 2018.

The attached report shows that SCC are maintaining their performance, and in some areas are showing an improvement in their performance. However, in the month of May there were 3 complaints made, which is an increase when compared to the previous 6 months. Having investigated the reason for these complaints, 2 were in relation to estimates being provided late, and 1 regarding the delay in making payment of a transfer value.

Hillingdon Process update

The in-house team have continued to update and amend records as part of the overall data cleanse. The Team Leader from Surrey CC and one of the internal team attended the last Schools Forum meeting to discuss any issues arising from schools in relation to provision of pensions. Schools were reminded of their responsibilities under the Scheme Regulations and were offered the opportunity of requesting a site visit by a member of the internal team. A number of schools have taken up this offer, and since April this year, 5 schools have been visited

The transfer of members from Harrow College, which has merged with Uxbridge College, has taken place. All scheme records have been transferred on to SCC’s system. SCC will be responsible for payment of the monthly pensions to ex-Harrow College pensioners from July 2018.

SCC have appointed a Pensions Delivery Service Manager, who will attend the quarterly Pension Administration Review meetings, the next which is due on 26 July.

General Data Protection Regulations

New General Data Protection Regulation (GDPR) came into force on Friday 25 May 2018. All Privacy Notices and Memorandums of Understanding were uploaded to our website and sent to Scheme Employers before the 25 May 2018.

FINANCIAL IMPLICATIONS

There are no financial implications within this report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

This page is intentionally left blank

Hillingdon Pensions Administation - Key Performance Indicators June 2018

Activity	Measure	Impact	Target	Jan-18		Feb-18		Mar-18		Apr-18		May-18		Jun-18		Commentary (June)
				Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	
Death notification acknowledged, recorded and documentation sent	5 working days	M	**100%**	10	**100%**	14	**100%**	16	**94%**	17	**100%**	14	**100%**	15	**73%**	**4 cases late**
Payment of death grant made	10 working days	H	**100%**	2	**100%**	6	**100%**	7	**100%**	4	**100%**	2	**100%**	4	**100%**	
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	**100%**	66	**80%**	45	**100%**	24	**96%**	25	**100%**	27	**96%**	25	**88%**	**3 cases late**
Payment of lump sum made	10 working days	H	**100%**	26	**96%**	33	**97%**	18	**100%**	22	**100%**	26	**100%**	22	**95%**	**1 case late**
Calculation of spouses benefits	10 working days	M	**100%**	10	**70%**	5	**80%**	3	**100%**	3	**100%**	5	**80%**	3	**66%**	**1 case late**
Transfers In - Quotes	20 working days	L	**100%**	10		14		11		6		3	**100%**	1	**100%**	**Workflow is still being reviewed for this process as timings measure only end to end process**
Transfers In - Payments	20 working days	L	**100%**	1	**100%**	1	**100%**	0	**N/A**	0	**N/A**	0	**N/A**	0	**N/A**	
Transfers Out - Quote	20 working days	L	**100%**	15	**60%**	28	**36%**	34	**53%**	13	**100%**	25	**88%**	12	**100%**	
Transfers Out - Payments	20 working days	L	**100%**	13	**69%**	11	**100%**	2	**100%**	3	**100%**	10	**80%**	3	**66%**	**1 case late**
Employer estimates provided	10 working days	M	**100%**	8	**100%**	5	**100%**	2	**100%**	3	**100%**	2	**100%**	11	**100%**	
Employee projections provided	10 working days	L	**100%**	3	**100%**	7	**86%**	5	**60%**	2	**100%**	2	**100%**	9	**100%**	
Refunds	20 working days	L	**100%**	6	**83%**	2	**100%**	3	**100%**	3	**100%**	5	**100%**	3	**100%**	
Deferred benefit notifications	20 working days	L	**100%**	43	**74%**	62	**71%**	77	**67%**	30	**83%**	36	**92%**	17	**88%**	**2 cases late**
Complaints received- Admin				1		1		1		0		3		4		
Complaints received- Regulatory				0		0		0		0		0		0		
Compliments received				1		0		0		0		0		0		
Queries Handled by Helpdesk				585		520		572		547		589		604		

This page is intentionally left blank

Pension Fund Risk Register	ITEM x

Contact Officers	Sian Kunert, 01895 556578
Papers with this report	Pension Fund Risk Register Q4

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).

OPTIONS AVAILABLE TO PENSION COMMITTEE

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

Information

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

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

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

There have been no changes in the risks from quarter 3.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

This page is intentionally left blank

Pension Fund Risk Register 2017/18 Q4

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

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 04 - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits, the escalation of pensionable payroll costs, which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.	The impact of pay and price inflation is monitoried as part of the Council's MTFF processes and any potential impact on pension fund contributions is kepty under review and factored into the Council's overall position. However, there is an increasing likliehood of rising inflation impacting on the overall liabilities of the Fund however the risk rating takes this into account.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3 (Static)**	Sian Kunert / Cllr P Corthorne
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a 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

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

This page is intentionally left blank

Attributes:

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

IMPACT

Attributes:

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank