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Pensions Committee

Date: **WEDNESDAY, 17 JULY 2019**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 6 - CIVIC CENTRE, HIGH STREET, UXBRIDGE**

Meeting Details: Members of the Public and Media are welcome to attend.

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To Members of the Committee:

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

Published: Tuesday, 9 July 2019

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Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
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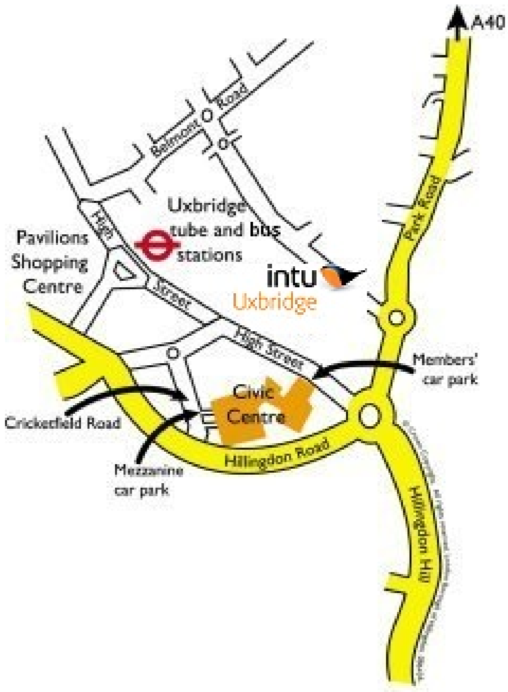

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Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

Minutes

PENSIONS COMMITTEE

9 May 2019

Meeting held at Council Chamber - Civic Centre, High Street, Uxbridge

	Committee Members Present: Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Teji Barnes Tony Eginton John Morse (Labour Lead)	
1.	**ELECTION OF CHAIRMAN** *(Agenda Item 1)* **RESOLVED: That Councillor Goddard be elected as Chairman of the Pensions Committee for the 2019/20 municipal year.**	**Action by**
2.	**ELECTION OF VICE-CHAIRMAN** *(Agenda Item 2)* **RESOLVED: That Councillor Corthorne be elected as Vice-Chairman of the Pensions Committee for the 2019/20 municipal year.**	**Action by**
	The meeting, which commenced at 9.10 pm, closed at 9.15 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nikki O'Halloran on 01895 250472. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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Minutes

PENSIONS COMMITTEE

20 March 2019

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

	Committee Members Present: Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse **LBH Officers Present**: Tunde Adekoya, Pension Fund Accountant Hayley Seabrook, Senior HR Operations Support Officer Sian Kunert, Head of Pensions, Treasury and Statutory Accounts Liz Penny, Democratic Services Officer **Also Present**: Andrew Singh, KPMG Representative
29.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Paul Whaymand (Corporate Director of Finance), Tony Noakes (Pensions Board Member), Zak Muneer (Pensions Board Member), Roger Hackett (Pensions Board Member) and James Lake (Lead Corporate Accountant)
30.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Philip Corthorne declared a Non-Pecuniary interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion of the items. Councillor Teji Barnes declared a Non-Pecuniary interest in all agenda items because she was a deferred member of the Local Government Pension Scheme. She remained in the room during discussion of the items. Councillor Tony Eginton declared a Non-Pecuniary interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion of the items.
31.	**MINUTES OF THE MEETING - 21 JANUARY 2019** *(Agenda Item 3)* It was noted that Paul Whaymand's and Tunde Adekoya's names had been duplicated within the attendance section of the minutes dated 21 January 2019. It was agreed that this would be amended. **RESOLVED That: the minutes of the meeting dated 21 January 2019 be approved**

	as an accurate record, subject to the correction of the two duplicated names in the attendance section.
32.	**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 all items marked Part I would be considered in public and those marked Part II would be considered in private.
33.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I** *(Agenda Item 5)* This item was preceded by a training item from KPMG on Inflation. Key points highlighted included:- • Inflation was the rate of increase in prices for goods and services; • The retail price index (RPI) and the consumer price index (CPI) were common measures of inflation within the UK; • RPI and CPI measures were calculated using different methodologies; • RPI had been gradually discredited as a suitable measure of inflation but continued to be used widely, mainly for legacy reasons; • Many gilts were linked to RPI; • Over recent years, RPI had been around 1% higher than CPI; • Key drivers of RPI were housing, food and fuel; • The bulk of the Hillingdon Fund's pension payments were linked to inflation measured by CPI; • A spike in long-term inflation expectations would result in a sharp rise in the value placed on the Fund's liabilities; • This was one of the biggest risks the Fund was exposed to; • To combat risk, some asset classes provided a return profile which was directly linked to the level of inflation - these were inflation-linked bonds, long lease property and infrastructure; • UK index-linked gilts provided a return directly linked to UK RPI. There were very few CPI-linked bonds; • UK index-linked gilts provided a good hedge for UK pension funds; • US Treasure Inflation-Protection Securities (TIPS) were an alternative option for inflation protection but provided a less efficient hedge against UK inflation which the Hillingdon Fund was exposed to. Members requested clarification regarding the low return on investment in index-linked bonds. Andrew Singh, KPMG advisor, informed the Committee that there was a good rationale for holding gilts as they provided protection against inflation as a risk; it was important to have a balance and index-linked bonds were the 'ballast' in the asset allocation while equities and private credit drove the return. Given that the US dollar was stronger than sterling at present, Councillors enquired whether investment in TIPs was really such a risk. It was explained that it was more expensive to hedge US TIPS back to UK currency. It was agreed that Sian Kunert, Head of Pensions, Treasury and Statutory Accounts, would set up an online area where all KPMG training items would be stored together. Consideration was given to the Investment Strategy and Fund Manager Performance

Report. It was confirmed that the total size of the Fund was now £1,044m. In response to Members' enquiries, it was confirmed that Ruffer had performed better in recent months; the situation would be reassessed in July 2019.

Committee Members commented on the statutory guidance regarding asset pooling in Pensions Funds. The steer was that Pensions Funds needed to accelerate investment into the pool. At present the Hillingdon Fund had a reasonable amount of flexibility but it was felt this would diminish as more funds were invested in the London CIV.

RESOLVED That the Committee:

1. **Considered and discussed issues raised in the training item;**
2. **Discussed the Fund performance update and agreed required decisions in respect of mandates or Fund Managers;**
3. **Agreed to invest 5% of DGF allocation in UK IL bonds through LGIM passive portfolio;**
4. **Deferred a decision on investment in the London CIV Infrastructure sub fund pending resolution of outstanding matters;**
5. **Delegated the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

34. **ADMINISTRATION REPORT** *(Agenda Item 6)*

The report provided an update on the administration of the London Borough of Hillingdon Fund of the LGPS, both in relation to Surrey County Council (SCC) and internally at Hillingdon.

Members were informed that there was positive news on the resourcing front; an interim Lead Pensions Manager had been recruited to help manage the contract. A breach was to be reported to the regulator as one member of the scheme had not received their pension on time. An investigation was underway to ascertain if there were any further cases like this; it was thought there could be a few other cases. This was a failing by Capita not Surrey County Council. It was vital that Surrey did not repeat the mistakes of Capita.

RESOLVED That: the report be noted.

35. **RISK MANAGEMENT REPORT** *(Agenda Item 7)*

Members drew attention to risk factor PEN 04 on page 34 of the agenda (Pay and price inflation significantly more than anticipated). It was suggested that the impact of this risk would be large rather than medium. It was acknowledged that this was misleading and needed to be separated out. It was agreed that risk ratings were a judgement only and were not an exact science.

RESOLVED That Pensions Committee:

1. **Considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. There were no risks currently rated as red.**

36. **STEWARDSHIP CODE REVIEW AND UPDATE** *(Agenda Item 8)*

	The report provided an update on the revision of the UK Stewardship Code adherence by the London Borough of Hillingdon Pension Fund. Councillors were informed that the Financial Reporting Council (FRC) was consulting on a revised Code to encourage effective stewardship that operated in the interest of savers, companies, the economy, environment and society, reflected growing trends in investment and complemented recent and imminent regulatory changes. Once the changes had been finalised, Committee would be presented with a compliance review report for approval. Members requested clarification regarding the extent to which the Committee was consulted about voting intentions. This was unclear at present. It was agreed that more information was required for due diligence; this would be discussed offline and considered at a later date. It was noted that the fund was involved in stock lending. In response to Members' questions it was confirmed that 1% to 12% of assets with UBS could be loaned out; less than £30m. Such loans were highly collateralised and well-protected. **RESOLVED That: the contents of the paper be noted.**
37.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II** *(Agenda Item 9)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee received confidential information on the current market update which covered details on the current market climate and performance of various investment vehicles and updates on Managers' reports **RESOLVED: That the information be noted, together with the performance of Fund Managers.**
38.	**CONTRACT TENDER REPORT PART II** *(Agenda Item 10)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* **RESOLVED That: the report be noted.**
	The meeting, which commenced at 5.00 pm, closed at 5.55 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Liz Penny on 01895 250185. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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EXTERNAL AUDITOR REPORT on the PENSION FUND ACCOUNTS

Committee	Pensions Committee
Officer Reporting	Sian Kunert, Finance
Papers with this report	EY: Pension Fund Audit Results Report, year ended 31 March 2019 Pension Fund Accounts 2018/19

HEADLINES

The Draft Pension Fund Accounts for 2018/19 as taken from the Councils financial statements are attached to this report for Committee review, prior to the Councils Financial statements sign off at Audit Committee.

The attached draft report details the work of the External Auditor – EY, on the audit of the 2018/19 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 a small number of items yet to be completed.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note the EY's findings on the audit of the Pension Fund accounts for 2018/19.**

SUPPORTING INFORMATION

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. Whilst the Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Pensions Committee reviews them first. The Pension Fund Accounts also make up part of the Pension Fund Annual report, which will be brought to Pension Committee in October for formal approval. The Audit report on the Pension Fund accounts will be taken to Audit Committee on 22 July 2019.

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.

Areas of Audit focus consisted of:

- Risk of Management Override: Misstatements due to fraud or error
- Posting of Investment Journals: Misstatement due to fraud or error
- Risk of Incorrect Valuation of Investments
- London Collective Investment Vehicle
- Application of new IFRS standards

There are a number of outstanding items highlighted in Appendix B. An update on these items will be provided at the committee meeting.

In addition, the auditor requires a “Management Representation Letter” to be signed by management, outlined in Appendix C. The letter includes representations on matters material to the statement of accounts, where sufficient evidence cannot reasonably be expected to exist.

FINDINGS

At the time of reporting, there were no corrected material misstatements over the materiality threshold of £10.596 million. In addition there are no uncorrected misstatements to report over the reporting threshold of £0.530 million.

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 2019

8th July 2019

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8th July 2019

Dear Audit Committee and Pension Committee Members

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 2018/19.

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31st March 2019.
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 in section 3, before the 31st July 2019.

This report is intended solely for the use of the Audit Committee, Pensions 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 Audit Committee meeting on 22nd July 2019.

Yours faithfully

SPatel

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The ‘Terms of Appointment (updated April 2018)’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan tabled at the 6th February 2019 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 - We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £10.596m (previously £10.123 m). This results in updated performance materiality, at 75% of overall materiality, of £7.947 m, and an updated threshold for reporting misstatements of £0.530m.

Status of the audit

We have substantially completed our audit of Hillingdon Pension Fund's financial statements for the year ended 31st March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. For outstanding items see Appendix B.

In addition to the above, there is an ongoing national issue which may require a late change to the pension fund accounts and IAS26 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts have recognised this matter as a contingent liability. However, since the year-end there have been increasing indications that this may not be the correct treatment, and may need to be incorporated into the assessment of the scheme liabilities depending on the materiality of the issue. We will continue to liaise with officers on the outcome of this matter.

The Fund does not expect to complete its Annual Report by the end of July. As a result, we will not be in a position to issue the audit certificate at the same time as the audit opinion.

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Audit differences

There are currently no unadjusted or adjusted audit differences arising from our audit which we need to bring to your attention. We have identified a small number of audit differences in disclosures which have been adjusted by management. These all fall below the level at which we need to report them to you.

Further details of the thresholds which we apply to report audit differences can be found in Section 4.

As the audit is still ongoing it is possible that we will identify audit differences which we will need to bring to your attention. We will provide an update at the Audit Committee meeting on 22nd July.

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Hillingdon Pension Fund's financial statements, this report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

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

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. As we have gone through the audit, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement.

Independence

We have no new independence matters top report but provide an update on Independence at Section 9.

02 Areas of Audit Focus

Significant risk

Risk of Management Override: Misstatements due to fraud or error

What is the risk?

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.

What judgements are we focused on?

We focussed our testing on key areas of the accounts that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

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

Our journal entry testing did not identify any issues.

We have not identified any instances of management bias being applied to accounting estimates.

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

Significant risk

Misstatement due to Fraud & Error – Posting of investment journals

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.

There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

We focused on aspects of the financial statements related to investment journal entries as this area in particular is a manual process from receiving the investment report from the Custodian to inputting the results of the report into the accounting system.

What did we do?

Our approach focused on testing the appropriateness of manual journal entries recorded in the general ledger posting investment values ensuring:

- The amount is supported by the fund manager/custodian report;
- Correct authorisations have been obtained.

What are our conclusions?

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

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

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

We did not identify any evidence of inappropriate accounting for investment values.

Significant risk

Risk of Incorrect Valuation of Investments

What is the risk?

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 publicly 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.

What judgements are we focused on?

The proportion of the fund comprising these investment types in 2018/19 is at circa 10.8%, 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.

We have assessed that the risk of incorrectly valuing investments is high for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2019 is £113 million.

What did we do?

We:

- Assessed the competence of management experts;
- Reviewed the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- We reviewed the latest audited accounts for the relevant investment managers and ensured there are no matters arising that highlighted weaknesses in the funds valuation; and
- Performed analytical procedures and checking the valuation output for reasonableness against our own expectations.

What are our conclusions?

We have not identified any material weaknesses in controls of the investment managers or evidence of misstatement in the valuation of level 3 investments.

We have not identified any instances of inappropriate judgements being applied in the valuation of level 3 investments.

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

Other areas of audit focus

London Collective Investment Vehicle

Why is this an areas of audit focus?

The London Collective Investment Vehicle (CIV) invests the fund's money in a pool with other London Borough Pension Funds. As a result, the exact proportion of each investment in the vehicle that is held by Hillingdon Pension Fund is more complex to calculate.
This raises an uncertainty on the valuation of these investments to recognise.

What did we do and what management judgements did we focus on?

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We focused on:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used;
- Reviewing the basis for the separation of Fund assets and Vehicle assets and recalculated it to confirm accuracy; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations.

What are our conclusions?

We did not identify any evidence of incorrect accounting treatment for investments managed by the London CIV.

Other areas of audit focus

Application of new IFRS standards

Why was this an area of audit focus?

The 2018/19 edition of the Code introduces two substantial new financial reporting standards; IFRS 9 and IFRS 15.
There is a risk that these new standards have not been appropriately implemented by the Pension Fund.

What did we do and what management judgements did we focus on?

We reviewed:

- management's assessment of the classification and measurement of financial assets under IFRS 9, including review of the new expected credit loss impairment model and new disclosure requirements
- Management's assessment of the impact on revenue recognition as a result of the adoption of IFRS 15 - Revenue from Contracts with Service Recipient

What are our conclusions?

We concluded that management's assessment of the impact of the new standards was reasonable.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 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 2018/19.

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 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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.

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the London Borough of Hillingdon Statement of Accounts 2018/19 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.

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.

Draft audit report

Our opinion on the financial statements

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of Responsibilities 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 2018/19, 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, 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 and the London Borough of Hillingdon's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 any misstatements greater than £10.596 million which have been corrected by management during the course of our audit. There are no corrected misstatements to bring to your attention as at the date of this report.

We report to you any uncorrected misstatements greater than our nominal value of £0.530 million. There are no uncorrected misstatements to bring to your attention 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.

There are currently no uncorrected misstatements. We will provide an update at the Audit Committee meeting on 22nd July.

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 Statement of Accounts 2018/19 with the audited financial statements. Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the 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 put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

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

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

07 Data Analytics

Data analytics – Journals Testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

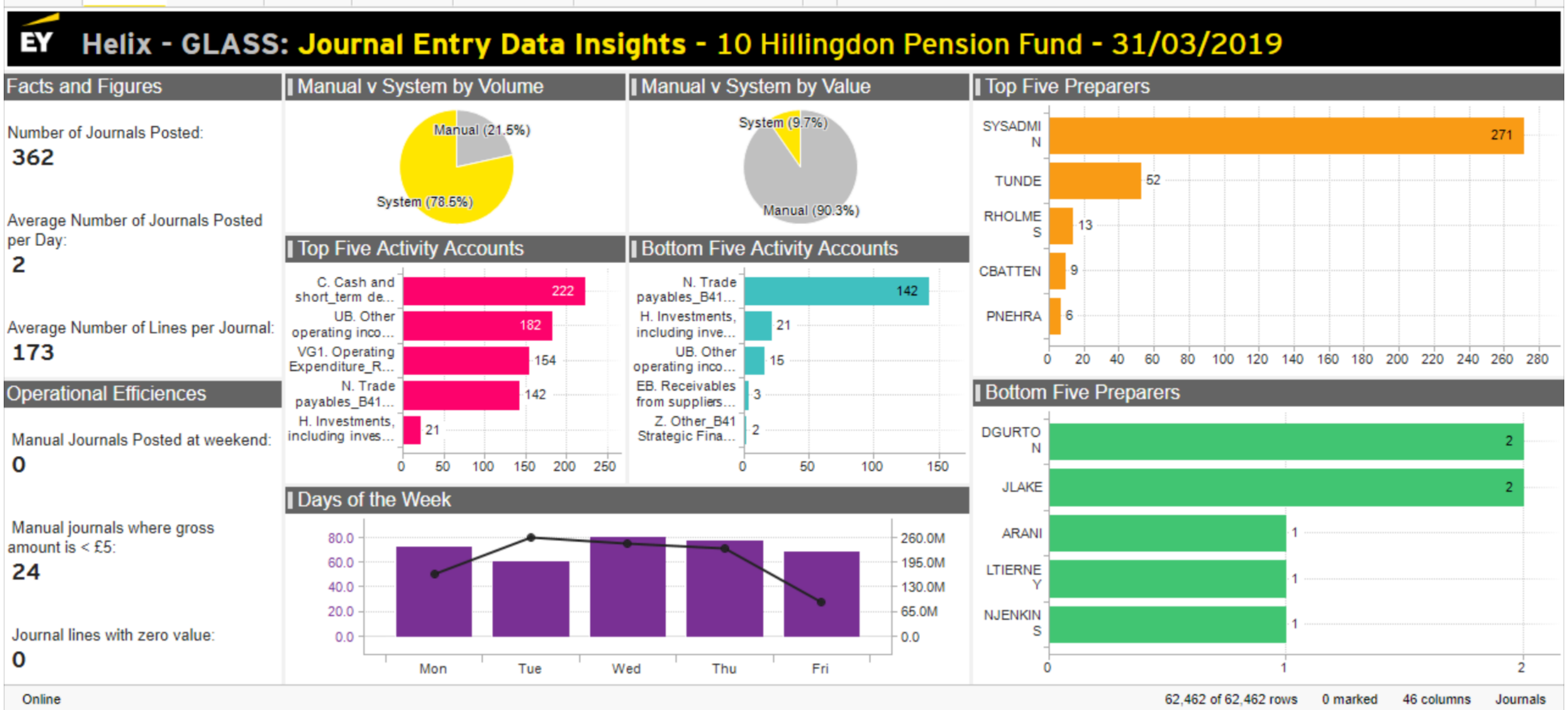
We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all LG 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 us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Journal Entry Data Insights

The graphic outlined below summarises the Pension Fund's journal population for 2018/19. 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 minimising randomly selected samples.



Journal Entry Testing

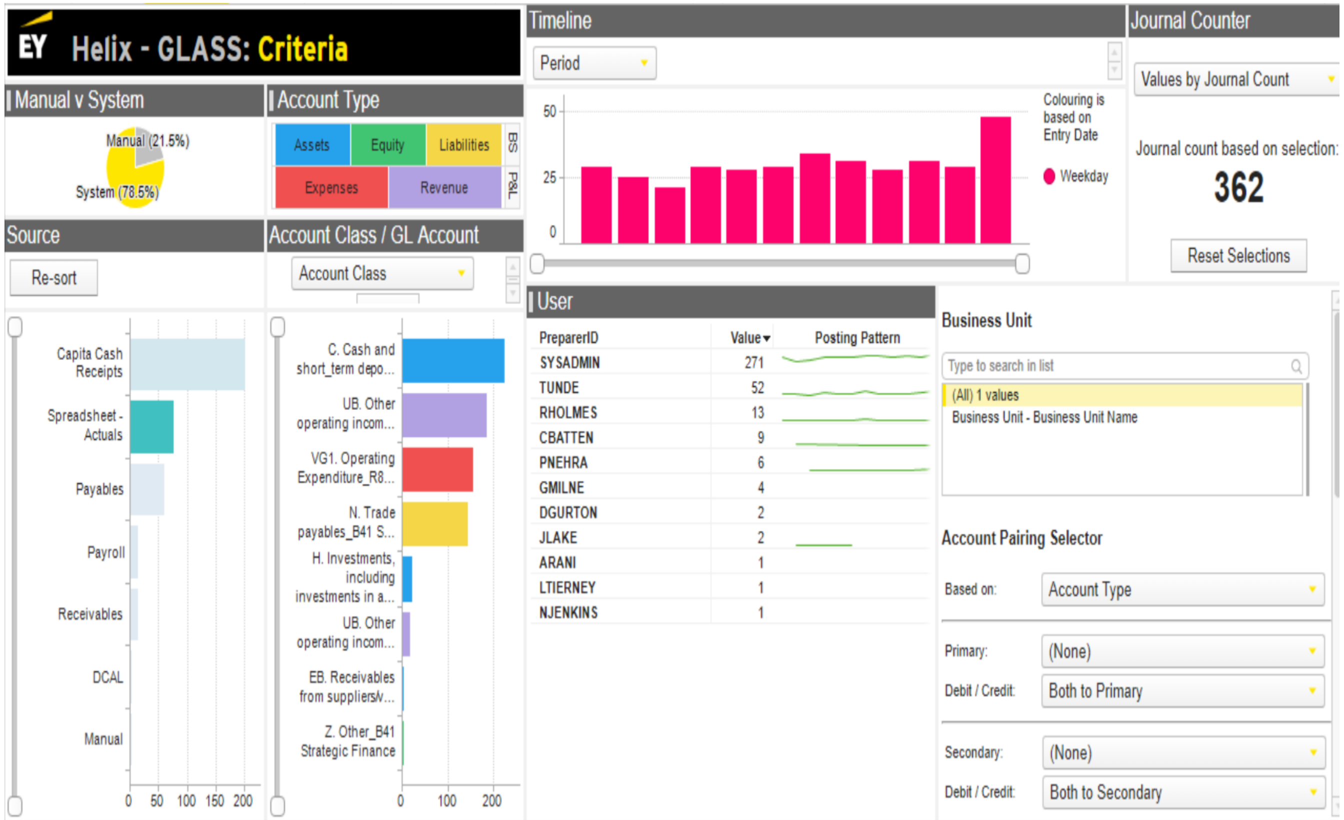
What is the risk?

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 – Hillingdon Pension Fund– 31 March 2019



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

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.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 6 February 2019.

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 the Audit Committee considers 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 22 July 2019.
The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1st April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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 2019.

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

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	TBC	16,170	16,170	21,000

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.

We will confirm the final fee at the end of the audit.

09 Appendices

Appendix A

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 on 6^{th} February 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report on 6^{th} February 2019
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 results report on 22^{nd} July 2019

Appendix A

Required communications	What is reported?	Our Reporting to you 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	No conditions or events were identified, either individually or together to raise any doubt about London Borough of Hillingdon 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 on 22nd July 2019
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Committee meeting on the 22nd July 2019
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 on 22nd July 2019

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**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 on 22nd July 2019
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 on 6th February 2019 and Audit results report on 22nd July 2019

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have not received the confirmation from Lloyds Bank. Alternative procedures performed instead.
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	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report on 22nd July 2019

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Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report on 6th February 2019 and Audit results report on 22nd July 2019
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 on 22nd July 2019
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 on 22nd July 2019
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report on 22nd July 2019
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 on 6th February 2019 and Audit results report on 22nd July 2019

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Review of the Annual Report and associated support for disclosures Incorporation of EY review comments on disclosure notes	EY and management
Bank Confirmations	Confirmation of bank confirmations	EY and management
Investments Valuation	Confirmation of post year adjustment figures Final confirmation from fund manager	EY and management
Level 3 Investments	Confirmation of final Level 3 Investment balances	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Suresh Patel
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Suresh,

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 2019. 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 2018 to 31st March 2019 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, 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 2018/19.

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 2018/19.
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 2018/19, 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 2018/19 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

Management representation letter

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 9th May 2019 and the Audit Committee on 9th May 2019.

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 2018/19.

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 2019 and dated April 2019 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 2018/19.

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 2018/19.

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

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Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2019 £'000	31 March 2018 £'000
Contributions	*4*	43,176	42,829
Transfers In from other pension funds	*5*	1,487	34,362
		44,663	**77,191**
Less: Benefits	*6*	(44,016)	(42,003)
Less: Payments to and on account of leavers	*7*	(2,626)	(3,297)
		(46,642)	**(45,300)**
Net additions/(withdrawals) from dealings with members		**(1,979)**	**31,891**
Less: Management expenses	*8*	(8,833)	(7,332)
Net additions/(withdrawals) including fund management expenses		**(10,812)**	**24,559**
Return on investments			
Investment income	*9*	22,732	15,289
Profit and losses on disposal of investments and changes in market value of investments	*10A*	35,501	15,834
Taxes On Income		(83)	(86)
Net return on investments		**58,150**	**31,037**
Net Increase in the fund during the year		**47,338**	**55,596**
Net Assets at start of year		**1,012,303**	**956,707**
Net Assets at end of year		**1,059,641**	**1,012,303**

NET ASSETS STATEMENT

	Note	31 March 2019 £'000	31 March 2018 £'000
Investment Assets	*10*	1,058,873	1,010,428
Investment Liabilities	*10*	(89)	(326)
Total net investments		**1,058,784**	**1,010,102**
Current Assets	*11*	1,424	2,480
Current Liabilities	*12*	(567)	(279)
Net assets of the fund available to fund benefits at the end of the reporting		**1,059,641**	**1,012,303**

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
30 May 2019

Notes to the 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.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

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

Admitted Bodies:

Braybourne Facilities
Bishop Ramsey Cleaners
Caterlink
Frays Academy
Caterplus
Churchill Services - Mitie & McMillan Cleaning
Cucina
Haydon Academy
Ruislip High School
Greenwich Leisure
Hayward Services
Ruislip Academy
Highfield Primary
Hillingdon Primary

Pabulum – *West Drayton Academy* (Start date April 2018)
Busy Bee Cleaning – *Skills Hub* (Start date August 2018)
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
Haydon Academy

Scheduled Bodies:

Middlesex Partnership Trust
Barnhill Academy
Belmore Academy

London Housing Consortium
Orchard Hill College Academy Trust
Skills HUB (formerly Hillingdon Tuition Centre)

Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Douay Martyrs Academy
Eden Academy Trust
Moorcroft School
Pentland Field School
Grangewood School
Elliot Foundation Trust
Hillingdon Primary School
John Locke Academy
Pinkwell School
Guru Nanak Academy Trust
Nanak Sar Primary School
Guru Nanak Sikh Academy
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
Young Peoples Academy
Park Federation Trust
Central Payroll
Cranford Park Academy
Lake Farm Park Federation
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
Vanguard Learning Trust
Ruislip High School
Ryefield Primary School
Vyners Academy
Stockley Academy
Swakeleys Academy
Uxbridge Academy
William Byrd School
Willows Academy

As at 31 March 2019, there were 9,015 active members contributing to the fund, with 6,881 members in receipt of benefit and 9,643 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2019	31 March 2018
Number of employers with active members	65	62
Number of employees in scheme		
London Borough of Hillingdon	5,613	5,401
Other employers	3,402	3,190
Total	**9,015**	**8,591**
Number of Pensioners		
London Borough of Hillingdon	6,294	6,106
Other employers	587	347
Total	**6,881**	**6,453**
Deferred Pensioners		
London Borough of Hillingdon	7,483	7,135
Other employers	2,160	1,375
Total	**9,643**	**8,510**

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, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e. Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2018/19:

Pensions Committee

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

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative)
Hayley Seabrook (Employer 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 2018/19, 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 2019.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2019).

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.

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 2019 was £113,288k (£114,879k at 31 March 2018).

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 the 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 £16,693k. 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 £28,035k. 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 £8,226k. 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 £60,294k. 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 2019 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.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	137
0.5% p.a. increase in the Salary Increase Rate	1%	22
0.5% p.a. decrease in the Real Discount Rate	10%	169

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

4. CONTRIBUTIONS

By category	31 March 2019 £'000	31 March 2018 £'000
Employees	9,846	9,920
Employers Contributions:		
Normal	27,465	27,356
Deficit Funding	5,865	5,553
	43,176	**42,829**

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. The new actuarial valuation results are due to be released in Q3, 2019.

By authority	31 March 2019 £'000	31 March 2018 £'000
LB Hillingdon	30,267	30,938
Scheduled Bodies	12,509	11,484
Admitted Bodies	400	407
	43,176	**42,829**

5. TRANSFERS IN

	31 March 2019 £'000	31 March 2018 £'000
Individual transfers in from other schemes	1,487	3,313
Bulk Transfers In	0	31,049
	1,487	**34,362**

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2019 £'000	31 March 2018 £'000
Pensions	(36,423)	(33,721)
Commutations and Lump Sum Retirement Benefits	(6,750)	(7,607)
Lump Sum Death Benefits	(843)	(675)
	(44,016)	**(42,003)**

By authority	31 March 2019 £'000	31 March 2018 £'000
LB Hillingdon	(40,973)	(40,220)
Scheduled Bodies	(2,579)	(1,428)
Admitted Bodies	(464)	(355)
	(44,016)	**(42,003)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2019 £'000	31 March 2018 £'000
Refunds to members leaving service	(79)	(62)
Individual transfers out to other schemes	(2,547)	(3,235)
	(2,626)	**(3,297)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2019 as follows:

	31 March 2019 £'000	31 March 2018 £'000
Administrative Costs	(840)	(753)
Investment Management Expenses	(7,897)	(6,392)
Oversight and Governance	(96)	(187)
	(8,833)	**(7,332)**

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2019 £'000	31 March 2018 £'000
Management Fees	(5,934)	(5,291)
Performance Related Fees	(1,405)	(525)
Custody Fees	(66)	(56)
Transaction Costs	(492)	(520)
	(7,897)	**(6,392)**

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2019 £'000	31 March 2018 £'000
Equities	(28)	(14)
Pooled Investments	(464)	(506)
	(492)	**(520)**

8C. EXTERNAL AUDIT COSTS

	31 March 2019 £'000	31 March 2018 £'000
Payable in Respect of External Audit	(22)	(20)
	(22)	**(20)**

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

9. INVESTMENT INCOME

	31 March 2019 £'000	31 March 2018 £'000
Income from Equities	6,254	5,294
Private Equity Income	0	11
Pooled Property Investments	4,713	4,838
Pooled Investments- Unit trusts and other managed funds	11,266	5,496
Interest on cash deposits	110	55
Other (for example from stock lending or underwriting)	389	(405)
	22,732	**15,289**

10. INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Investment Assets		
Equities	128,054	128,306
Pooled investments	772,162	679,908
Pooled property investments	130,309	127,808
Private equity	16,693	20,091
Other Investment balances		
Cash deposits	10,472	53,558
Investment income due	1,183	757
Total investment assets	**1,058,873**	**1,010,428**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	**(89)**	**(326)**
Net investment assets	**1,058,784**	**1,010,102**

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2018/19	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2019 £'000
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	30,344	772,162
Pooled Property Investments	127,808	5,109	(1,288)	(1,319)	130,309
Private Equity	20,091	201	(6,512)	2,913	16,693
	956,113	**509,743**	**(447,707)**	**29,069**	**1,047,218**
Forward Foreign Exchange	0	0	0	0	0
	956,113	**509,743**	**(447,707)**	**29,069**	**1,047,218**
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	**1,010,428**			**35,501**	**1,058,873**
2017/18	**Value 1 April 2017 £'000**	**Purchases at cost £'000**	**Sales proceeds £'000**	**Change in market value £'000**	**Value 31 March 2018 £'000**
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	(796)	679,908
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	2,262	20,091
	938,270	**459,130**	**(452,627)**	**11,340**	**956,113**
Forward Foreign Exchange	0	12	(19)	7	(0)
	938,270	**459,142**	**(452,646)**	**11,347**	956,113
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**			**15,834**	**1,010,428**

10B. ANALYSIS OF INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Equities		
UK		
Quoted	128,054	128,306
	128,054	**128,306**
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	82,707	56,312
Other Unit trusts - Quoted	249,859	233,063
Unitised insurance policies - Quoted	343,000	295,839
Limited liability partnerships - Unquoted	96,597	94,694
	772,163	**679,908**
Pooled property Investments - Unquoted	130,309	127,808
Private equity - Unquoted	16,693	20,091
Cash deposits	10,472	53,558
Investment income due	1,183	757
	158,656	**202,214**
Total investment assets	**1,058,873**	**1,010,428**
Investment liabilities		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	(89)	(326)
Net investment assets	**1,058,784**	**1,010,102**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2019 £'000	%	Market Value 31 March 2018 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	343,000	32	295,839	29
London CIV Asset Pool	249,858	24	233,020	23
	592,858	56	528,859	52
Investments Managed Outside of London				
Adams Street Partners	11,819	1	13,565	1
AEW UK	54,186	5	54,361	5
JP Morgan Asset Management	82,707	8	56,312	6
LGT Capital Partners	4,874	0	6,526	1
M&G Investments	8,226	1	12,419	1
Macquarie Infrastructure	28,035	3	28,307	3
Permira Credit Solutions	60,294	6	53,968	5
UBS Global Asset Management (Equities)	131,174	12	133,133	13
UBS Global Asset Management (Property)	76,521	7	75,192	7
Other*	8,089	1	47,460	5
	465,926	44	481,243	48
Total	**1,058,784**	**100**	**1,010,102**	**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 £17,125k (31 March 2018: £31,377k). 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 £18,428k (31 March 2018: £34,288k) representing 108% 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 2019 £'000	31 March 2018 £'000
Debtors		
Employers' contributions due	68	50
Employees' contributions due	17	16
Cash balances	1,339	2,414
	1,424	**2,480**

12. CURRENT LIABILITIES

	31 March 2019 £'000	31 March 2018 £'000
Creditors		
Other local authorities (LB Hillingdon)	(223)	(8)
Other entities	(344)	(271)
	(567)	**(279)**

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 2019 £'000	Market Value 31 March 2018 £'000
Prudential Assurance Company	5,086	5,546
	5,086	**5,546**

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, £180k 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 2019. 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 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	28,035	30,844	25,236
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	68,519	75,428	61,713
Private Equity	5%	16,693	17,527	15,858
Venture Capital	5%	41	43	39
Total		**113,288**	**123,842**	**102,846**

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 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	805,876	113,288	1,047,218
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	**139,620**	**805,876**	**113,288**	**1,058,784**

Values as at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	114,879	956,113
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**	**114,879**	**1,010,102**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2018/19.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2018	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	20,091	201	(6,509)	196	2,714	16,693
Private Finance - M&G	12,472	0	(3,886)	(1,646)	1,286	8,226
Infrastructure - Maquarie	28,307	1,493	(4,193)	2,065	363	28,035
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	53,968	12,063	(5,568)	(201)	32	60,294
	114,879	**13,757**	**(20,156)**	**414**	**4,395**	**113,289**
Other investment balances	0				0	0
Total Investment Assets	**114,879**				**4,395**	**113,289**

There were no transfers in or out of level 3 assets in 2018/19.

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 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000
Financial Assets								
Equities	128,054	0	0	128,054	128,306	0	0	128,306
Pooled Investments	772,162	0	0	772,162	679,908	0	0	679,908
Pooled property investments	130,309	0	0	130,309	127,808	0	0	127,808
Private Equity	16,693	0	0	16,693	20,091	0	0	20,091
Cash	0	10,472	0	10,472	0	53,558	0	53,558
Other Investment balances	0	1,183	0	1,183	0	757	0	757
	1,047,218	**11,655**	**0**	**1,058,873**	**956,112**	**54,315**	**0**	**1,010,428**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(89)	(89)	0	0	(326)	(326)
	0	**0**	**(89)**	**(89)**	**0**	**0**	**(326)**	**(326)**
Total	**1,047,218**	**11,655**	**(89)**	**1,058,784**	**956,112**	**54,315**	**(326)**	**1,010,102**

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 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,055	9.60%	508,604	419,506
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	113,288	3.70%	117,480	109,096
Property	130,309	5.20%	137,085	123,533
Total	**1,047,218**		**1,129,199**	**965,236**

Note: Bonds valuation in the table above includes pooled fund held bonds.

Asset Type	Value as at 31 March 2018 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
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	114,879	5.10%	120,738	109,020
Property	127,785	5.40%	134,685	120,885
Total	**956,207**		**1,026,007**	**886,407**

Note: changes in asset values as at 31 March 2018 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 2019 and 31 March 2018 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 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	**221,984**	**2,220**	**224,204**	**219,764**

	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**	**£'000**	**£'000**	**£'000**
Cash balances	53,558	535	54,093	53,023
Bonds - pooled funds	154,478	1,545	156,023	152,933
Total change in assets available	**208,036**	**2,080**	**210,116**	**205,956**

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 2019 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 2019 and as at the previous period ending 31 March 2018.

Currency risk sensitivity analysis
Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 7.30%, based on the data provided by PIRC. A 7.30% 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 7.30% 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 2019**	**Potential market movement**	**Value on increase**	**Value on decrease**
		7.30%		
	£'000	**£'000**	**£'000**	**£'000**
Overseas Managed Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	44,728	3,265	47,993	41,463
	258,924	**18,901**	**277,825**	**240,023**

Assets exposed to currency risk	**Asset Value 31 March 2018**	**Potential market movement**	**Value on increase**	**Value on decrease**
		8.70%		
	£'000	**£'000**	**£'000**	**£'000**
Overseas Managed Funds	111,250	9,679	120,929	101,571
Private Equity/Infrastructure	48,398	4,211	52,609	44,187
	159,648	**13,890**	**173,538**	**145,758**

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 2019 was £11,811k (31 March 2018: £55,972k) and this was held with the following institutions

Summary	**Rating S&P**	**Balances as at 31 March 2019 £'000**	**Rating S&P**	**Balances as at 31 March 2018 £'000**
Money market funds				
Northern Trust	AAAf S1+	10,672	AAAf S1+	53,758
Bank current accounts				
Lloyds	A+	1,139	A	2,214
Total		**11,811**		**55,972**

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 as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£1,339k). 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 2019 these assets totalled £805,876k, with a further £10,672k 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).

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.

Notes to the Pension Fund Account

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 2019 % per annum	31 March 2018 % per annum
Inflation /Pensions Increase Rate	2.5%	2.4%
Salary Increase Rate	2.9%	2.8%
Discount Rate	2.4%	2.6%

An IAS 26 valuation was carried out for the fund as at 31 March 2019 by Hymans Robertson with the following results:

Description	31 March 2019 £m	31 March 2018 £m
Present Value of Promised Retirement Benefits	1,695	1,548
Active Members	749	624
Deferred Members	377	350
Pensioners	569	574

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 2019 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 held 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:

	31 March 2019 £'000	31 March 2018 £'000
Short term benefits	74	82
Post employment benefits	49	84
	123	**166**

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

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

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

20. BULK TRANSFER

There were no bulk transfers in 2018-19. 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 17/18 financial year.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2019 totalled £10,305k (£23,859k at 31 March 2018).

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 up to six years from the date of each original commitment. It is anticipated all outstanding commitments will be called by December 2019.

There were no contingent liabilities outstanding for the fund at the end of the financial year 2018/19.

22. CONTINGENT ASSETS

Two 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.

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance David O'Hara, KPMG
Papers with this report	Northern Trust Performance Report

HEADLINES

This item will be preceded with a training item from Hymans on The Triennial Valuation.

The total size of the fund was £1,062m at 31 March 2019, an increase of £51m from £1,011m at the end of previous quarter. There was an overall investment return over the quarter of 5.10%, 0.54% less than the benchmark. The estimated funding position at 31 March 2019 is 74.6% (75% as at 31 December 2018).

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

RECOMMENDATIONS

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

1. **Consider and discuss any issues raised in the training item;**
2. **Discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
3. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;**
4. **Suspend the UBS Property Fund performance target and change to an advisory mandate.**

SUPPORTING INFORMATION

1. Fund Performance

Over the last quarter to 31 December 2018, the Fund returned 5.10%, underperforming its benchmark return of 5.64% by 54 basis points. The Fund value Increased over the quarter by £51m, to £1,062m compared to the previous quarter.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	5.10	5.64	+0.54
1 Year	5.02	6.05	(1.03)
3 Year	8.60	8.66	+0.06
5 Year	7.53	7.53	0
Since Inception (09/1995)	6.95	6.88	+0.07

During the quarter, distributions received from Alternative investments were $1.1m, €0.6m & £0.7m. The cash, along with existing cash balances in the custody account was utilised to fund drawdowns of outstanding commitments in Permira (£3.0m) and Macquarie ($0.1m).

The biggest drag on performance in the quarter under review came mainly from the Private Equity Portfolio, -14.18% behind its benchmarks. Both JP Morgan and London CIV portfolios generated the best outperformance for the fund with 3.36% & 2.84% respectively above benchmark returns.

Relative performance over a one-year rolling period was 0.96% behind the benchmark with the largest detractors being M&G and AEW UK; with a return of -8.47% & -4.96% less than their respective benchmarks, whilst Macquarie and LGT Capital with 10.50% & 2.70% relative excess performances the largest contributors.

2. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below. The assets of the Fund are 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 2019 £'000	Actual Asset Allocation %	Benchmark Allocation %
UK Equities	128,054	12.05	44.0
Global Equities	361,352	34.01	
UK Index Linked Gilts	96,008	9.04	14.0
Multi Asset Credit	82,707	7.78	
Corporate Bonds (Global)	32,797	3.09	
Property	130,481	12.28	12.0
DGF/Absolute Returns	102,701	9.67	10.0
Private Equity	16,191	1.52	2.0
Infrastructure	27,102	2.55	3.0
Private Credit	73,464	6.92	10.0
Long Lease Property	0	0	5.0
Cash & Cash Equivalents	11,566	1.09	0.0
Totals	**1,062,423**	**100.0**	**100.0**

Current Asset Allocation by Manager

FUND MANAGER	ASSET CLASS	Market Value As at 31 March 2019 £'000	Actual Asset Allocation %
ADAMS STREET	Private Equity	11,462	1.08
LGT	Private Equity	4,688	0.44
AEW	Property	54,186	5.10
JP MORGAN	Multi Asset Credit	82,707	7.78
LCIV - EPOCH	Global Equities	147,156	13.85
LCIV - RUFFER	DGF/Absolute Returns	102,701	9.67
M&G	Private Credit	9,024	0.85
MACQUARIE	Infrastructure	27,102	2.55
PERMIRA	Private Credit	64,440	6.07
LGIM			
	Global Equities	214,196	20.16
	UK Corporate Bonds	32,797	3.09
	UK Index Linked Gilts	96,008	9.04
UBS EQUITIES	UK Equities	128,054	12.05
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	3,057	0.29
UBS PROPERTY	Property	76,273	7.18
	Cash & Cash Equivalents	421	0.04
Non Custody	Cash & Cash Equivalents	8,088	0.76
		1,062,423	**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.

The fund has £5m awaiting drawdown on Private Credit and £50m awaiting drawdown for the for Long Lease Property which is expected to be drawn-down by the end of Q4 2019, these funds are currently held in passive corporate bonds and other overweight positions.

3. Market and Financial climate overview

UK Equity

UK equities rallied over the period in line with global equities, with almost all areas of the market bouncing back from a very poor Q4 2018. Against an increasingly uncertain outlook for the global economy, equities were perceived to offer superior and defensible earnings growth outperformed. This was reflected in the strong relative performance of the UK's (albeit relatively small) technology sector and select consumer goods companies, including the large-cap tobacco and beverage groups. In addition to these trends, a number of lowly-valued, domestically-focused areas bounced back strongly following the delay to Brexit beyond March 2019. This development fuelled hopes that a disorderly exit from the EU could be avoided.

UK employment growth remained robust. Nominal wages continued to pick up as the UK labour market bucked a wider slowdown in the economy and real wages remained in positive territory as inflation was muted. The UK economy slowed down during the fourth quarter of 2018 when Brexit uncertainty weighed on business investment. The Office for National Statistics revealed that GDP growth decelerated to 0.2% in Q4 from 0.7% in Q3 2018 and confirmed that economy grew at 1.4% in 2018, the lowest rate for several years.

US

US equities rebounded from a weak end to 2018 to post significant gains in Q1,2019. January was especially strong, as the Federal Reserve (Fed) confirmed it would adjust planned interest rate hikes to compensate for deteriorating economic momentum and the US government shutdown ended. The Fed settled further into its dovish stance as the quarter progressed, as a number of indicators reflected slower economic growth. Q4 GDP (quarter-on-quarter, annualised) was adjusted downwards to 2.2% from the initial 2.6% reading. By the end of March, US equities' progress had dropped to a far more cautious pace as investors balanced the Fed's tone with the broader implications for economic growth. As the quarter ended, the Fed lowered its projections for US growth and inflation, and reduced its expectations for interest rates hikes. The adjusted growth outlook caused the Treasury yield curve to invert - a signal historically associated with a pre-recessionary environment.

Eurozone
Eurozone equities enjoyed strong gains in the first quarter, rebounding from weakness at the end of 2018. Stock markets were supported by central banks stepping away from tighter monetary policy. The US Fed said no further interest rate rises were likely this year while the European Central Bank (ECB) said rates would remain at current levels at least until the end of the year. Previously it had said rates would stay on hold until the end of this summer. There was also optimism over global trade as the US suspended planned tariffs hikes on Chinese goods. It was a mixed picture for stock market sectors. Economically-sensitive areas of the market such as industrials and information technology performed well, but the safe haven consumer staples and real estate sectors were also among the top performers. Banks initially drew support from reports of a new ECB programme to support lending; however, the details released in March disappointed some in the market, while ongoing low interest rates may continue to erode net interest margins. Growth worries continued to linger during the quarter. The eurozone economy grew by just 0.2% in the final three months of 2018. Germany saw zero growth while Italy slipped into recession.

Global Equity
Global equity markets regained some ground in the first quarter after the sharp falls at the end of 2018. However, the Japanese equity market return of 7.7% was somewhat muted compared to other developed markets, and the gradual uptrend was punctuated by some significant individual daily declines. The Japanese currency weakened against other major currencies, retracing some of the extraordinary moves seen in late 2018 and the early days of 2019. Several bouts of volatility during the quarter were prompted by a reassessment of interest rate trends after the US yield curve was seen to invert. The perception of a lower global interest rate environment sparked a renewed preference for stable growth, bond-type proxies, within the equity market. Conversely, all financial-related sectors underperformed.

The corporate results season for the quarter ended in mid-February was generally interpreted negatively. However, the balance of real earnings surprises was only slightly skewed to the downside and the individual share price reactions were very muted, suggesting that almost all of the setback had already been discounted in stock prices. Overall, most of the negative surprises were driven by the sharper-than-expected slowdown in the external environment, especially in China. This particularly affected results in the automotive sector while many tech stocks were also impacted by the slowdown in smartphone sales. However, among individual sectors there is some evidence of increased pressure coming from higher labour costs, especially in distribution, food and retail. Corporate earnings revisions for the fiscal year just ended have remained on a negative trend throughout March.

A strong rebound following sharp declines at the end of last year, a dovish shift from central banks and mounting growth concerns combined to allow both riskier assets and government bonds to perform well in Q1. Stocks and high yield corporate bonds each enjoyed their strongest quarter for several years.

Fixed Income
US 10-year Treasury yields fell 30 basis points (bps) over the quarter reaching their lowest level since late-2017. The three-month Treasury bill yield rose higher than

that on 10-year bonds in March. This yield curve inversion underlines the growing caution among investors around economic growth prospects.

In European bond markets, 10-year Bund (German government bond) yields were also more than 30bps lower and fell below zero toward the end of March for the first time since October 2016. European economic data weakened further through the quarter, particularly for the manufacturing sector.

Corporate bonds had a strong quarter, retracing the weakness experienced in Q4 2018. High yield credit outperformed investment grade, with both outperforming government bond markets.

Emerging market (EM) bonds had a positive quarter with US dollar-denominated debt outperforming local currency bonds as certain EM currencies weakened.

4. Strategy Update

At the Pensions Committee in January 2019 it was agreed that the strategic asset allocation of 10% managed by Ruffer via the London CIV should be replaced with a 5% allocation to Infrastructure and 5% to bonds. At the meeting on 22 March the allocation to bonds was agreed to be moved to index linked gilts through the LGIM passive fund. The infrastructure element was deferred while the London CIV infrastructure offering was still to be finalised and accessible for investment, at which time outstanding items such as fees and FCA approval would be agreed to make a more informed decision to invest in the pool offering.

A third of the Ruffer allocation (£34m) has now been divested from the LCIV absolute return fund and invested with LGIM, as passive manager for the LCIV, in the All Stock Index-Linked Gilts on 02 June 2019. The fund's advisers at a meeting with officers in May agreed a phased reallocation of the Ruffer investments of 3% allocation rather than full 5% due to the current positioning of asset allocation being over weight for IL Gilts. The transition of a third of the Ruffer portfolio brings the bond allocation in line with the revised strategic asset allocation of 19%. Advisers suggested overweighting on IL Gilts would be too expensive based on gilt yield movement in the intervening time from the decision and implementation of transition.

At the Pensions Committee in March 2019 it was agreed to defer the decision to invest in the London CIV Infrastructure sub fund pending resolution of outstanding matters. The LCIV have since resolved a number of commercial items with the manager of this sub fund but FCA approval has been delayed pending valuation methodology. As a result there is no recommendation at this time to progress this decision to invest in the sub fund. FCA submission is expected in Q3 2019, once the fund is able to launch the decision will be brought back to Committee.

5. LCIV update

Currently open on the London CIV are
1 UK Equity sub fund

6 Global equity sub funds
1 Emerging Market Equity sub fund
4 Diversified Growth / Absolute Return funds
1 Multi Asset Credit fund
1 Global Bond Fund

The LCIV have now filed their submission with the FCA for the launch of a new Global Equity Core fund which should be open for investment in July. FCA submission is planned for the end of June for the Ares Private Debt Fund with planned opening date in August, this fund will only accept subscriptions until end of September 2020. Work continues with the infrastructure fund and the CIV are still waiting to submit to the FCA (planned in Q3).

The next phase will look at launching the Liquid Loans, Inflation plus and Equity Value fund.

Following the appointment of Mike O'Donnell as Chief Executive in March, the LCIV have now appointed a permanent Chief Investment Officer, Mark Thompson, who will start in September. In addition to this the LCIV plan to shortly begin recruitment for a Head of Real Assets to oversee the upcoming property and infrastructure funds.

Hillingdon Fund Investment with the London CIV

Since the last committee meeting, engagement with the London CIV has included a meeting in April with the new CEO Mike O'Donnell, Cllr Corthorne as then chair of the committee, Corporate Director of Finance and Head of Pensions, Treasury and Statutory Accounts. The Head of Pensions, Treasury and Statutory Accounts and Clare Scott the fund independent adviser meet with the CIV to discuss governance, ESG and products in development. In addition officers meet with the LCIV for the quarterly review meeting in June.

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 £593m at 31 March 2019, accounting for almost 56% of total assets of the Pension Fund.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

NORTHERN TRUST

London Borough of Hillingdon

Investment Risk & Analytical Services

March 31, 2019

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Client Commentary

Total Scheme Commentary

The weak end to the year, characterised by trade struggles and volatility and resulting in a correction to equity markets, has weighed on economic activity over the first three months of 2019. Equity markets however, have pushed on with largely double digit returns in the black across the board over Q1. 2018 started strongly as well, before collapsing in the February, so it is encouraging that the new year has commenced in steadier fashion. Although February and March again tailed off somewhat, there was no crash. Concerns about expansion are well founded though based on the following; loss of US momentum, failing Eurozone growth, Chinese slow down and endless Brexiting. HSBC's full year results came in below predictions after revenues collapsed in the final weeks of 2018. Tesco put 9k jobs at risk in a major cost cutting drive. The UK is matching growth within the Eurozone despite the Brexit uncertainty; both regional figures varied between zero and 0.6% until finally settling on 0.2% for the final quarter of 2018. From the last quarter of 2018 when Telecoms was the top performer, it is now the weakest performing sector both short and long term. I.T. is now the best performer over both the most recent quarter and the year. The FTSE All Share was up 9.4% (GBP) over the first quarter and is ahead over one year by 6.4% (GBP).

Global bond markets rallied at the end of March. Disappointing economic data in China, Europe and the US as well as the marked shift in tone of the European Central Bank and the Federal reserve were the headline issues during quarter one. The ECB restarted a 'crisis – era' bank lending programme and the Fed dropped plans to raise interest rates.In the UK, Q1 2019 saw Sterling strengthen against the Dollar, Euro and Yen. Brexit dominated much of the news in the UK in Q1 2019 culminating in Prime Minister Teresa May losing a third vote for the exit deal in the House of Commons. In its March meeting, the Bank of England Monetary Policy Committee voted unanimously to maintain the bank rate at 0.75%. The UK Manufacturing PMI rose from 52.1 in February to 55.1 in March, outperforming the market's expectation of 51.0. The consumer price index including owner occupiers' housing costs rose by 1.8% in the year to February 2019, down from the 2.2% in November 2018. Increasing food, alcohol and tobacco prices were the main upward contributors offset by clothing and footwear. Consumer confidence remained low in March with the uncertainty of the outcomes of Brexit leaving shoppers fearing for the health of the UK economy. The GfK index was recorded at -13 in March compared to -13 in February and -14 in January.

Within this environment the London Borough of Hillingdon returned +5.10% which was below the Total Plan benchmark of +5.64%. In monetary terms this is a gain in assets of £51.6 million and the value of the combined scheme now stands at £1,062 million as at 31st March 2019.

The Scheme's one year return of +5.02% is 0.96% behind the benchmark of +6.05% following four consecutive quarters of underperformance. While over the longer periods, with ten positive quarters over the last 3 years, the Scheme has narrowly underperformed, producing a return of 8.60% over three year versus 8.66%. Then the scheme falls in line over the 5 year period where we benchmark neutral performance with figures of 7.53% per annum. Then since inception in September 1995, the Fund remains ahead of target by 6 basis points with an annualised return of 6.95% against a target of 6.88%.

Manager Commentary

AEW UK

The AEW UK Property Fund posted a total return of -7.27%, trailing behind the IPD UK PPFI AI Balanced Funds Index for the first time since September 2018. Rolling one year returns now sees losses, with the mandate returning -0.32% versus 4.88% for the IPD Index

Theycontinue to be behind over the three year period returning 6.41% against the benchmark of 6.67%. This translates as a 0.24% relative underperformance. With positive absolute returns in all but two periods 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 9.16%, leading to an outperformance of 0.22% when compared to the IPD figure of 8.92%.

JP Morgan

In the latest quarter JP Morgan posted an increase in assets of +4.44% leading to an outperformance of +3.36% when compared to the 1.04% target for the 3 Month LIBOR + 3% p.a. Then with positive results in only two of the last four quarters, the one year return of +1.54% is in modest territory and behind the 4.05% target by -2.41%. Then over three years they post returns above the benchmark with figures of 4.22% vs 3.71%. Since the mandate funded their return of 3.66% is just below the target return of 3.69% on an annualised basis.

Legal & General 1

There was a reorganisation of assets in both Legal & General 1 and 2 portfolios towards the end of 2018. Equity assets were moved to the No 1account and fixed income to the No2 account. Over the last three months the Legal & General No. 1 mandate post a return of +10.48 in line with the custom fixed weight blended benchmark. In the period since inception in October 2016, they return 5.79%, which is below the benchmark return of 5.89%.

Legal & General 2

The No 2 Legal & General mandate returned +6.25% against +6.21% for the first quarter against the custom fixed weight blended benchmark consisting of FTSE Index Linked 15+ years, FTSE Index Linked and iBoxx UK Non-Gilts. In the short period since inception, they return 5.90% against 6.41% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 284 basis point outperformance of the 3-mth Sterling LIBOR target. The investment remains underwater over the one year time period. Outperformance remains in the longer periods. This is seen in a three year return of 3.42% versus 0.70%, then similarly for the five years with figures of 3.98% against 0.69%, culminating in since inception (May 2010) figures of 4.78% versus 0.84% per annum, which translates as a relative return of 3.91 %. This manager shows one of the largest outperformance of all the schemes managers over the since inception period.

M&G Investments

M&G posted a loss in Q1 by producing a return of -2.24% against the 3 Month LIBOR +4% p.a. target of 1.29%, demonstrating an underperformance of 3.48%. This is the fourth consecutive quarter of underperformance and the full year return now trails behind the benchmark by 8.47%, coming from figures of -3.84% against 5.05%. Over the three and five year the account registers figures of 7.93% vs 4.70% and 7.15% vs 4.68% respectively; since inception (May 2010) return falls slightly to 6.23% pa whilst the benchmark is 4.71% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.18% opposed to the comparator of 4.60%.

Macquarie

Over the last three months, Macquarie produced a modest growth of 0.40%, against the 1.04% for the 3 Month LIBOR +3% p.a. this translates as an underperformance of 0.63%. With twelve consecutive quarters of positive absolute returns and eleven positive relative returns, outperformance is seen in all longer periods. Over the rolling year a double digit growth of 14.97% beats the target of 4.05% by 10.50%, similarly the three year result of 15.45% versus 3.70% exhibits positive relative return at 11.33%. The annualised return over 5 years rises to 15.78%, and remains ahead of the 3.68% seen for the benchmark; then since inception (September 2010) the 5.83% is ahead of the target of 3.71%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.58%, which is ahead of the benchmark figure of 3.68%.

UBS

During Q1 the UBS UK Equity investments returned +8.50%, behind the +9.41% for the FTSE All Share. Looking into the attribution analysis this underperformance was largely due to allocation effects. The most significant being the underweighting in Consumer goods (-62bps) and overweighting in Telecommunications (-22bps), while the largest positive impact comes from Basic Materials (+23 bps). Selection decisions had a small positive impact with the most significant being the performance in Financials (+49 bps) although this was muted by returns in Utilities (-50bps). The manager remains behind over the one year, stemming from figures of +2.30% vs +6.36% which translates as a relative return of -3.82%. This is largely attributable to selection effects, the biggest impacts come from both Financials (-135bps) and Industrials (-181 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 9.83% versus 8.59% on an annualised basis.

Manager Commentary

Premira Credit

The Premira Credit Fund saw a growth of 1.48% over the first quarter of 2019, this was just ahead of the 3 Month LIBOR +4% p.a. target of 1.29%. The fund has outperformed in two of last four quarter’s and are still ahead of target, leading to an outperformance of 0.12%, created from figures of 5.18% against 5.05%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 8.38% against the benchmark of 4.66%, leading to a relative position of 3.55%.

UBS Property

In continuation from the previous period, the latest quarter for the UBS Property posted an underperformance of -0.21%, generated from a return of 0.09% against the IPD UK PPFI All Balanced Funds index of 0.30%. Over the one year the manager is now behind the index, with a full year return of +4.43% vs +4.88%. The previous good run of results particularly during 2015 leads to high absolute returns staying ahead of the IPD target over the five year periods with a return of 9.81% against 9.07%. Then since inception, in March 2006, the fund return falls to 4.03% per annum which manages to stay just ahead of the benchmark figure of 4.01%.

Private Equity

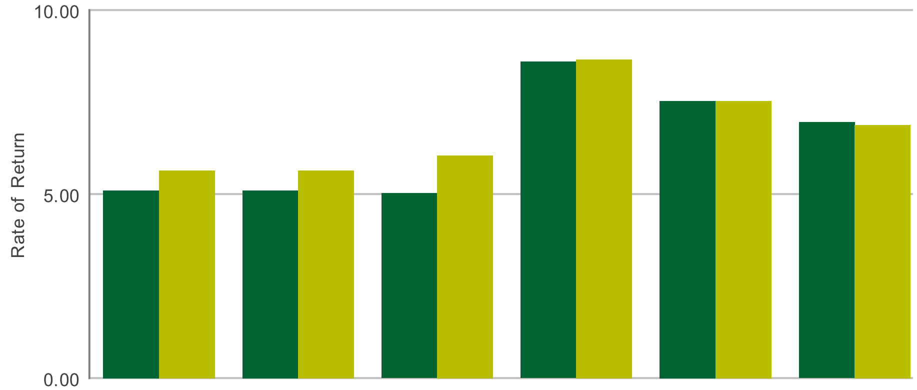
The private equity assets saw a 0.62% fall in value for LGT. Adam Street also saw a decrease of 6.63%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 18.62%, 18.84% and 17.64% for the one, three and five year periods respectively, while Adam Street posted 14.77%, 12.68% and 15.54% over the same periods. Adam St are behind the proxy benchmark of MSCI AC World +4% p.a. over the three and five year period (which shows 19.06% and 16.59%). LGT are ahead over the five year outperforming by 90bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.91% pa, while LGT sees a more modest dip to 11.36%.

Epoch

Over the first quarter the relatively new investment in Epoch’s income equity fund generated a return of +8.03%. Since inception (November 2017) the fund has observed a modest rise in value +2.77% compared to the MSCI World figure of +4.38%, this leads to a relative return of -1.54%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	5.10	5.10	5.02	8.60	7.53	6.95
Index	5.64	5.64	6.05	8.66	7.53	6.88

Index: Total Plan Benchmark

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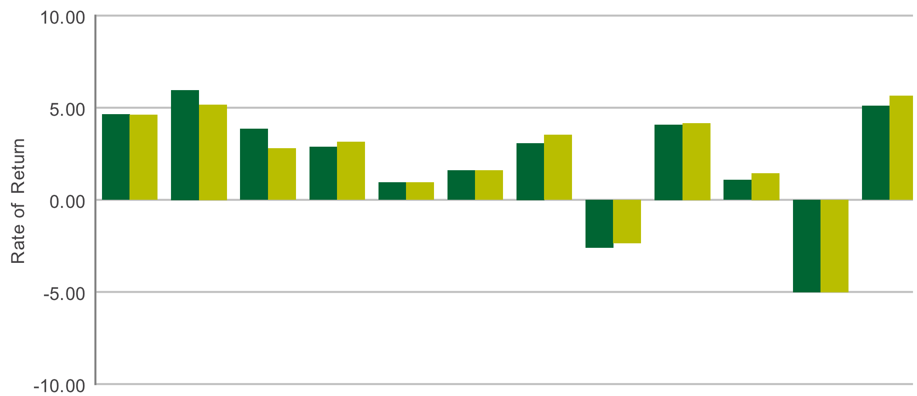
RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	5.02	8.60	7.53
Index Return	6.05	8.66	7.53
Relative Excess Return	-0.96	-0.05	-0.00
Standard Deviation	5.19	5.00	4.92
Index Standard Deviation	5.53	4.79	4.77
Tracking Error	0.93	1.11	1.08
Information Ratio	-1.10	-0.05	-0.00
Sharpe Ratio	0.77	1.58	1.39
Index Sharpe Ratio	0.91	1.66	1.44
Sortino Ratio	-	3.57	2.67
Treynor Ratio	4.31	7.77	6.81
Jensen's Alpha	-0.62	-0.18	-0.03
Relative Volatility (Beta)	0.93	1.02	1.01
R Squared	0.97	0.95	0.95

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

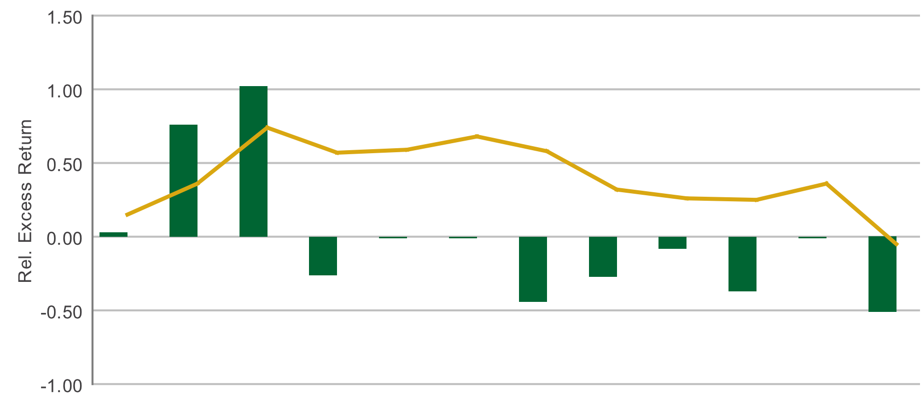
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19
Fund	4.64	5.96	3.85	2.88	0.94	1.59	3.08	-2.60	4.08	1.08	-5.02	5.10
Index	4.61	5.17	2.79	3.14	0.95	1.60	3.53	-2.34	4.16	1.45	-5.01	5.64

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19
3M R.Excess	0.03	0.76	1.02	-0.26	-0.01	-0.01	-0.44	-0.27	-0.08	-0.37	-0.01	-0.51
3Y R.Excess	0.15	0.36	0.74	0.57	0.59	0.68	0.58	0.32	0.26	0.25	0.36	-0.05

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months			Year to Date			One Year		
			Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess
London Borough of Hillingdon Total Plan Benchmark	**1,062,249,838**	**100.00**	**5.10**	**5.64**	**-0.51**	**5.10**	**5.64**	**-0.51**	**5.02**	**6.05**	**-0.96**
AEW UK LBH22 AEW Benchmark	**54,186,487**	**5.10**	**-7.27**	**0.30**	**-7.54**	**-7.27**	**0.30**	**-7.54**	**-0.32**	**4.88**	**-4.96**
JP Morgan LBH15 JPM LIBOR +3%pa	**82,707,366**	**7.79**	**4.44**	**1.04**	**3.36**	**4.44**	**1.04**	**3.36**	**1.54**	**4.05**	**-2.41**
Legal & General 1 LBH26 L&G Benchmark	**214,195,555**	**20.16**	**10.48**	**10.48**	**-0.00**	**10.48**	**10.48**	**-0.00**	**6.53**	**6.79**	**-0.23**
Legal & General 2 LBH27 L&G Benchmark	**128,804,757**	**12.13**	**6.25**	**6.21**	**0.04**	**6.25**	**6.21**	**0.04**	**5.40**	**6.13**	**-0.69**
M&G Investments LBH10 3 Month LIBOR +4%pa	**9,259,628**	**0.87**	**-2.24**	**1.29**	**-3.48**	**-2.24**	**1.29**	**-3.48**	**-3.84**	**5.05**	**-8.47**
Macquarie LBH14 Macquarie LIBOR +3%pa	**27,371,997**	**2.58**	**0.40**	**1.04**	**-0.63**	**0.40**	**1.04**	**-0.63**	**14.97**	**4.05**	**10.50**
Premira Credit LBH24 Premira LIBOR +4%pa	**64,440,344**	**6.07**	**1.48**	**1.29**	**0.19**	**1.48**	**1.29**	**0.19**	**5.18**	**5.05**	**0.12**
UBS LBH04 UBS Benchmark	**131,174,064**	**12.35**	**8.50**	**9.41**	**-0.83**	**8.50**	**9.41**	**-0.83**	**2.30**	**6.36**	**-3.82**
UBS Property LBH06 UBS Property Benchmark	**76,520,613**	**7.20**	**0.09**	**0.30**	**-0.21**	**0.09**	**0.30**	**-0.21**	**4.43**	**4.88**	**-0.43**
Adam Street Adam Street PE Bmark	**11,462,175**	**1.08**	**-6.63**	**10.77**	**-15.71**	**-6.63**	**10.77**	**-15.71**	**14.77**	**15.50**	**-0.64**
LGT LGT PE Bmark	**4,688,239**	**0.44**	**-0.62**	**10.77**	**-10.28**	**-0.62**	**10.77**	**-10.28**	**18.62**	**15.50**	**2.70**
Epoch Investment P Income LBH11001 MSCI World ND	**147,156,298**	**13.85**	**8.03**	**9.94**	**-1.74**	**8.03**	**9.94**	**-1.74**	**13.42**	**11.98**	**1.29**
London CIV Ruffer LBH11003 Ruffer BM Libor	**102,707,895**	**9.67**	**3.15**	**0.30**	**2.84**	**3.15**	**0.30**	**2.84**	**-0.55**	**1.05**	**-1.58**

Category: **Total Fund Gross of Fees**

Investment Hierarchy(2)

Account/Group -% Rate of Return	Three Years Port	Three Years Index	Three Years Relative Excess	Five Years Port	Five Years Index	Five Years Relative Excess	Inception to Date Port	Inception to Date Index	Inception to Date Relative Excess	Inception Date
London Borough of Hillingdon Total Plan Benchmark	8.60	8.66	-0.05	7.53	7.53	-0.00	6.95	6.88	0.06	30/09/1995
AEW UK LBH22 AEW Benchmark	6.41	6.67	-0.24	-	-	-	9.16	8.92	0.22	30/06/2014
JP Morgan LBH15 JPM LIBOR +3%pa	4.22	3.71	0.50	3.14	3.69	-0.53	3.66	3.69	-0.03	08/11/2011
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	5.79	5.89	-0.10	31/10/2016
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	5.90	6.41	-0.48	22/02/2017
M&G Investments LBH10 3 Month LIBOR +4%pa	7.93	4.70	3.09	7.15	4.68	2.36	6.23	4.71	1.44	31/05/2010
Macquarie LBH14 Macquarie LIBOR +3%pa	15.45	3.70	11.33	15.78	3.68	11.67	5.83	3.71	2.04	30/09/2010
Premira Credit LBH24 Premira LIBOR +4%pa	7.51	4.70	2.68	-	-	-	8.38	4.66	3.55	30/11/2014
UBS LBH04 UBS Benchmark	12.35	9.51	2.59	6.45	6.10	0.32	9.83	8.59	1.15	31/12/1988
UBS Property LBH06 UBS Property Benchmark	5.06	6.17	-1.05	9.81	9.07	0.68	4.03	4.01	0.02	31/03/2006
Adam Street Adam Street PE Bmark	12.68	19.06	-5.36	15.54	16.59	-0.90	6.91	-	-	31/01/2005
LGT LGT PE Bmark	18.84	19.06	-0.19	17.64	16.59	0.90	11.36	-	-	31/05/2004
Epoch Investment P Income LBH11001 MSCI World ND	-	-	-	-	-	-	2.77	4.38	-1.54	08/11/2017
London CIV Ruffer LBH11003 Ruffer BM Libor	3.42	0.70	2.70	3.98	0.69	3.27	4.78	0.84	3.91	28/05/2010

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

Account/Group	31/12/2018 Market Value	31/12/2018 Weight	Net Contribution*	Income	Fees	Appreciation	31/03/2019 Market Value	31/03/2019 Weight	Change in Weight
London Borough of Hillingdon	**1,011,198,397**	**100.00**	**-506,098**	**4,438,681**	**4,262**	**47,118,860**	**1,062,249,838**	**100.00**	**0.00**
AEW UK	58,432,213	5.78	0	0	0	-4,245,726	54,186,487	5.10	-0.68
JP Morgan	79,188,982	7.83	0	0	0	3,518,384	82,707,366	7.79	-0.05
Legal & General 1	193,872,278	19.17	0	0	0	20,323,277	214,195,555	20.16	0.99
Legal & General 2	121,234,111	11.99	-4,262	0	4,262	7,574,908	128,804,757	12.13	0.14
M&G Investments	9,471,853	0.94	0	211	0	-212,437	9,259,628	0.87	-0.06
Macquarie	27,262,151	2.70	0	28,051	0	81,795	27,371,997	2.58	-0.12
Premira Credit	60,938,582	6.03	2,560,000	340,000	0	601,762	64,440,344	6.07	0.04
UBS	121,739,128	12.04	-863,979	1,480,512	0	8,818,403	131,174,064	12.35	0.31
UBS Property	77,003,116	7.62	-555,218	685,624	0	-612,909	76,520,613	7.20	-0.41
Adam Street	12,851,931	1.27	-540,892	0	0	-848,865	11,462,175	1.08	-0.19
LGT	5,260,344	0.52	-528,513	-622	0	-42,970	4,688,239	0.44	-0.08
Cash & Other Assets	8,148,740	0.81	-573,235	16,222	0	-17,305	7,574,421	0.71	-0.09
Epoch Investment P Income	136,219,737	13.47	0	1,047,765	0	9,888,795	147,156,298	13.85	0.38
London CIV Ruffer	99,575,230	9.85	0	840,917	0	2,291,749	102,707,895	9.67	-0.18
Cash & Other Assets	0	0.00	0	0	0	0	0	0.00	0.00
Transition	0	0.00	0	0	0	0	-	-	-

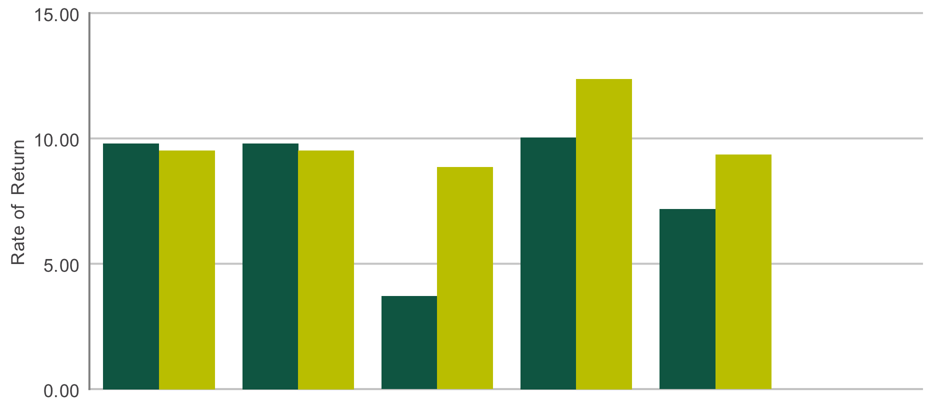
Min -0.68 — 0.99 Max

**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

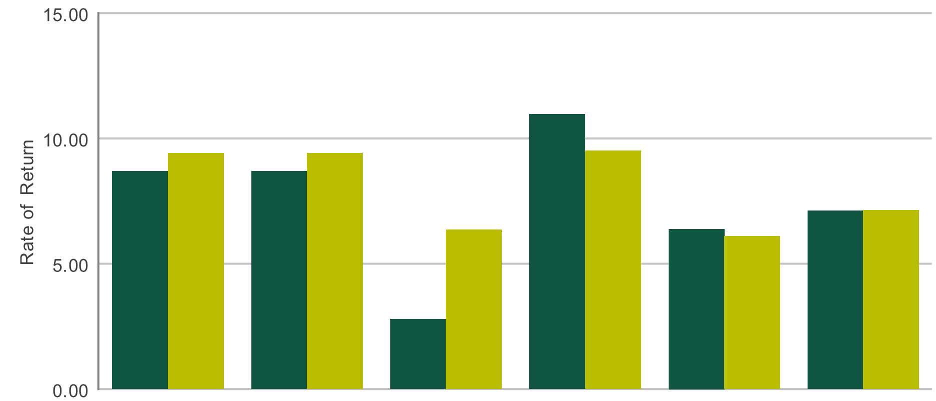
EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	9.80	9.80	3.70	10.04	7.17	-
Index	9.52	9.52	8.85	12.37	9.35	-

Index: Total Equity Benchmark

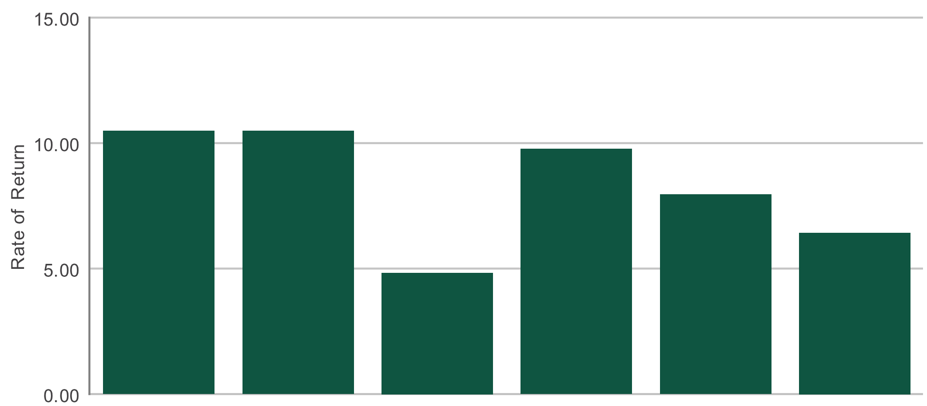
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	8.69	8.69	2.79	10.97	6.39	7.12
Index	9.41	9.41	6.36	9.51	6.10	7.13

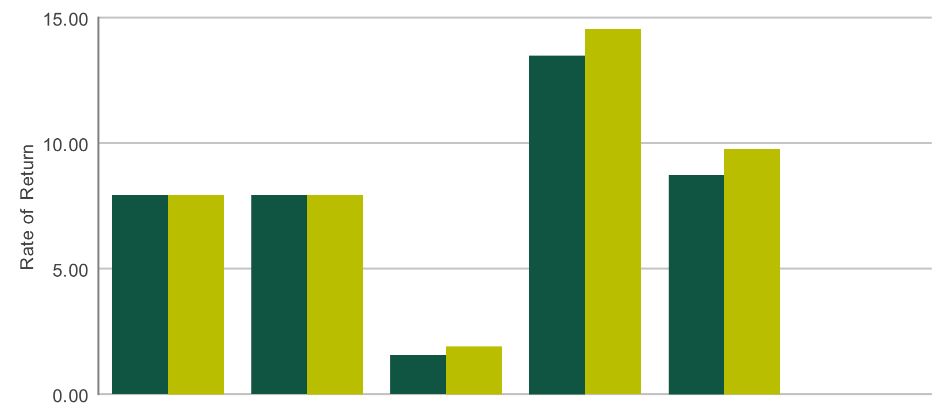
Index: FTSE All Share UK Equity

OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.48	10.48	4.83	9.77	7.95	6.43

EMERGING MARKETS

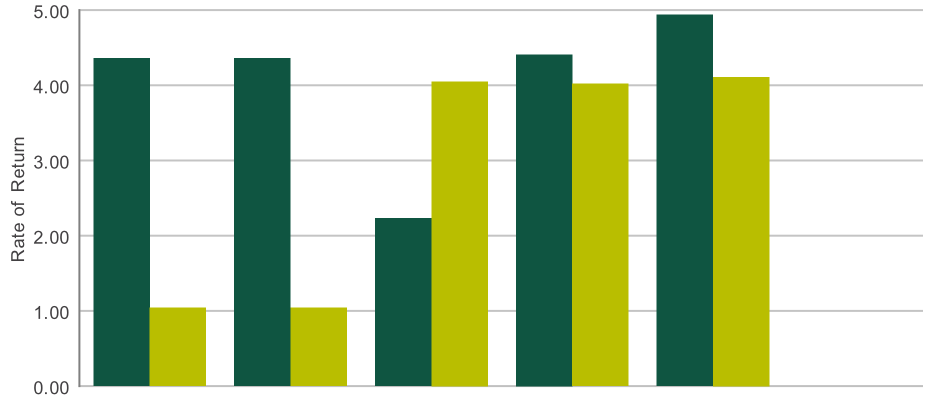


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.91	7.91	1.55	13.49	8.72	-
Index	7.94	7.94	1.90	14.53	9.76	-

Index: LBH Emerging Markets

Historical Performance

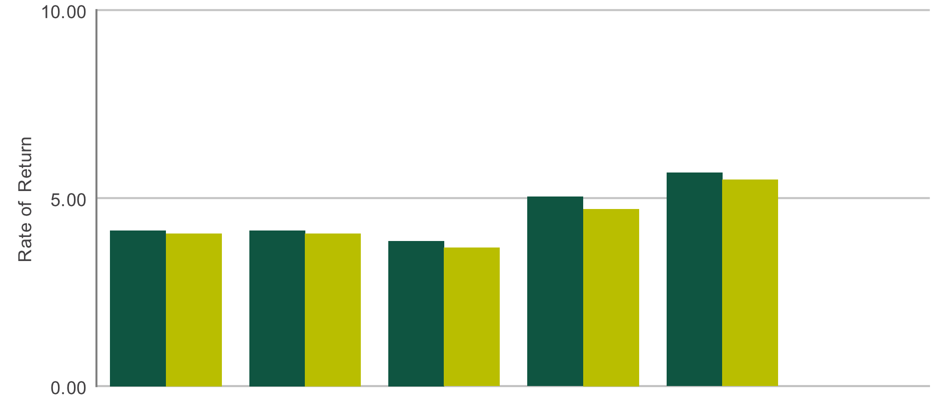
FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.36	4.36	2.23	4.41	4.94	-
Index	1.04	1.04	4.05	4.02	4.11	-

Index: LBH Fixed Income Benchmark

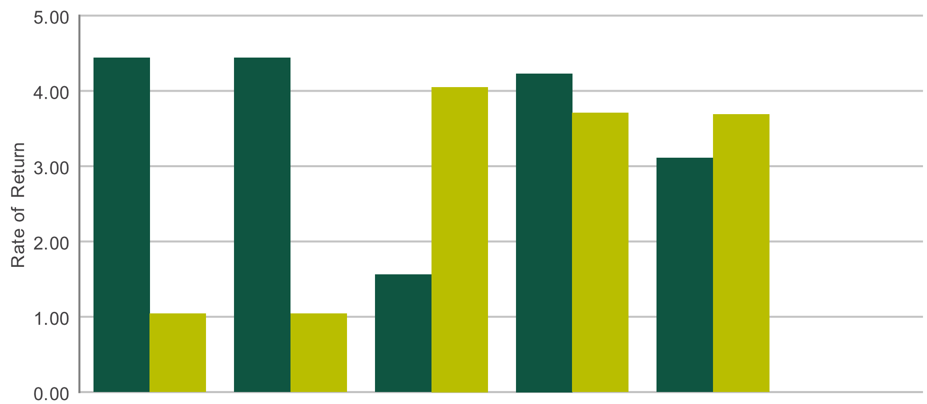
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.14	4.14	3.86	5.04	5.67	-
Index	4.06	4.06	3.68	4.71	5.49	-

Index: LBH Non-Gilts Benchmark

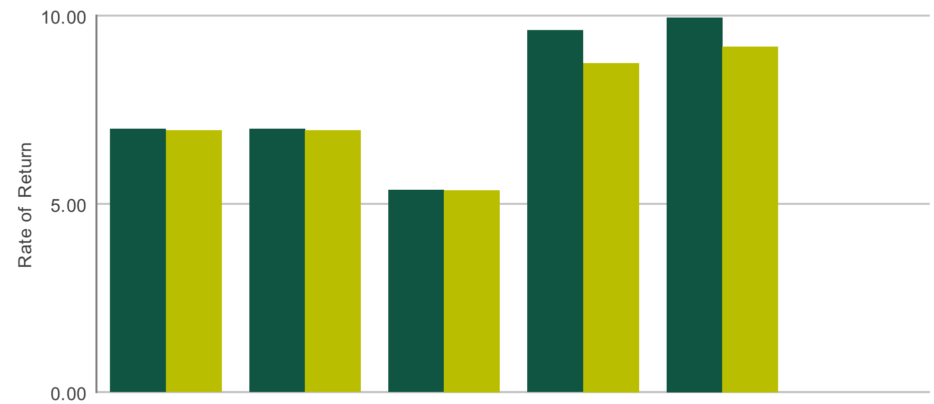
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.44	4.44	1.56	4.23	3.11	-
Index	1.04	1.04	4.05	3.71	3.69	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

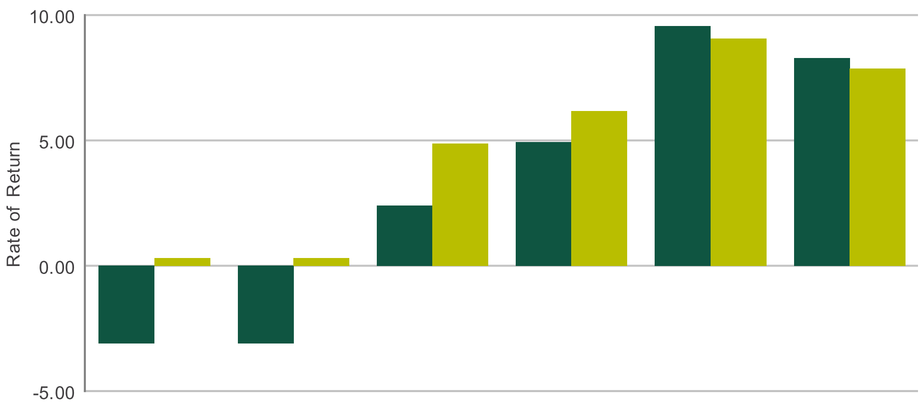


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.99	6.99	5.37	9.61	9.95	-
Index	6.95	6.95	5.36	8.74	9.18	-

Index: LBH Index Linked Benchmark

Historical Performance

REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-3.10	-3.10	2.41	4.93	9.56	8.29
Index	0.30	0.30	4.88	6.17	9.07	7.86

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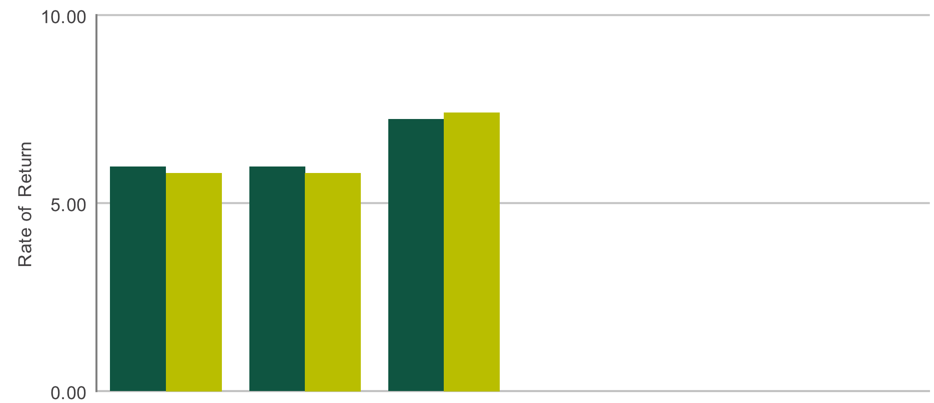
Index: IPD UK PPFI All Bal Funds Index

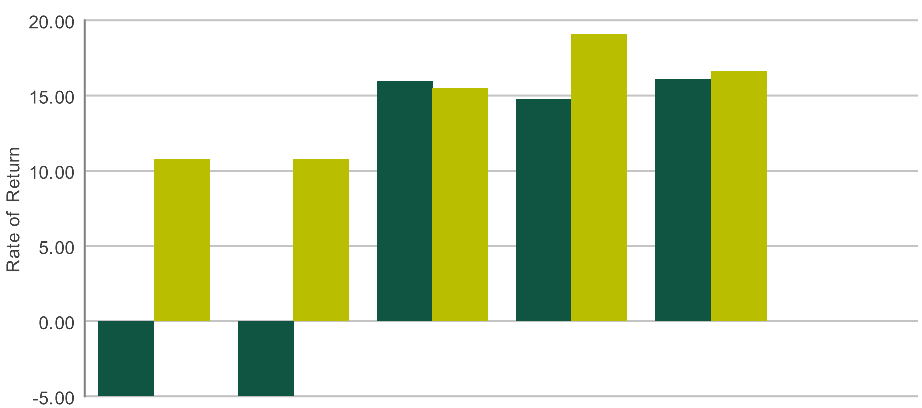
BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.97	5.97	7.23	-	-	-
Index	5.80	5.80	7.41	-	-	-

Index: Balanced Fund Benchmark

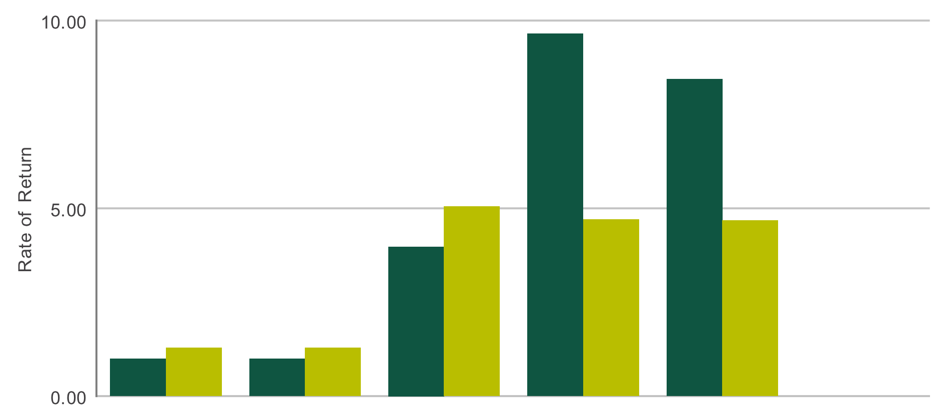
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-4.94	-4.94	15.94	14.75	16.07	-
Index	10.77	10.77	15.50	19.06	16.59	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT

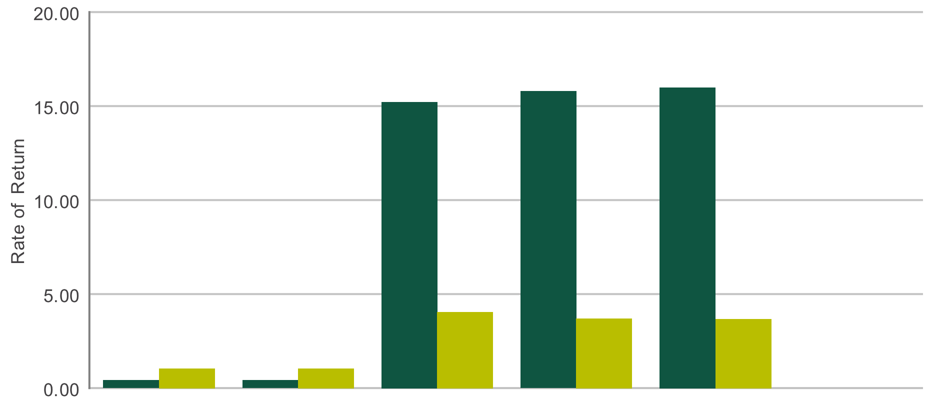


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.99	0.99	3.98	9.65	8.44	-
Index	1.29	1.29	5.05	4.70	4.68	-

Index: LIBOR GBP 3 Month +4% pa

Historical Performance

INFRASTRUCTURE



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.41	0.41	15.22	15.79	15.99	-
Index	1.04	1.04	4.05	3.70	3.68	-

Index: LIBOR GBP 3 Month +3% pa

Benchmark Composition

Overall Fund BenchMark		
Index	**Manager**	**%**
FTSE All Share	UBS LGIM	12.04
FTSE World Developed Equity Index Currency Hedged	LGIM	8.17
FTSE World Developed Equity Index unHedged	LGIM	8.03
FTSE Emerging Markets	LGIM	2.96
IPD UK PPFI All Balanced Funds Index	UBS Property AEW	13.39
3 Month Libor +3%	JP Morgan Macquarie	10.53
MSCI World ND	Epoch/LCIV	13.47
3 Month Libor	Ruffer/LCIV	9.85
3 Month Libor +4%	M&G Permira	6.96
Markit iBoxx £ Non – Gilt	LGIM 2	3.11
FTSE A Govt Index – Linked (All Stocks)	LGIM 2	3.99
FTSE A Govt Index – Linked (Over 15 Year	LGIM 2	4.88
	Non Custody CashCash	0.81
MSCI All Countries World Index	Private Equity	1.79
		100.00

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ESG & RESPONSIBLE INVESTMENT

Committee	Pensions Committee
Officer Reporting	Sian Kunert, Finance
Papers with this report	None

HEADLINES

The report outlines the voting and engagement of ESG issues and provides and overview of climate change in the quarter ending 31 March 2019.

As part of the Pension Committees role in making investment decisions it takes 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.

RECOMMENDATIONS

It is recommended that Pensions Committee note this report.

SUPPORTING INFORMATION

Climate Change

ESG, in particular climate change, has continued to increase in importance in policy and public interest. Climate change is accelerating and its effects are much more visible. The UK government declared a climate emergency in May 2019 in response to the scientific community and now committed to net zero emissions by 2050, going a step further than all other countries. The Pensions committee recognised climate change as a significant risk in October 2018 asking for the addition on the risk register. Manager meetings and strategy discussions include an EGS focus.

Climate change will have serious consequences for people through the environment and resources, and the economy if we exceed a 1.5% increase in global temperatures above preindustrial levels, it has been estimated climate change will wipe off $315bn financial asset values. All parts of the financial ecosystem must undertake a role in addressing this environmental issue and pension funds are highly exposed and in a strong position to influence the direction of travel and actions of companies in which they invest.

There are a number of actions pension funds can take, including signing up to a number of global initiatives, such as the UNPRI and Climate Action 100+; mapping portfolios to the UN Sustainable Development goals; Introducing low carbon funds; committing a percentage of the strategic asset allocation to high impact environmental investments, and reporting on climate change risks and opportunities in line with the TCFD recommendations.

The Hillingdon Pension Fund is signed up to the Stewardship code as tier 2. The funds investment managers are highlighted below to show commitment to the stewardship code and UNPRI.

Fund Manager	PRI signatories	Stewardship code
Adams Street Partners LLP	Yes	
AEW UK Ltd	Yes	
LGT Capital Partners	Yes	
JP Morgan Europe	Yes	Tier 1
M&G Investments	Yes	Tier 1
Macquarie Infrastructure Asset Management	Yes	Tier 1
Permira Credit Solution LLP	Yes	
London CIV	Yes	Tier 1
UBS Asset Management	Yes	Tier 1
Legal & General Investment Management	Yes	Tier 1
Northern Trust Asset Management	Yes	Tier 1
Epoch	Yes	Tier 2
Ruffer	Yes	Tier 1

Voting and Engagement

During the quarter ended 31 March 2019 the Hillingdon investment managers voting with Hillingdon shares made the following votes:

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,364	11,319	9,564	1,755	
LGIM	611	6,266	5,321	888	57
LCIV - Ruffer	11	122	119	3	1
LCIV - Epoch	10	197	188	9	0

The UBS figures relate to their Equity fund and not specific shares held by the Hillingdon fund where we are ex tobacco. UBS carried out 54 engagement meetings with 45 companies in first quarter of 2019 covering a range of issues including corporate governance, climate change, business conduct & culture and impact.

LGIM engaged with companies 204 times in the quarter with 190 companies. The top two areas for engagement related to the future world protection list (companies excluded based on ESG issues from the future world funds) and climate change.

FINANCIAL IMPLICATIONS

There are no financial implications in the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

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ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	Sian Kunert, Finance
Papers with this report	KPI Report

HEADLINES

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 County Council (SCC) and internally at Hillingdon.

Within this report is a recommendation for an amendment to the Internal Disputes Resolution Policy.

Attached to the report is the latest KPI Report from SCC.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Agree the proposed changes to the Internal Disputes Resolution Policy.**

SUPPORTING INFORMATION

Surrey Administration Update

The fund continues to see a good uptake of members who have registered for the Member Self Service (MSS) module

Sign up to my-pension-online is currently 16% uptake

Membership Category	Total membership numbers	Registered for online self service
Active	9,136	2,713
Deferred	9,946	878
Pensioners	6,722	425
Total	**25,804**	**4,016**

All figures as at 25 June 2019

Resources

SCC have continued to expand the team to better support the contract. The Lead Pensions Manager has now been in place for over 3 months, making changes to the delivery of the service and ensuring sufficient resources in place. A sharper focus has been incorporated into teams to deal with more complex areas and give teams more ownership. In addition the focus on project work is making roads into improving the underlying data quality in advance of the triennial valuation.

June has seen the fill of a vacancy on the technical side after the regulatory expert moved to the Local Government Association. It is planned for an additional resource to also be added to this area and once the team is in place there will be a bigger focus on communication and education with employers.

Key Performance Indicators from February to May 2019

Over the past quarter SCC has been more stable than the quarter before on performance against KPI's as result of the improved recruitment and change to role structure including better knowledge expansion across the team instead of relaying on key individuals to better manage the work load.

SCC completed 518 cases in February, of which 225 (43.44%) were KPI cases. Of the 225 KPI cases, 8 (3.56%) were completed outside of target. 3 areas of activity (Retirement Notification, Lump Sum Payment and Deferred benefits) had an improved KPI score in February, with 4 areas (Death Notifications, Transfer Out Quotes, Transfer Out Payments and Employer Estimates) showing a slight drop in performance. Of the cases that were completed outside of target, the average number of days over target was 5. There was one complaint received in February.

In March SCC completed 532 cases, of which 182 (34.21%) were KPI cases. Of the 182 KPI cases, 21 (11.54%) were completed outside of target. There was 1 complaint received in March relating to Quality of Service.

In April SCC completed 294 cases. 181 (62%) are reported via the KPI's. Of the 181 KPI cases, 13 were completed outside of target. There were no complaints in April.

In May SCC completed 366 cases. 216 (64%) are reported via the KPI's. Of the 216 KPI cases, 17 were completed outside of target, all but 1 were started prior to May. These cases include periods where the SCC team were awaiting a response to complete. There were no complaints in May.

Internal Disputes Resolution Policy

Under the Local Government Pension Scheme, all authorities are required to have a 2 stage Internal Disputes Resolution Policy to hear appeals against decisions made in respect of benefits, and this policy is published. The last revision to the Internal Disputes Resolution Policy was approved at Pension Committee in March 2013. Under the current Hillingdon policy agreed in 2013, the Appointed Officer for Stage 1 appeals is the Director of Operations of the outsourced provider to be the nominated officer in all Stage 1 appeals and the Corporate Pensions Manager to be the appointed Officer for stage 2 appeals. In any case where the Corporate Pensions Manager has either been involved with the case or is the object of the complaint, then that the complaint will continue to be heard by a Senior Officer who has had no previous involvement with the case.

This report is requesting that the Pensions Committee agree to change the Hillingdon policy, to name the Head of Pensions, Treasury and Statutory Accounts to be the nominated officer in all Stage 1 appeals and the Corporate Director of Finance or Head of HR to be the appointed Officer for stage 2 appeals. In any case where the nominated officer has either been involved with the case or is the object of the complaint, then the complaint will continue to be heard by a Senior Officer who has had no previous involvement with the case.

If an appellant is not satisfied with a decision made at Stage 2, they can progress their dispute to the Pensions Ombudsman. The Pension Fund publishes its IDRP process on the website and it is sent to anyone who advises the fund of a complaint.

Data Cleansing

Data cleansing is taking place across 4 strands.

1. Year End returns – All employers have sent through their returns within the required deadlines and data issues reviewed.
2. GMP reconciliation exercise to ensure HMRC and scheme records relating to contracted out employment are correct is on track from the scheme side. Of 26,263 GMP records, 21,001 have been matched as at 14 June. There are 1,511 (5.75%) files which membership issues outstanding and 932 (3.55%) GMP discrepancies outstanding and in progress.
3. Undecided leaver files are in the process of being resolved. Officers had a project update with SCC in June due to a backlog in the checking process and the SCC project team are monitoring closely.
4. Errors resulting from the dry run of the Valuation data extra report are being cleared by a new member of SCC staff clearing these items.

Annual Benefit Statements are on track for production and delivery through July and August as planned. Active members will be advised their statements are available through the portal once available. Deferred member statements will be send at end of July and will be in paper format for the last time.

FINANCIAL IMPLICATIONS

There are no financial implications in the report

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

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Hillingdon Pensions Administation - Key Performance Indicators May 2019

Activity	Measure	Impact	Target	Dec-18		Jan-19		Feb-19		Mar-19		Apr-19		May-19		Late cases (May)
Scheme members	Pensioners, Active & Deferred							22,919		22,865		22,953		23,194		
New starters set up/welcome letters				0		0		49		51		33		33		
ABS sent - Councillors	Statutory deadline		Due by 31 Aug	*Achieved for 20117/8 year*												
ABS sent - Active	Statutory deadline															
ABS sent - Deferred	Statutory deadline															
				Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	
Death notification acknowledged, recorded and documentation sent	5 working days	M	100%	11	100%	24	92%	10	90%	17	82%	16	75%	18	83%	3 cases late
Payment of death grant made	10 working days	H	100%	4	75%	4	100%	3	100%	4	100%	5	80%	10	100%	
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	100%	12	100%	22	82%	53	94%	21	95%	44	95%	35	97%	1 case late
Payment of lump sum made	10 working days	H	100%	29	90%	18	89%	16	94%	33	97%	47	96%	30	87%	4 cases late
Calculation of spouses benefits	10 working days	M	100%	6	83%	4	100%	3	100%	5	100%	1	100%	14	86%	2 cases late
Transfers In - Quotes	20 working days	L	100%	1	100%	5	100%	6	100%	10	100%	3	100%	10	100%	
Transfers In - Payments	20 working days	L	100%	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	10	100%	
Transfers Out - Quote	20 working days	L	100%	9	56%	27	100%	14	93%	10	70%	11	100%	15	73%	4 cases late
Transfers Out - Payments	20 working days	L	100%	7	100%	12	100%	11	91%	10	100%	3	100%	12	100%	
Employer estimates provided	10 working days	M	100%	4	100%	4	100%	6	83%	7	100%	7	100%	3	100%	
Employee projections provided	10 working days	L	100%	3	33%	3	100%	3	100%	9	100%	5	80%	8	88%	1 case late
Refunds	20 working days	L	100%	19	89%	15	100%	11	100%	5	100%	13	100%	13	100%	
Deferred benefit notifications	20 working days	L	100%	38	95%	61	98%	89	100%	51	75%	26	88%	38	95%	2 cases late
Complaints received- Admin				1		1		1		1		0		0		
Complaints received- Regulatory				0		0		0		0		0		0		
Compliments received				0		0		0		0		0		0		
Queries Handled by Helpdesk				319		521		523		606		511		503		

REGULATORY REPORT

Committee	Pensions Committee
Contact Officers	Sian Kunert, Finance
Papers with this report	None

HEADLINES

This report is for information and provides a number of regulatory and industry updates to support Pension Committee member knowledge of the changing regulatory environment.

RECOMMENDATIONS

It is recommended that Pensions Committee note this report.

SUPPORTING INFORMATION

Pooling Guidance

In January 2019 MHCLG issued draft statutory guidance on LGPS asset pooling. The Ministry welcomed responses but it was an informal process with only interested parties sent the draft document. In May 2019, Rishi Sunak the Minister for Local Government Pensions announced at the PLSA Local Authority Conference, that a formal consultation on pooling guidance would be published in the forthcoming months.

Consultation on Local Valuation Cycle

On 8 May 2019 MHCLG issued a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk'. The consultation closes on 31 July 2019 and covers the following areas:

- amendments to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

Details of the consultation have been sent to scheme employers to ensure that they have an opportunity to respond.

Disclosure Regulations

In June 2019 The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 were laid before Parliament to adopt into UK law the EU Shareholder Rights Directive II (SRD II) which was designed to encourage investors to adopt a longer-term focus in how they consider ESG issues and to be more transparent in how they invest. The new regulations require the Hillingdon Pension fund to

- Set details about their arrangements with asset managers in the Investment Strategy Statement by 1 October 2020. These arrangements will include how the fund “incentivises” asset managers to align investment strategy and decisions with those set out in the ISS and the monitoring of portfolio turnover costs.
- From 1 October 2020, explain the fund has complied with its stewardship policies and describe voting behaviour. This must be set out in an ‘implementation statement’, contained within the annual report.

Competition and Market Authority (CMA)

The Competition and Market Authority (CMA) published on 10 June its final order in relation to the investigation into the investment consultancy and fiduciary management industry. As an unexpected move the CMA have included LGPS funds in the new requirements from the order which means LGPS funds will need to publish objectives for consultants with a clear definition of the outcome and timescales expected for them to achieve this. The new requirements are in place to ensure trustees (including LGPS committees) can monitor the performance of their advisers, to ensure they are receiving the best value for money and increase competition to make the markets work better for beneficiaries.

The Hillingdon fund must as a result have objectives in place for the Investment Advisers KMPG by 10 December 2019, otherwise the fund could be taken to court by the CMA. The objectives for Investment advisers must be closely linked to the fund investment objectives and be reviewed at least every three years and after significant changes to strategy or objectives.

It is unclear at the current time if there would be any implications on LGPS pooling as the CMA also creates a number of duties for pension schemes relationships with fiduciary managers.

Objectives for the investment advisers will be drafted and brought to Pensions Committee for discussion and approval in October.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

BACKGROUND PAPERS

None.

TRAINING POLICY and TRAINING NEEDS

Committee	Pensions Committee
Officer Reporting	Sian Kunert, Finance
Papers with this report	Revised Training policy

HEADLINES

This report provides an update on training and development of Pensions Committee members in line with the Training Policy approved in December 2015. In addition a revised version of the Training Policy is brought to Pensions Committee for approval. The Pension Fund Training Policy is designed to aid Pension Committee, local Pension Board members and senior officers in performing individual roles ensuring the fund is managed by individuals with the appropriate levels of Knowledge and Skills.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Approve the revised Training policy;**
2. **Agree priority training topics for the work plan;**
3. **Consider the addition of a separate training item on EGS issues prior to the October Committee.**

SUMMARY INFORMATION

The Training policy was adopted in December 2015 and due for a refresh which is attached with this paper. In addition to the policy, a training register is maintained to log training received by Pension Committee members, Local Pension Board members and Officers to record and track knowledge and skills. The last update on training was provided to Pensions Committee in March 2017.

Pensions Committee are responsible for exercising a duty of care and have a fiduciary responsibility to the fund, employers and potential beneficiaries of the fund. Although there is not a statutory requirement for Pension Committee members to undertake training there is such a statutory requirement for local Pension Board members. Due to the increased responsibility and decision making requirements, it is best practice for Pensions Committee members to apply the same principles and to seek to develop a sound level of knowledge and understanding. Pensions Committee members were invited to complete or update the Knowledge and Skills learning needs analysis to identify training gaps to enable officers to ensure the correct training items.

Cllr Goddard, Cllr Eginton and Cllr Barnes have completed their training needs analysis within the past 12 months. Cllr Corthorne completed the training needs analysis in June 2016 and is planning on updating in the coming weeks at the time of reporting. Cllr Morse who joined the committee in 2018 has yet to complete the analysis.

Priority of training areas has been suggested where there are 2 or more members with a score of 1 or 2 out of 5 in any given area, or where the average score out of 5 is below 3. Areas of priority are as follows

1 – Pensions legislation
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
2 - Pensions Governance
Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.
Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.
Knowledge of consultation, communication and involvement options relevant to the stakeholders.
An understanding of how breaches in law are reported.
3 – Pensions administration
Knowledge of how discretionary powers operate.
5 – Pensions services procurement and relationship management
An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.

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

Members Training Update

Subsequent to the last training update paper brought to Pensions Committee in March 2017. Members have undergone various training programmes both internally and externally.

All three new members to the Committee in 2018 attended a comprehensive 2 day course in July 2018 for a full overview of the scheme provided by AON Hewitt. The course covered the Legislative Framework and Structure of the LGPS, Key Governance Requirements and the Pensions Regulator's Code of Practice, Contributions and Benefits, Current 'Hot Topics' in the LGPS, Understanding Funding – Actuarial Methods, Standards and Practices, Investment Strategy, Financial Markets, Monitoring Investment Performance, Asset Pooling.

In-house information sessions have been provided by KMPG at Pension Committee meetings throughout the year. Sessions include an overview Hillingdon Pension Fund asset allocation and manager structure to support the future direction and proposed changes to strategy and asset allocation; Roles and responsibilities within the Pension fund and new regulation; training on infrastructure; a session on Inflation and how it effects the pension fund; and EGS and carbon, which will be refreshed in October 2019.

Future training

Future training will be provided through Committee meetings with the support of KPMG and other guest presenters to align with members training needs.

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

As a result of the training needs analysis review above, training areas for prioritisation at future meetings will cover

- Understanding of Breaches of Law (recently presented to Local Pensions Board)
- LGPS discretion powers and policies
- Pension Fund Governance including SAB and consultations
- Public sector procurement, specifically procurement within the LPS
- Regulatory reporting including Myners principles

In addition it is recommended that a separate internal training session is provided in advance of the October Committee on ESG. ESG is an area of significant focus within the industry currently. With the amendments in reporting requirements of EGS in particular, climate change and the government's commitment to net zero greenhouse gas emissions.

FINANCIAL IMPLICATIONS

There are no financial implications in the report.

LEGAL IMPLICATIONS

There are no legal implications in the report.

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London Borough of Hillingdon Pension Fund

Training Policy

TRAINING POLICY

Introduction

This is the Training Policy of the London Borough of Hillingdon Pension Fund (the Fund), which is managed and administered by the London Borough of Hillingdon. It details the training strategy for those involved in the management of the Fund.

The Training Policy is established to aid Pensions Committee, local Pension Board members and senior officers in performing and developing in their individual roles, with the ultimate aim of ensuring that London Borough of Hillingdon Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

Aims and Objectives

London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund.

In relation to knowledge and skills of those managing the Fund, the Administering Authority's objectives are to ensure that:

- the London Borough of Hillingdon Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.

- those persons responsible for governing the London Borough of Hillingdon Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

All Pensions Committee, local Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (tPR) Code of Practice for Public Service Pension Schemes.

To whom this Policy Applies

This Training Policy applies to all members of the Pensions Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all officers in the London Borough of Hillingdon Pension Fund Management Team and the Section 151 Officer.

Less senior officers involved in the daily management of the Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the ~~Deputy Director, Strategic Finance~~Head of Pensions Treasury and Statutory Accounts.

Advisers to the London Borough of Hillingdon Pension Fund are also expected to be able to meet the objectives of this Policy.

Officers of employers participating in the London Borough of Hillingdon Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and the London Borough of Hillingdon will provide appropriate training for them. This will be covered further in the London Borough of Hillingdon Pension Fund Administration Strategy.

CIPFA and tPR Knowledge and Skills Requirements

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010 CIPFA launched technical guidance for pension committees and non-executives in the public sector within a knowledge and skills framework. The Framework set the skill set for those responsible for pension scheme financial management and decision making.

Subsequently, in July 2015 CIPFA launched technical guidance for local pension board members by extending the existing knowledge and skills frameworks in place. This Framework sets the skill set to enable pension board members to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the original Committee and non-executives framework):

- Pensions legislation
- Public section pensions governance
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year, including what assessment of training needs has been undertaken, and what training has been delivered against the identified needs.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements have been incorporated and expanded on within tPR's Code of Practice 14: Governance and Administration of Public Service Pension Schemes which came into force in April 2015.

Application to the London Borough of Hillingdon Pension Fund

London Borough of Hillingdon fully supports the use of the CIPFA Knowledge and Skills Framework, and tPR's Code of Practice and adopts the principles they set out. This Training Policy highlights how the Administering Authority will strive to achieve those principles through use of a rolling Training Plan together with regular monitoring and reporting.

The London Borough of Hillingdon Pension Fund Training Plan

London Borough of Hillingdon recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee, local Pension Board members and senior officers, and that training is a key element of this process. London Borough of Hillingdon will develop a rolling Training Plan based on the following key elements:

Individual Training Needs	A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.
Hot Topic Training	The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or an area of change for the Fund. This training may be targeted at specific roles.
General Awareness	Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee, a Pension Board member or the specific role of the officer.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee and Pension Board meetings) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Hillingdon Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Hillingdon website where useful Fund specific material is available

In addition London Borough of Hillingdon Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Hillingdon Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of London Borough of Hillingdon Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement ~~of Investment Principles including London Borough of Hillingdon Pension Fund's statement of compliance with the LGPS Myners Principles~~
  - The Communications Policy
  - The Administration Strategy
- The Administering Authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each member, Pension Board member or officer in achieving their identified individual training requirements within six months of those requirements being identified.

Monitoring Knowledge and Skills

In order to identify whether the objectives of this policy are being met the Administering Authority will compare and report on attendance at training based on the following:

- Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
- Hot Topic Training – attendance by at least 75% of the required Pensions Committee, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.
- General Awareness – each Pensions Committee, Pension Board member or officer attending at least one day each year of general awareness training or events.
- Induction training – ensuring areas of identified individual training are completed within six months.

Key Risks

The key risks to the delivery of this Policy are outlined below. The Pensions Committee, with the assistance of the Pension Board, will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings

by Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.

- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided is not an acceptable standard.

Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

- The training provided / attended in the previous year ~~at an individual level~~
- The results of the measurements identified above.

This information will also be included in the London Borough of Hillingdon Pension Fund's Annual Report and Accounts.

At each Pensions Committee and Pension Board meeting members will be provided with details of forthcoming seminars, conferences and other relevant training events.

Costs

All training costs related to this Training Policy are met directly by London Borough of Hillingdon Pension Fund.

Approval, Review and Consultation

This Training Policy was approved at the London Borough of Hillingdon Pensions Committee meeting on 9 December 2015. It will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Training Policy, please contact:

Sian Kunert, London Borough of Hillingdon, Head of Pensions Treasury and Statutory Accounts

Civic Centre, High Street, Uxbridge, Middlesex, UB8 1UW

E-mail - skunert@hillingdon.gov.uk

Telephone - 01895 556578

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Pension Fund Risk Management Policy

Committee	Pensions Committee
Contact Officers	Sian Kunert, Finance
Papers with report	Revised Risk management policy

HEADLINES

The Risk Management Policy for the Pension Fund was approved at Pensions Committee on 15 June 2016. This policy has now been revised, and was reviewed by Pensions Board in advance approval in April 2019.

RECOMMENDATION

It is recommended that Pensions Committee:

1. Approve the revised Risk Management policy.

SUPPORTING INFORMATION

The Risk Management Policy sets out the aims and objectives of the Administering Authority in relation to the management of risk; explains the regulatory context in within which the policy has been developed; and sets out the Pension Fund risk management process.

The risk register has been established as an integral tool to management decisions with review and discussion every quarter. The register in its current form began in 2016 with Eight key risks. Two further risks have since been added on the specific issues of Climate Change and Cyber Security to reflect the changing importance and risk to the fund on these areas. Other risks have been added and later removed when of less significance such as the risk of the introduction of MIFID II legislation. 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.

While the fund has undergone changes in membership of both the Pensions Board and Pensions Committee there has remained consistency in some members. Members of both the Committee and the Board have completed the training needs analysis to identify knowledge and skills gaps and have attended a number of training sessions.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report.

LEGAL IMPLICATIONS

There are no legal implications in the report.

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London Borough of Hillingdon Pension Fund

Risk Management Policy

Risk Management Policy

Introduction

This is the Risk Management Policy of the London Borough of Hillingdon Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") managed and administered by London Borough of Hillingdon ("the Administering Authority"). The Risk Management Policy details the risk management strategy for the Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, 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.

To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund, and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the ~~Deputy Director Strategic Finance~~Head of Pensions Treasury and Statutory Accounts.

Advisers and suppliers to the Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

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.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

<u>CIPFA and The Pensions Regulator's Requirements</u>

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 relating to the requirement to have internal controls in public service pension schemes.

> *"**249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> > *(a) in accordance with the scheme rules, and*

(b) in accordance with the requirements of the law.

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which they encourage scheme managers (i.e. administering authorities in the LGPS) to employ a risk based approach to assessing the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks, and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data is managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the London Borough of Hillingdon Pension Fund

The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to the Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the ~~Deputy Director Strategic Finance~~Head of Pensions Treasury and Statutory Accounts is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The London Borough of Hillingdon Pension Fund Risk Management Process

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

1. Risk Identification

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

2. Risk Analysis & Evaluation

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

		Risk rating	Risk rating	Risk rating	Risk rating
LIKELIHOOD	**Very High (A)** This week	**A4**	**A3**	**A2**	**A1**
	High (B) This month	**B4**	**B3**	**B2**	**B1**
	Significant (C) This year	**C4**	**C3**	**C2**	**C1**
	Medium (D) **N**ext year	**D4**	**D3**	**D2**	**D1**
	Low (E) Next 5 years	**E4**	**E3**	**E2**	**E1**
	Very Low (F) Next 10 years	**F4**	**F3**	**F2**	**F1**
		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
		IMPACT: Financial or Reputation			
		up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
		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

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

3. Risk Response

The ~~Deputy Director Strategic Finance~~Head of Pensions Treasury and Statutory Accounts will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

4. Risk Monitoring & Review

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

5. Risk Reporting

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Committee.

The Pension Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in either the Finance Group Register or the Corporate Risk Register.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately

Costs

All costs related to this Risk Policy are met directly by the Fund.

Approval, Review and Consultation

This Risk Policy was approved at the London Borough of Hillingdon Pension Committee meeting on 15 June 2016 and amended in April 2019. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

Sian Kunert; ~~Chief Accountant~~Head of Pensions Treasury and Statutory Accounts; London Borough of Hillingdon

Civic Centre; High Street; Uxbridge; Middlesex; UB8 1UW
Email: skunert@hillingdon.gov.uk

Further information on the London Borough of Hillingdon Pension Fund can be found @:
https://www.hillingdon.gov.uk/pensions

Pension Fund Risk Register

Committee	Pension Committee
Officer Reporting	Sian Kunert, Finance
Papers with this report	Pension Fund Risk Register

HEADLINES

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). There are no risked rated as Red.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Consider the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks.**

SUPPORTING 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 11 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

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

Risk PEN04 on Pay and price inflation reported previously has been amended to better define the risk as relating to the risk to employers in relation to contribution rates. A new risk PEN05 has been added for the risk of Inflation, which is the funds greatest investment risk.

Risk PEN03 has been amended slightly to take into account the increased exposure to the London CIV pool for investing its assets and the transparency and communication of manager performance.

A new risk PEN11 has been added to identify the risk of liquidity and cash flow as pension funds are increasing becoming cash flow negative on member activities. The addition of this risk also acts in response to the recent situation in which an investment fund was gated to stop funds being withdrawn effecting its investors – note: the Hillingdon fund was not invested in this fund .

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

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

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Pension Fund Risk Register 2019/20

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 Hymans Quarterly funding report 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 M Goddard
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 carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	Sian Kunert / Cllr M Goddard
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 monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation, however transaparency and reporting is less controled by the fund. Imporvements in ocmmunciation form the pool have been requested over performance transparency of the managers to inform swicft action. 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 M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 04 - Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions	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 of Deferred and Pensioner members as well as 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. 4. Covenant's are in place with security of a guarantee or bond for admission agreements.	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3** **(Static)**	Sian Kunert / Cllr M Goddard
PEN 05 - Inflation significantly more than anticipated	1. Inter-valuation monitoring gives early warning. 2. Investment in index-linked bonds helps to mitigate this risk. 3. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.	The impact of inflation is reviewed through all strategic investment decision making.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(New)**	Sian Kunert / Cllr M Goddard
PEN 06 - 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)**	Sian Kunert / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 07 - 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)**	Sian Kunert / Cllr M Goddard
PEN 08 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 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 knowledge 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 M Goddard
PEN 09 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from SCC and Hillingdon is sent via encryption software 4.Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal 5. Systems at Hillingdon and SCC are protected against viruses and other system threats 6. SCC are accredited to ISO27001:2013 and applying for Cyber Essentials Plus accreditation. SCC are also PSN compliant (to June 2019)	This risk has been recognised in response to recommendations by the Pensions Regulator Certificates on SCC accreditation received SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund. Follow up research will be carried out to further understand the data transfers and risks in this area including potential for treat through other employers.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Increased)**	Sian Kunert / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 10 - Climate Change - Risk of financial lose through Climate change impacts	1. The fund have an ESG policy in place. 2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world. 3. Manger selections take into account ESG policy 4. Mangers are expected to be signed up to the stewardship Code 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings	The investment strategy should be updated with a statement on climate change risk. Follow up required to confirm all managers are now signatories to the UK PRI The fund biggest risk exposure to poorly managed companies in respect of carbon emissions will be through the passive allocation. Tilts on this allocation will be reviewed and considered to reduce this risk.	Strategic risk Likelihood = Low Impact = Large **Rating = E2 (Static)**	Sian Kunert / Cllr M Goddard
PEN 11 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is suffient cash avaialble to meet all beneficiary payments. 2. Cash management inlcudes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticiapation of cash calls 3. officers laise with managers where commitemnts have been made to keep track of predicted drawdown timescales 4. The fund is significantly diversidfied in different asset classes and asset managers to ensur if there is a hold on any one holding then the portfolio will continue to opperate as normal.	There is a detailed cash management process in place and have been developed over the past 2 years. This is signed off daily to ensure liquity. The fund comintuies to invest in illiquid asset clases as an illiquidity premium however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trades times are listed in the cash management policy.	Strategic risk Likelihood = Low Impact = Medium **Rating = E3 (New)**	Sian Kunert / Cllr M Goddard

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

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WORK PROGRAMME 2019/2020

Committee	Pensions Committee
Officer Reporting	Sian Kunert, Finance
Papers with report	None

HEADLINES

This report is to enable the Pension Committee to review planned meeting dates and forward plans.

RECOMMENDATIONS

That the Committee:

1. **Confirms the dates for Pensions Committee meetings; and**
2. **Makes suggestions for future agenda items, working practices and / or reviews.**

SUPPORTING INFORMATION

Meeting Date	Item
17 July 2019	• Training and Methodology on Triennial Actuarial Valuation • Audit report of Pension Fund Accounts • Investment update and manager review • Training policy and Training needs report • Risk Management Policy • Administration Report • Risk Register • ESG and Voting Engagement • Draft Work Plan
30 October 2019	• Presentation and overview from LCIV • Pension Fund Annual Report 2018/19 • Valuation update and Funding Strategy Statement • Investment update and manager review • Revised Administration Strategy • Administration Report • Risk Register • ESG and Voting Engagement

29 January 2020	• Training TBC • Investment update and manager review • Administration Report • Annual report from Pensions Board to Pensions Committee • Risk Register • ESG and Voting Engagement
25 March 2020	• Training TBC • Investment Strategy Statement update • Valuation report and results and Funding Strategy Statement • Investment update and manager review • Administration Report • Risk Register • ESG and Voting Engagement
TBC July 2020	• Training TBC • Audit of Accounts and Annual Report • Investment update and manager review • Administration Report • Communication Policy Revised • Risk Register • ESG and Voting Engagement

FINANCIAL IMPLICATIONS

There are no financial implications in the report.

LEGAL IMPLICATIONS

There are no legal implications in the report.

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