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Pensions Committee

Date: **WEDNESDAY, 20 MARCH 2019**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 3 - 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:

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

Published: Tuesday, 12 March 2019

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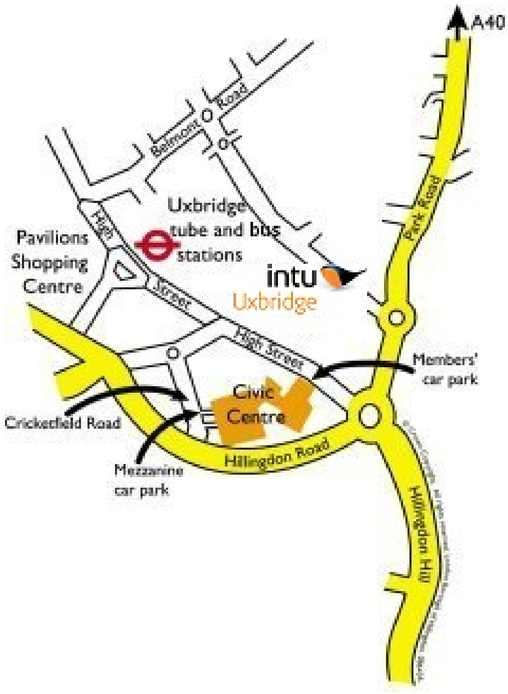

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Agenda

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Minutes

PENSIONS COMMITTEE

21 January 2019

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

	Committee Members Present: Councillors Philip Corthorne (Chairman) Martin Goddard (Vice-Chairman) Teji Barnes Tony Eginton John Morse **LBH Officers Present**: Tunde Adekoya, Pension Fund Accountant Ken Chisholm, Head of Pensions Administration Paul Whaymand Sian Kunert, Head of Pensions, Treasury and Statutory Accounts Tunde Adekoya Hayley Seabrook, Senior HR Operations Support Officer James Lake, Investment ManagerLead Corporate Accountant Liz Penny, Democratic Services Officer Paul Whaymand, Corporate Director of Finance **Also Present**: David O'Hara, Investment Advisor – KPMG Roger Hackett, Pensions Board Member Zak Muneer, Pensions Board Member Hayley Seabrook, Pensions Board Member
20.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
21.	**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.

22.	**MINUTES OF THE MEETING DATED 30 OCTOBER 2018** *(Agenda Item 3)* **RESOLVED That: the minutes of the meeting dated 29 October 2018 be agreed as an accurate record.**
23.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* It was confirmed that all items marked Part I would be considered in public and those marked Part II would be considered in private.
24.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I** *(Agenda Item 5)* This item was preceded by a training item from KPMG on roles and responsibilities of the Pensions Committee. Key points highlighted were as follows:- • At 31 December 2018, the Pensions Fund held approximately 1 billion pounds in assets and 1.4 billion in liabilities; less assets than liabilities - a situation which had been the same for a number of years. Annual employer contributions were around £33m in 2017/18. A formal valuation by the Scheme Actuary was due to take place at the end of March 2019. Funds were invested in Equity, Diversified Growth, Real Assets, Credit and Private Credit; • Within the Fund there were 62 contributing employers, the largest being the London Borough of Hillingdon Council. In 2017/18, Hillingdon Council accounted for c. 71% of contributions paid in and c. 79% of members (approximately 5,500 employees); • More than 50% of the Pensions Fund was invested in the London CIV and the rest in third party managing companies; • The Governance Structure was outlined. It was explained that the purpose of the Pensions Board was to scrutinise the Pensions Committee and ensure it complied with regulations in relation to the Fund. The Pensions Committee was in turn responsible for setting strategic funding and investment policies for the Fund. Officers supported the Committee and progressed the implementation of Committee decisions; • The London Collective Investment Vehicle (LCIV) was set up to manage the pooled assets of 32 London Local Authority Pension Funds, including the Hillingdon Fund. The Fund had 55% of assets invested via the LCIV at present; • LGPS investment regulations changed in 2016 thereby removing prescriptive regulations and facilitating pool funding; • A key directive of the 2016 investment regulations was to maintain an Investment Strategy Statement (ISS) which was published on the website; • Recent guidance from Central Government encouraged individual funds to pool their assets quicker. New regulations from DWP in 2018 had lifted the bar for private sector pension schemes on EGS reporting. Members commented that the steer from Central Government was useful but the Committee needed to make its own decisions. David O'Hara, KPMG advisor, addressed the Committee. In late 2018 the Committee had agreed that there was a need to review the strategic allocation to Diversified Growth Funds (DGF) currently managed by Ruffer. It was reported that Ruffer had performed poorly over the last 12 months. Moreover,DGF's were not a cheap option as

	fees were high. The Committee did not have full confidence in the DGF allocation delivering the required performance objective and had asked KPMG to explore possible alternatives. Three alternative strategic allocation options were discussed:- 1. Index-Linked Gilts + Equity - it was considered that this option would deliver broadly the same risk as the current arrangement; 2. Index-Linked Gilts + Infrastructure Equity - this option would decrease Diversified Growth exposure and would allocate a higher percentage of the Fund to Infrastructure Equity. Members were informed that the London CIV was in the process of launching an infrastructure fund. It was felt that this approach would reduce the risk as infrastructure was considered to be less volatile; 3. Index-Linked Gilts + Long-dated Inflation Linked Income - the Committee was advised that the London CIV was launching a Long-dated Inflation Linked Income fund. The money would be invested in property which could represent an over-concentration of investment in one area. Councillors commented that option 1) would increase the Fund's equity exposure while option 3) would increase exposure to property - both options were not consistent with the Committee's desired approach. Members agreed that option 2) appeared the most attractive as it would build up protection against inflation. It was felt that the London CIV could offer more global options within the CIV umbrella. Zak Muneer, Pension Board Member, queried whether increased investment in infrastructure equity would be advisable with concerns discussed previously on exposure to emerging market infrastructure. It was confirmed that the London CIV infrastructure fund would be concentrated in core developed infrastructure markets in Europe and Scandinavia rather than in more risky markets such as China. The allocation would need to be explored thoroughly by the Committee prior to any decision being made. It was noted that the Fund had underperformed to the benchmark over the last quarter to September 18 and the fund had lost value in the more recent period to December 18 largely due to a fall in equity markets in the quarter. The defensive characteristics of our managers appeared to be working effectively, with the exception of Ruffer. It was anticipated that the Fund would perform better in January 2019. Sian Kunert, Head of Pensions Treasury and Statutory Accounts, agreed to further explore the LCIV sub fund offerings and index-linked bond options in order to weigh up the costs and returns. She would report back to the Committee at the next meeting. **RESOLVED That the Committee:-** **1. Considered and discussed issues raised in the training item;** **2. Discussed the Fund performance update and agreed any required decisions in respect of mandates or Fund Managers'** **3. Agreed to reduce strategic asset allocation in relation to Diversified Growth Fund allocation to zero and increase allocation to both index-linked bonds and infrastructure by 5%;** **4. Delegated the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;** **5. Sian Kunert, Head of Pensions Treasury and Statutory Accounts, explore the LCIV infrastructure sub fund and index-linked gilts to weigh up the costs and returns and report back to the Committee at the next meeting.**
25.	**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 and internally at Hillingdon. Councillors were informed that there had been a number of changes at Surrey County Council and things had moved on significantly. SCC would be adjusting the parameters within the workflow system so that more accurate reports were produced covering the activities outlined in the KPI report. More staff had been recruited both at a senior level and on the help desk and members of the Fund had not reported any problems. Surrey County Council would be introducing the iConnect System over the next calendar year which would be more efficient and would be updated with real-time information on a monthly basis. It was hoped that year end information would be available before the end of May this year. **RESOLVED That: the report be noted.**
26.	**RISK MANAGEMENT REPORT** *(Agenda Item 7)* The purpose of the report was to identify to the Pensions Committee the main risks to the Pension Fund and to enable them to monitor and review going forward. **RESOLVED That:** **1. The Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks. It was noted that there were no risks currently rated as red.**
27.	**ANNUAL REPORT TO PENSIONS COMMITTEE** *(Agenda Item 8)* The report was compiled to provide feedback to the Pensions Committee on the work undertaken by the Local Pension Board since the last report presented in Pensions Committee in September 2017 and to meet the legislative requirement for producing an annual report. Members noted an error in the wording on page 54 of the report - in paragraph 9, line 3, 'since the structural changes in November 18' should read 'since the structural changes in November 17'. Roger Hackett, Pensions Board Member, informed the Committee that no concerns had been raised. It was felt that the Pensions Committee were debating issues thoroughly and making good decisions. **RESOLVED That: the report be noted.**
28.	**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.

The meeting, which commenced at 5.00 pm, closed at 5.56 pm.

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

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INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	

Contact Officers	Babatunde Adekoya, Finance Scott Jamieson, Independent Adviser David O'Hara, KPMG
Papers with this report	Northern Trust Performance Report

SUMMARY

This item will be preceded with a training item from KPMG on inflation and UK v. US Bonds.

The total size of the fund was £1,011m at 31 December 2018 a decrease £54m from £1,065m at the end of previous quarter. There was an overall investment return over the quarter of -5.02%, this was comparable to the benchmark. The estimated funding position at 31 December 2018 is 75.0% (78.9% as at 30 September 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. **Agree to invest 5% in the London CIV Infrastructure sub fund and invest 5% in UK IL Bonds through LGIM passive portfolio;**
4. **Delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group.**

INFORMATION

1. Fund Performance
Over the last quarter to 31 December 2018, the Fund returned -5.02%, underperforming its benchmark return of -5.01% by 1 basis points. The Fund value decreased over the quarter by £54m, to £1,011m compared to the previous quarter.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	(5.02)	(5.01)	(0.01)
1 Year	(2.67)	(1.97)	(0.70)
3 Year	7.63	7.24	+0.39
5 Year	6.68	6.51	+0.17
Since Inception (09/1995)	6.79	6.70	+0.09

During the quarter, distributions received from Alternative investments were $2.3m, €2.7m & £5.9m. The cash was utilised to fund drawdowns of outstanding commitments in Permira (£3.3m), Macquarie ($1.1m) and Adams Street ($45k). The biggest drag on performance in the quarter under review came mainly from the LCIV Ruffer Portfolio, -5.69 behind its benchmarks. Both Private Equity portfolios of LGT & Adams Street generated the best outperformance for the fund with 14.37% & 18.34% respectively above benchmark returns.

Relative performance over a one-year rolling period was 0.72% behind the benchmark with the largest detractors being JP Morgan and LCIV-Ruffer; with a return of -6.76% & -6.85% less than their respective benchmarks, whilst LGT & Adams Street with 19.85% & 22.87% 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 is invested across 11 different Fund Managers in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Asset Class

	Market Value As at 31 December 2018	Actual Asset Allocation	Benchmark Allocation
ASSET CLASS	**£'000**	**%**	**%**
UK Equities	118,262	11.70	44.0
Global Equities	330,092	32.64	
UK Index Linked Gilts	89,741	8.87	14.0
Multi Asset Credit	79,189	7.83	
Corporate Bonds (Global)	31,493	3.11	
Property	135,076	13.36	12.0
DGF/Absolute Returns	99,569	9.85	10.0
Private Equity	18,152	1.80	2.0
Infrastructure	27,262	2.70	3.0
Private Credit	70,388	6.96	10.0
Long Lease Property	0	0	5.0
Cash & Cash Equivalents	11,974	1.18	0.0
Totals	**1,011,198**	**100.0**	**100.0**

The overweight position Bonds will adjust itself once the cash allocated to Long lease property is drawn-down. A total of 5% fund assets has been allocated for investments in this asset class and in the queue awaiting drawdown.

Current Asset Allocation by Manager

		Market Value As at 31 December 2018	**Actual Asset Allocation**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**
ADAMS STREET	Private Equity	12,852	1.27
LGT	Private Equity	5,259	0.52
AEW	Property	58,432	5.78
JP MORGAN	Multi Asset Credit	79,189	7.83
LCIV - EPOCH	Global Equities	136,220	13.47
LCIV - RUFFER	DGF/Absolute Returns	99,569	9.85
M&G	Private Credit	9,449	0.93
MACQUARIE	Infrastructure	27,262	2.70
PERMIRA	Private Credit	60,939	6.03
LGIM			
	Global Equities	193,872	19.17
	UK Corporate Bonds	31,493	3.11
	UK Index Linked Gilts	89,741	8.87
UBS EQUITIES	UK Equities	118,262	11.70
	Property	22	0
	Private Equity	41	0
	Cash & Cash Equivalents	3,413	0.34
UBS PROPERTY	Property	76,622	7.58
	Cash & Cash Equivalents	381	0.04
Non Custody	Cash & Cash Equivalents	8,180	0.81
		1,011,198	**100**

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

3. Market and Financial climate overview

The FTSE All-Share retreated 10.2% over the period, falling sharply, in line with global equities. It was one of the worst quarters for global equities in many years as fears over the outlook for the world economy came to a head against the backdrop of tightening global monetary conditions, US-China trade tensions and European political uncertainty. Many UK domestic-focused sectors also performed poorly as worries of a “no deal” exit from the EU intensified after the UK published its draft EU Withdrawal Agreement (endorsed by EU leaders) which triggered another period of intense political uncertainty. Despite the uncertainty, and the risk of a UK recession in the event of a “no deal”, the economy continued to recover from the very poor start to 2018. UK Q3 GDP growth came in at 0.6% quarter-on-quarter as expected, up from 0.4% in Q2 and the fastest pace since Q4 2016. More recent data, however, has been volatile: UK retail sales disappointed in October, falling -0.5% month-on-month, but bounced back very sharply in November, increasing by 1.4% month-on-month, which was significantly above consensus expectations. UK households enjoyed an acceleration in wage growth and lower inflation over the period.

US equities declined materially in Q4 - with especially steep falls in December - due to fears over economic momentum and slower earnings growth. The US-China trade dispute also continued to hamper investor optimism. The large cap S&P 500 index outperformed the small & mid cap Russell 2500 index (-16.7%), but still declined by -13.5%.The Federal Reserve (Fed) raised interest rates in December on continued stability in economic data. The labour market remained extremely strong. However, the central bank grew otherwise more dovish in tone, signalling a more cautious view for coming months. IT was amongst the quarter’s weaker sectors, while energy names struggled with expectations of softer China demand that weighed on oil prices. Less economically-sensitive sectors, such as utilities, generally performed better although most areas of the market lost ground.

It was a poor quarter for equities and Europe was no exception with the MSCI EMU index returning -12.7%. Worries over rising US interest rates, trade tariffs, slower Chinese growth and Brexit continue to combine to form a difficult environment for higher risk assets like shares. The defensive sectors of communication services and utilities – often perceived as safe havens due to their stable earnings throughout the cycle – were the only sectors to register a positive return. Materials and information technology were among the worst performing sectors.

The Japanese equity market reflected the deterioration in global sentiment, and ended the quarter down -17.6%. Emerging markets lost value in Q4 as the US-China trade dispute persisted and concerns over global growth increased. The MSCI Emerging markets index decreased in value but outperformed the MSCI World. Mexico was among the weakest index markets as rising concern over the incoming government’s policies, and the implications for investment, led to a sell-off in equities and the peso. The Asian EM of Taiwan, South Korea and China all underperformed with a combination of trade uncertainty, disappointing corporate earnings and technology cycle concerns a headwind.

Bond yields were lower over the quarter, broadly reflecting increased risk aversion and volatility amid continued macro uncertainty relating to trade tensions, Brexit and politics in Italy. US 10-year Treasury yields fell from 3.06% to 2.68%. In Europe, 10-year Bund yields declined from 0.47% to 0.24% as data remained lacklustre. At its final meeting of the year, the ECB confirmed it would end its bond purchase programme, but downgraded its growth and inflation forecasts for the year. Corporate bonds had a challenging quarter and underperformed government bonds. A deterioration of risk sentiment led to the broad-based underperformance across investment grade credit sectors relative to government bonds. High yield (HY) was weak, led down by the energy sector, particularly in the US.

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. Officers were asked to revert back with suitable replacement funds to implement this allocation. Included in the part II report is a paper by KMPG on what the allocation needs to achieve to meet the funding target objectives and a review of the most suitable offerings to implement this strategy through the London CIV.

Draft Statutory Guidance released by MHCLG in January for consultation reiterates that all investments should be transitioned and invested within the pool as quickly and cost effectively as possible. In the draft guidance it is stated that only in exceptional cases, can some existing assets be retained outside the pool on a temporary basis.

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 – opened November 18

The LCIV are currently finalising the set up of its infrastructure fund and Private Debt sub fund. Under consultation are inflation plus and property sub funds where an engagement pack has been issued to the funds on proposed offerings. An engagement pack will shortly be issued on a new Global Equity Core fund; within equities, the next step forward will be for Value and Sustainable exclusion sub funds.

The LCIV have recently appointed a permanent Chief Executive, Mike O'Donnell who will join to the team in March. The LCIV will now progress with its appointment of a Chief Investment Officer as this post have been temporarily covered jointly by the Head of Fixed Income and Head of Equities.

Hillingdon Fund Investment with the London CIV

The Hillingdon Pension Fund currently invests in Ruffer and Epoch on the LCIV platform and LGIM, which sits alongside the LCIV Platform accessing the economies of scale created via the LCIV. The Fund has total LCIV holdings of £551m at 31 December 2018 accounting for almost 55% of total assets of the Pension Fund.

6. ESG, Voting and Engagement

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

During the quarter ended 31 December 2018 the Hillingdon investment managers made the following votes:

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	1,282	8,888	7,625	1,263	0
LGIM	480	4,140	3,499	637	4
JP Morgan	126	1,191	1,088	101	2

UBS were the most active fund manager by attending and voting at more meetings. On average, the reported managers opposed about 13% of proposals at meetings attended.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

London Borough of Hillingdon

Investment Risk & Analytical Services

December 31, 2018

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Client Commentary

Total Scheme Commentary

Equity markets enjoyed a strong January to start 2018 before trade concerns and political distractions that characterised the rest of the year really hit home. Emerging Markets have been in the red since the end of Q1, and although this was balanced by double digit returns from US equity markets, they too finally gave way to leave global markets down 9% for the year. Q4 performance was worse at 13% down and the dominant story at year end is the Fed's rate hike trajectory. That might be due to some recency bias after the December rate hike but the other key factors have either quietened down, like the US China trade kerfuffle or lack sufficient threat on the global stage, like Brexit.

UK Consumers spent freely over the summer months of 2018. In an attempt to cool the economy at the time, the Bank of England voted unanimously for a milestone 25 basis point increase at its August meet, pushing the base rate to 0.75% and its highest level since March 2009 as well as since the financial crisis. Continued uncertainty around Brexit is likely to halt any further rate rises and analyst expectations are that a chaotic no-deal Brexit will be avoided.

Britain's inflation rate dropped to a 20 month low in November as falling oil prices helped provide a further boost to living standards, according to the Office for National Statistics.

This rate falls closer to the central banks inflation target of 2% for 2019. Key downward factors were fading import price pressure and weaker wage growth within the services sector.

In the UK, Q4 2018 saw Sterling lose ground against the Dollar, Euro and Yen. Brexit dominated much of the news in the UK in Q4 2018 culminating with Prime Minister Teresa May delaying the vote in the house of commons on her final Brexit deal until mid-January through fear of rejection. A no-deal Brexit remains a real possibility. The UK Manufacturing PMI rose from 53.6 in November to 54.2 in December, outperforming the market's expectation of 52.5. New orders increased to a 10-month high. The consumer price index including owner occupiers' housing costs rose by 2.2% in the year to November 2018, unchanged from August 2018. Increasing tobacco prices was the main upward contributor offset by falls in petrol prices and games, toys and hobbies. Consumer confidence fell to a 5-year low in December with the uncertainty of the outcomes of Brexit leaving shoppers fearing for the health of the UK economy. The GfK index fell to -14 in December compared to -13 in November and -10 in October.

Within this environment the London Borough of Hillingdon returned -5.02% which was in line with the Total Plan benchmark of -5.01%. In monetary terms this is a loss in assets of £53.3 million and the value of the combined scheme now stands at £1,011 million as at 31st December 2018.

The Scheme's one year return of -2.67% is 0.72% behind the benchmark of -1.97% following three consecutive quarters of underperformance. While over the longer periods, with ten positive quarters over the last 3 years, the Scheme has outperformed, producing a return of 7.63% over three year versus 7.24%. Then the excess marginally falls to 0.15% for the 5 year period where we see figures of 6.68% versus 6.51% per annum. Then since inception in September 1995, the Fund remains ahead of target by 8 basis points with an annualised return of 6.79% against a target of 6.70%.

Manager Commentary

AEW UK

The AEW UK Property Fund posted a total return of 2.41%, beating the IPD UK PPFI AI Balanced Funds Index for a third time in the past year. Rolling one year returns see double digit gains, with the mandate returning 10.10% versus 6.55% for the IPD Index

They continue to be ahead over the three year period returning 10.06% against the benchmark of 6.95%. This translates as a +2.91% relative return. With positive absolute returns in all but one period and only four quarters in the red on a relative basis, growth ahead of benchmark is seen since the fund incepted. Since the funds inception date of July 2014, the fund return is 11.55%, leading to an outperformance of 1.99% when compared to the IPD figure of 9.37%.

JP Morgan

In the latest quarter JP Morgan posted a decrease in assets of -2.35% leading to an underperformance of -3.31% when compared to the 0.99% target for the 3 Month LIBOR + 3% p.a. Then with positive results in only one of the last four quarters, the one year return of -3.15% is in negative territory and is behind the 3.87% target by 6.76%. Then over three and five years they post returns closer to the benchmark with figures of 3.49% vs 3.67% and 2.48% vs 3.65% respectively. Since the mandate funded their return of 3.16% is 49 basis points below the target return of 3.67% on an annualised basis.

Legal & General 1

There was a reorganisation of assets in both Legal & General 1 and 2 portfolios over quarter four. 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 -8.79% against -8.73% for the custom fixed weight blended benchmark, a marginal underperformance of +7 basis points. In the short period since inception in October 2016, they return 1.69%, which is below the benchmark return of 1.80%.

Legal & General 2

During February 2017 the Legal & General mandate was funded, now in its first full year of investment they post a return of -1.65% against -0.83% for the fourth 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 3.28% against 3.87% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 569 basis point underperformance of the 3-mth Sterling LIBOR target, leading to the second consecutive quarter of underperformance being reported. 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 2.41% versus 0.66%, then similarly for the five years with figures of 3.28% against 0.66%, culminating in since inception (May 2010) figures of 4.54% versus 0.82% per annum, which translates as a relative return of 3.69 %. 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 Q4 by producing a return of -1.19% against the 3 Month LIBOR +4% p.a. target of 1.23%, demonstrating an underperformance of 2.40%. This is the third consecutive quarter of underperformance and the full year return now trails behind the benchmark by 4.60%, coming from figures of 0.04% against 4.87%. Over the three and five year the account registers figures of 8.74% vs 4.66% and 7.93% vs 4.65% respectively; since inception (May 2010) return falls slightly to 6.69% pa whilst the benchmark is 4.70% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 8.33% opposed to the comparator of 4.60%.

Macquarie

Over the last three months, Macquarie produced a growth of 3.56%, against the 0.99% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 2.55%. With twelve consecutive quarters of positive absolute and relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 15.99% beats the target of 3.87% by 11.67%, similarly the three year result of 18.24% versus 3.66% exhibits the best relative return at 14.06%. The annualised return over 5 years falls to 15.20%, but still ahead of the 3.65% seen for the benchmark; then since inception (September 2010) the 5.96% is ahead of the target of 3.69%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.31%, which is ahead of the benchmark figure of 3.67%.

UBS

During Q4 the UBS UK Equity investments returned -12.03%, behind the -10.25% for the FTSE All Share. Looking into the attribution analysis this underperformance was largely due to selection effects. The most significant being the selection decisions in Consumer Services (-74bps) and Financials (-80bps), while the largest positive impact comes from Consumer Goods (+29 bps). Allocation effects had a small positive impact with the most significant being the underweighting in Consumer Goods (+18 bps) as well as overweighting in Basic Materials (+11bps). The manager is now behind over the one year, stemming from figures of -10.12% vs -9.47% translates as a relative return of -0.72%. This is largely attributable to allocation effects, the biggest impacts come from both underweighting Consumer Goods (+132bps) and overweighting Oil & Gas (+35 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 9.62% versus 8.34% on an annualised basis.

ManagerCommentary

Premira Credit

The Premira Credit Fund saw a growth of 0.91% over the fourth quarter of 2018, this was just behind the 3 Month LIBOR +4% p.a. target of 1.23%. The fund has outperformed in two of last four quarter's and are still ahead of target, leading to an outperformance of 0.93%, created from figures of 5.85% against 4.87%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 8.52% against the benchmark of 4.63%, leading to a relative position of 3.72%.

UBS Property

In continuation from the previous period, the latest quarter for the UBS Property posted an underperformance of -0.32%, generated from a return of 0.58% against the IPD UK PPFI All Balanced Funds index of 0.90%. Over the one year the manager is behind the index, with a full year return of +6.07% vs +6.55%. The previous good run of results particularly during 2015 leads to high absolute returns staying ahead of the IPD target over the longer periods, peaking over the five year with a return of 10.46% against 9.71%. Then since inception, in March 2006, the fund return falls to 4.10% per annum which manages to stay just ahead of the benchmark figure of 4.06%.

Private Equity

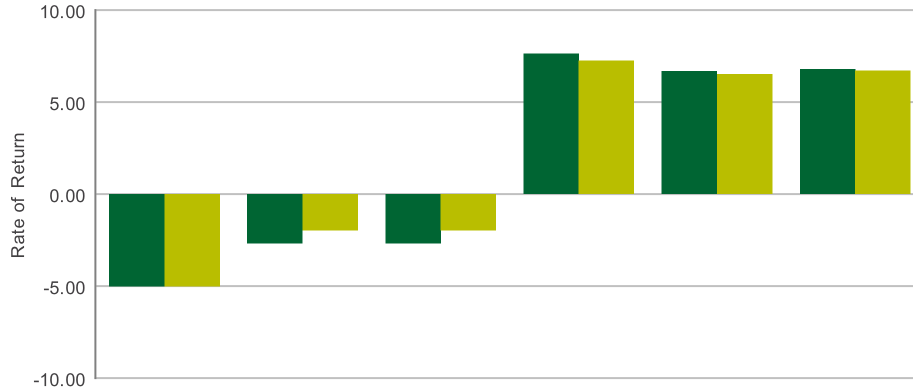
The private equity assets saw a 3.66% rise in value for LGT. Adam Street saw an increase of 7.25%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 20.72%, 22.74% and 18.26% for the one, three and five year periods respectively, while Adam Street posted 23.77%, 17.09% and 18.71% over the same periods. Adam St are ahead of the proxy benchmark of MSCI AC World +4% p.a. over the three and five year period (which shows 16.56% and 14.58%). LGT are also ahead over the three and five year outperforming by 530bps and 321bps respectively. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 7.57% pa, while LGT sees a more modest dip to 11.61%.

Epoch

Over the fourth quarter the relatively new investment in Epoch's income equity fund generated a return of -5.61%. Since inception (November 2017) the fund has observed a fall in value -3.36% compared to the MSCI World figure of -3.02%, this leads to a relative return of -0.36%.

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	-5.02	-2.67	-2.67	7.63	6.68	6.79
Index	-5.01	-1.97	-1.97	7.24	6.51	6.70

Index: Total Plan Benchmark

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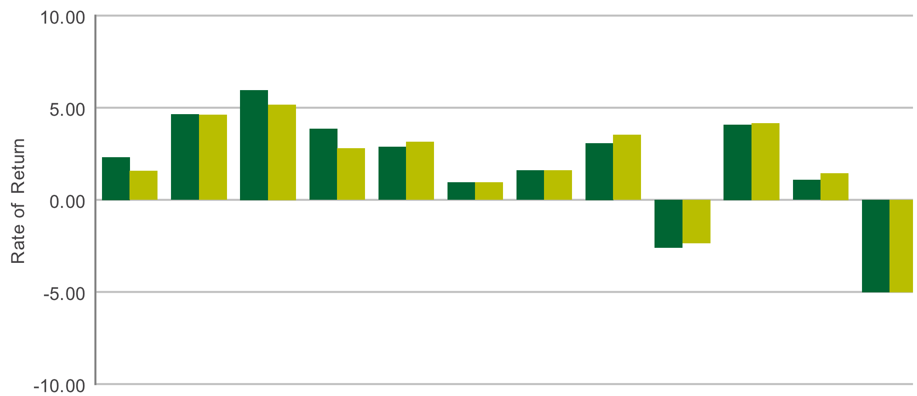
RISK STATISTICS

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	-2.67	7.63	6.68
Index Return	-1.97	7.24	6.51
Relative Excess Return	-0.72	0.36	0.15
Standard Deviation	4.65	5.08	4.93
Index Standard Deviation	4.90	4.73	4.79
Tracking Error	1.10	1.22	1.09
Information Ratio	-0.64	0.32	0.15
Sharpe Ratio	-0.76	1.37	1.22
Index Sharpe Ratio	-0.58	1.39	1.22
Sortino Ratio	-	3.26	2.38
Treynor Ratio	-3.83	6.68	6.00
Jensen's Alpha	-0.93	0.09	0.14
Relative Volatility (Beta)	0.92	1.04	1.00
R Squared	0.95	0.94	0.95

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

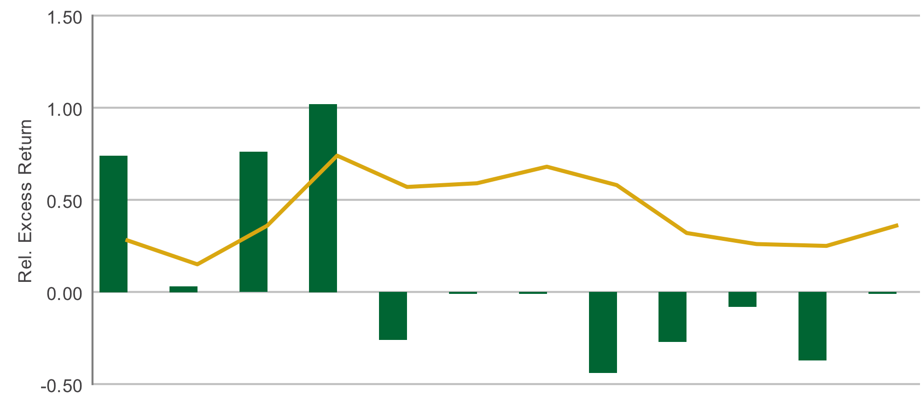
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18
Fund	2.32	4.64	5.96	3.85	2.88	0.94	1.59	3.08	-2.60	4.08	1.08	-5.02
Index	1.57	4.61	5.17	2.79	3.14	0.95	1.60	3.53	-2.34	4.16	1.45	-5.01

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q1 '16	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18
3M R.Excess	0.74	0.03	0.76	1.02	-0.26	-0.01	-0.01	-0.44	-0.27	-0.08	-0.37	-0.01
3Y R.Excess	0.28	0.15	0.36	0.74	0.57	0.59	0.68	0.58	0.32	0.26	0.25	0.36

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months Port	Three Months Index	Three Months Relative Excess	Year to Date Port	Year to Date Index	Year to Date Relative Excess	One Year Port	One Year Index	One Year Relative Excess
London Borough of Hillingdon	1,011,198,397	100.00	-5.02	-5.01	-0.01	-2.67	-1.97	-0.72	-2.67	-1.97	-0.72
Total Plan Benchmark											
AEW UK	58,432,213	5.78	2.41	0.90	1.50	10.10	6.55	3.33	10.10	6.55	3.33
LBH22 AEW Benchmark											
JP Morgan	79,188,982	7.83	-2.35	0.99	-3.31	-3.15	3.87	-6.76	-3.15	3.87	-6.76
LBH15 JPM LIBOR +3%pa											
Legal & General 1	193,872,278	19.17	-8.79	-8.73	-0.07	-7.46	-7.26	-0.21	-7.46	-7.26	-0.21
LBH26 L&G Benchmark											
Legal & General 2	121,234,111	11.99	-1.65	-0.83	-0.83	-2.08	-1.32	-0.77	-2.08	-1.32	-0.77
LBH27 L&G Benchmark											
M&G Investments	9,471,853	0.94	-1.19	1.23	-2.40	0.04	4.87	-4.60	0.04	4.87	-4.60
LBH10 3 Month LIBOR +4%pa											
Macquarie	27,262,151	2.70	3.56	0.99	2.55	15.99	3.87	11.67	15.99	3.87	11.67
LBH14 Macquarie LIBOR +3%pa											
Premira Credit	60,938,582	6.03	0.91	1.23	-0.32	5.85	4.87	0.93	5.85	4.87	0.93
LBH24 Premira LIBOR +4%pa											
UBS	121,739,128	12.04	-12.03	-10.25	-1.99	-10.12	-9.47	-0.72	-10.12	-9.47	-0.72
LBH04 UBS Benchmark											
UBS Property	77,003,116	7.62	0.58	0.90	-0.32	6.07	6.55	-0.45	6.07	6.55	-0.45
LBH06 UBS Property Benchmark											
Adam Street	12,851,931	1.27	7.25	-9.37	18.34	23.77	0.73	22.87	23.77	0.73	22.87
Adam Street PE Bmark											
LGT	5,260,344	0.52	3.66	-9.37	14.37	20.72	0.73	19.85	20.72	0.73	19.85
LGT PE Bmark											
Epoch Investment P Income	136,219,737	13.47	-5.61	-11.35	6.47	-2.97	-3.04	0.07	-2.97	-3.04	0.07
LBH11001 MSCI World ND											
London CIV Ruffer	99,575,230	9.85	-5.44	0.26	-5.69	-6.04	0.87	-6.85	-6.04	0.87	-6.85
LBH11003 Ruffer BM Libor											

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	**7.63**	**7.24**	**0.36**	**6.68**	**6.51**	**0.15**	**6.79**	**6.70**	**0.08**	**30/09/1995**
AEW UK LBH22 AEW Benchmark	**10.06**	**6.95**	**2.91**	-	-	-	**11.55**	**9.37**	**1.99**	**30/06/2014**
JP Morgan LBH15 JPM LIBOR +3%pa	**3.49**	**3.67**	**-0.17**	**2.48**	**3.65**	**-1.13**	**3.16**	**3.67**	**-0.49**	**08/11/2011**
Legal & General 1 LBH26 L&G Benchmark	-	-	-	-	-	-	**1.69**	**1.80**	**-0.11**	**31/10/2016**
Legal & General 2 LBH27 L&G Benchmark	-	-	-	-	-	-	**3.28**	**3.87**	**-0.57**	**22/02/2017**
M&G Investments LBH10 3 Month LIBOR +4%pa	**8.74**	**4.66**	**3.90**	**7.93**	**4.65**	**3.14**	**6.69**	**4.70**	**1.91**	**31/05/2010**
Macquarie LBH14 Macquarie LIBOR +3%pa	**18.24**	**3.66**	**14.06**	**15.20**	**3.65**	**11.15**	**5.96**	**3.69**	**2.18**	**30/09/2010**
Premira Credit LBH24 Premira LIBOR +4%pa	**6.99**	**4.66**	**2.22**	-	-	-	**8.52**	**4.63**	**3.72**	**30/11/2014**
UBS LBH04 UBS Benchmark	**9.82**	**6.13**	**3.47**	**4.79**	**4.08**	**0.68**	**9.62**	**8.34**	**1.19**	**31/12/1988**
UBS Property LBH06 UBS Property Benchmark	**5.50**	**6.45**	**-0.90**	**10.46**	**9.71**	**0.69**	**4.10**	**4.06**	**0.03**	**31/03/2006**
Adam Street Adam Street PE Bmark	**17.09**	**16.56**	**0.46**	**18.71**	**14.58**	**3.61**	**7.57**	-	-	**31/01/2005**
LGT LGT PE Bmark	**22.74**	**16.56**	**5.30**	**18.26**	**14.58**	**3.21**	**11.61**	-	-	**31/05/2004**
Epoch Investment P Income LBH11001 MSCI World ND	-	-	-	-	-	-	**-3.36**	**-3.02**	**-0.36**	**08/11/2017**
London CIV Ruffer LBH11003 Ruffer BM Libor	**2.41**	**0.66**	**1.74**	**3.28**	**0.66**	**2.60**	**4.54**	**0.82**	**3.69**	**28/05/2010**

Category: **Total Fund Gross of Fees**

Market Value Summary - Three Months

Account/Group	30/09/2018 Market Value	30/09/2018 Weight	Net Contribution*	Income	Fees	Appreciation	31/12/2018 Market Value	31/12/2018 Weight	Change in Weight
London Borough of Hillingdon	**1,064,786,331**	**100.00**	**-521,555**	**6,314,110**	**21,547**	**-59,380,490**	**1,011,198,397**	**100.00**	**0.00**
AEW UK	57,057,176	5.36	0	1,468,639	0	-93,601	58,432,213	5.78	0.42
JP Morgan	81,095,195	7.62	0	0	0	-1,906,214	79,188,982	7.83	0.22
Legal & General 1	242,384,488	22.76	-28,512,155	0	4,516	-20,000,055	193,872,278	19.17	-3.59
Legal & General 2	97,688,102	9.17	28,503,142	0	4,489	-4,957,133	121,234,111	11.99	2.81
M&G Investments	10,445,644	0.98	-858,962	0	0	-114,830	9,471,853	0.94	-0.04
Macquarie	27,934,674	2.62	-1,640,913	938,455	0	29,935	27,262,151	2.70	0.07
Premira Credit	62,982,650	5.92	-2,602,542	1,143,003	0	-584,529	60,938,582	6.03	0.11
UBS	139,750,694	13.12	-1,309,579	1,215,494	0	-17,917,481	121,739,128	12.04	-1.09
UBS Property	76,924,973	7.22	-366,923	563,518	12,538	-118,452	77,003,116	7.62	0.39
Adam Street	13,078,032	1.23	-1,128,022	0	0	901,922	12,851,931	1.27	0.04
LGT	5,605,104	0.53	-540,378	11	0	195,607	5,260,344	0.52	-0.01
Cash & Other Assets	215,917	0.02	7,934,778	10,324	4	-12,279	8,148,740	0.81	0.79
Epoch Investment P Income	144,315,276	13.55	0	974,532	0	-9,070,071	136,219,737	13.47	-0.08
London CIV Ruffer	105,308,406	9.89	0	133	0	-5,733,309	99,575,230	9.85	-0.04
Cash & Other Assets	0	0.00	-0	0	0	0	0	0.00	-0.00
Transition	0	0.00	0	0	0	0	0	0.00	0.00

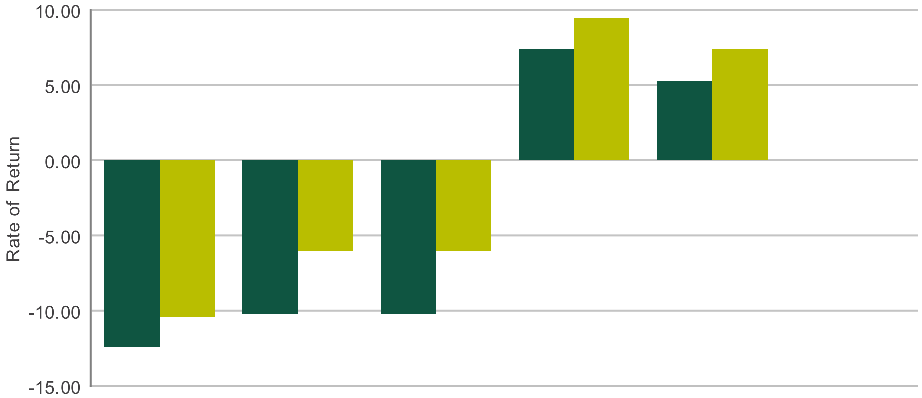
Min -3.59 2.81 Max

**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	-12.39	-10.23	-10.23	7.37	5.23	-
Index	-10.39	-6.04	-6.04	9.47	7.36	-

Index: Total Equity Benchmark

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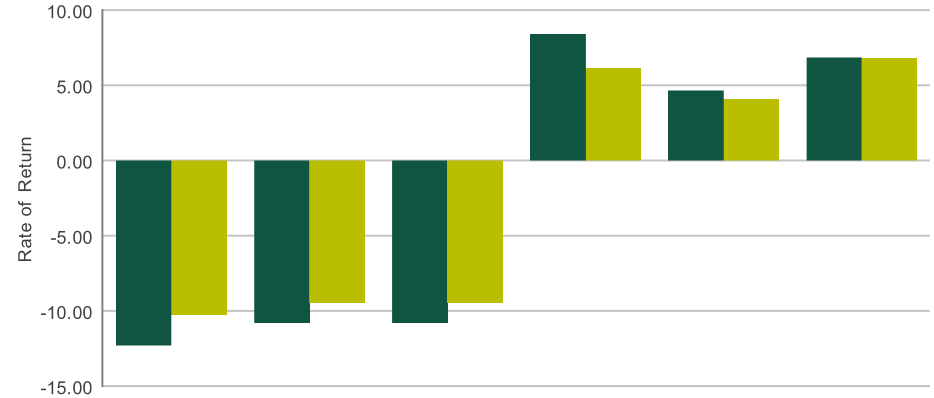
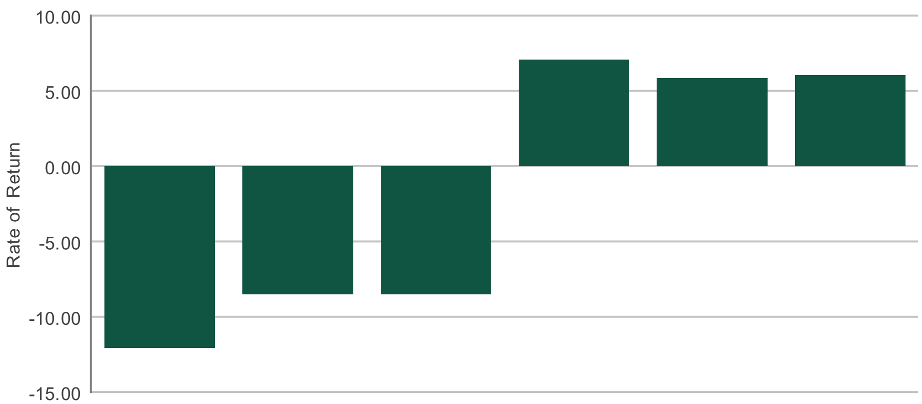
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-12.27	-10.79	-10.79	8.40	4.65	6.82
Index	-10.25	-9.47	-9.47	6.13	4.08	6.80

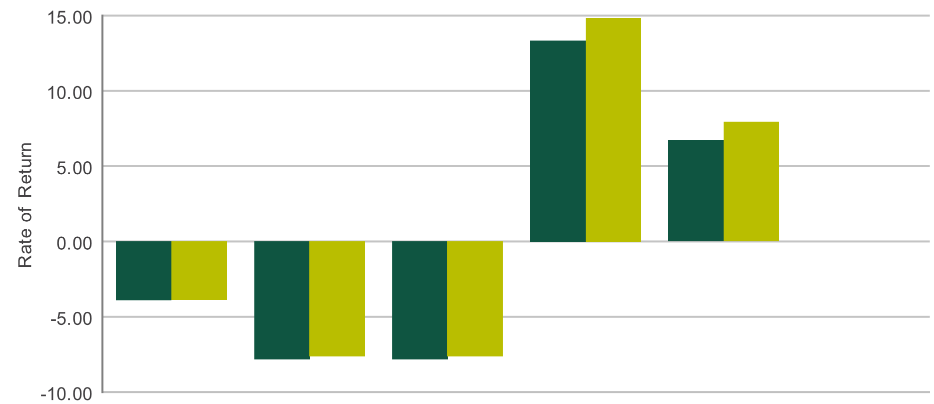
Index: FTSE All Share UK Equity

OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-12.06	-8.49	-8.49	7.05	5.84	6.05

EMERGING MARKETS

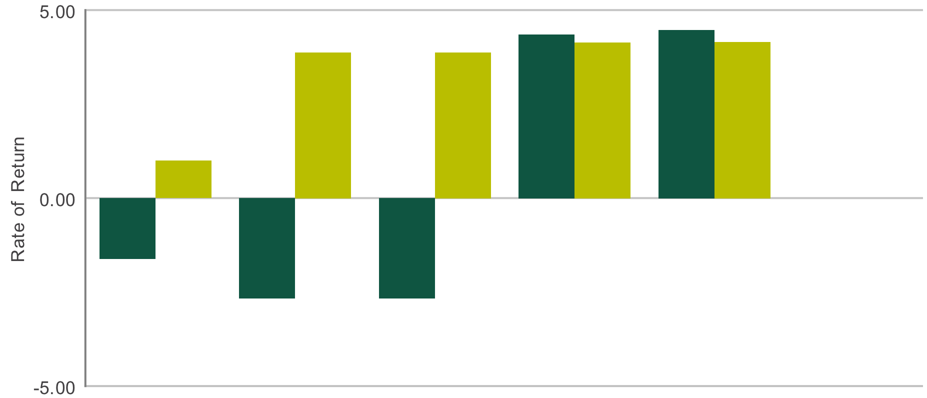


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-3.90	-7.84	-7.84	13.35	6.71	-
Index	-3.87	-7.63	-7.63	14.84	7.94	-

Index: LBH Emerging Markets

Historical Performance

FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-1.61	-2.66	-2.66	4.35	4.47	-
Index	0.99	3.87	3.87	4.14	4.15	-

Index: LBH Fixed Income Benchmark

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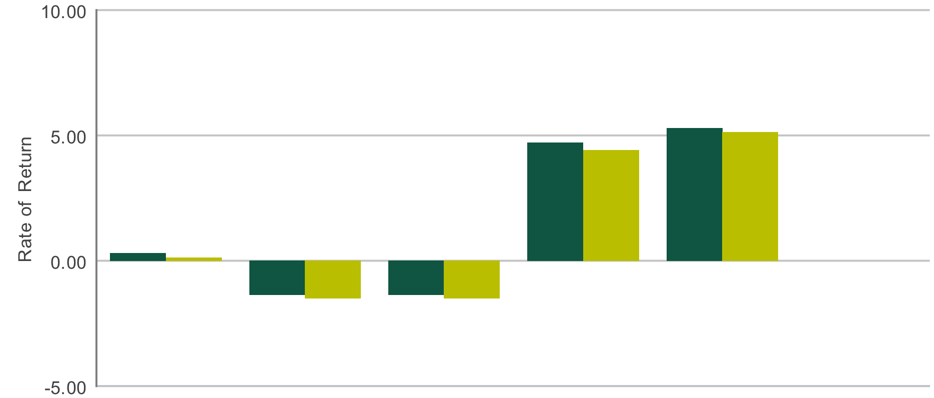
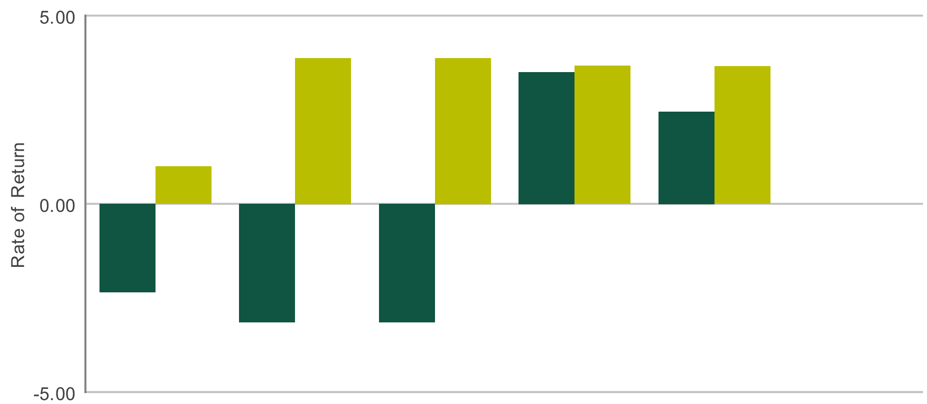
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.30	-1.36	-1.36	4.72	5.29	-
Index	0.14	-1.51	-1.51	4.42	5.13	-

Index: LBH Non-Gilts Benchmark

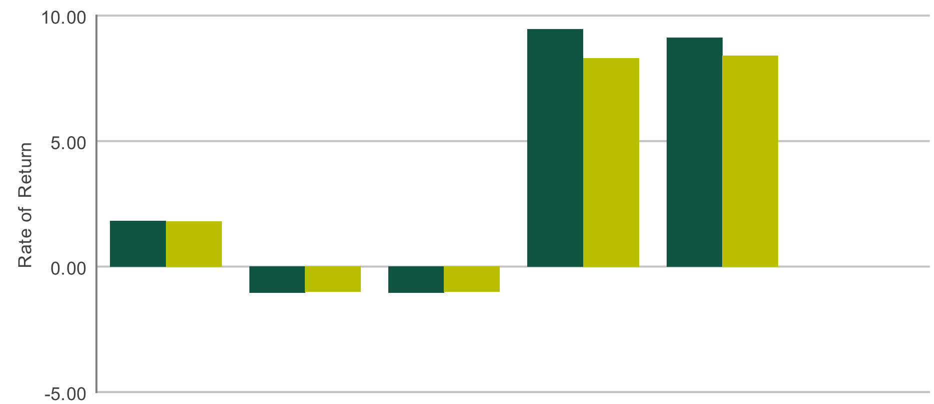
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-2.35	-3.14	-3.14	3.50	2.45	-
Index	0.99	3.87	3.87	3.67	3.65	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

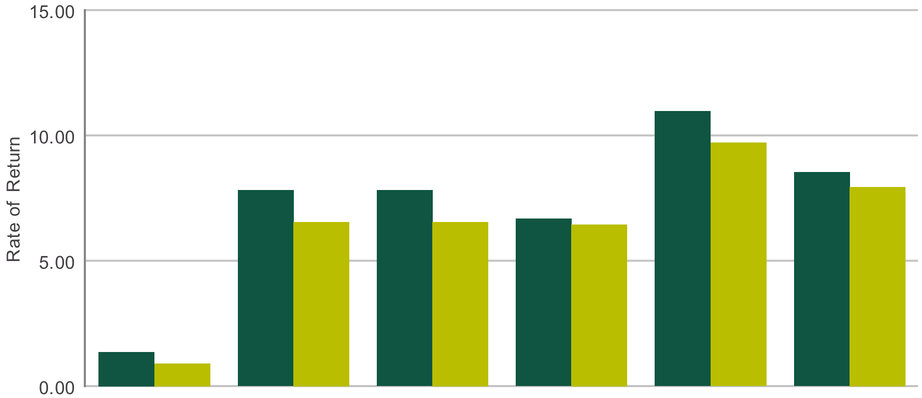


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.82	-1.04	-1.04	9.46	9.13	-
Index	1.80	-1.01	-1.01	8.31	8.40	-

Index: LBH Index Linked Benchmark

Historical Performance

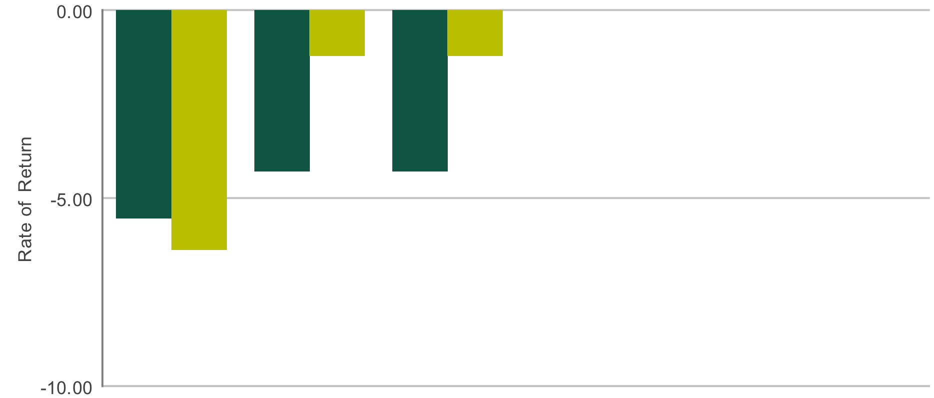
REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	1.36	7.81	7.81	6.67	10.97	8.53
Index	0.90	6.55	6.55	6.45	9.71	7.94

Index: IPD UK PPFI All Bal Funds Index

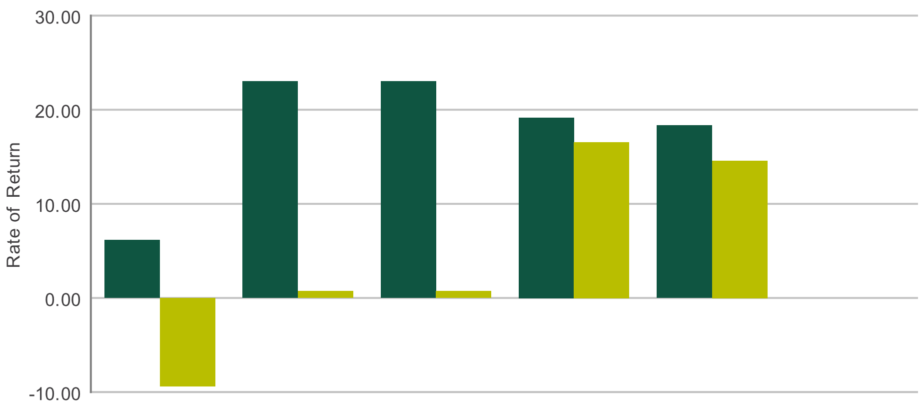
BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-5.54	-4.29	-4.29	-	-	-
Index	-6.37	-1.22	-1.22	-	-	-

Index: Balanced Fund Benchmark

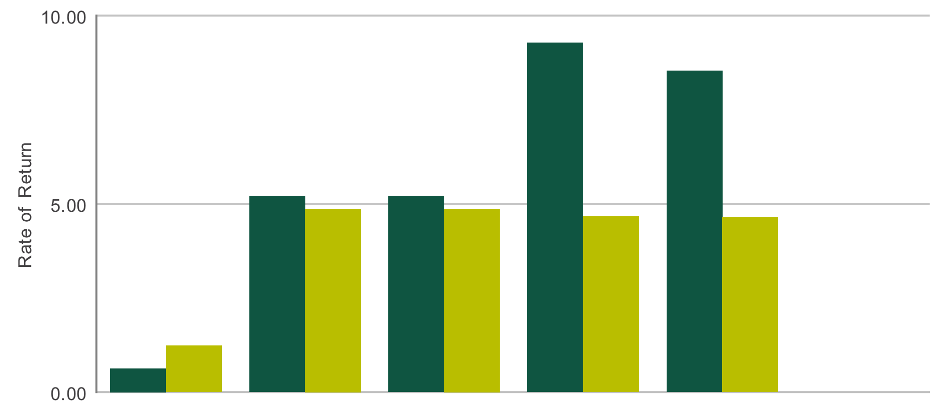
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.16	23.00	23.00	19.16	18.35	-
Index	-9.37	0.73	0.73	16.56	14.58	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	0.63	5.21	5.21	9.28	8.53	-
Index	1.23	4.87	4.87	4.66	4.65	-

Index: LIBOR GBP 3 Month +4% pa

Overall Fund BenchMark

Index	Manager	%	
FTSE All Share	UBS		LBH04
	LGIM	12.04	LBH26
FTSE World Developed Equity Index Currency Hedged	LGIM	8.17	LBH26
FTSE World Developed Equity Index unHedged	LGIM	8.03	LBH26
FTSE Emerging Markets	LGIM	2.96	LBH26
IPD UK PPFI All Balanced Funds Index	UBS Property		LBH06
	AEW	13.39	LBH22
3 Month Libor +3%	JP Morgan		LBH15
	Macquarie	10.53	LBH14
MSCI World ND	Epoch/LCIV	13.47	LBH11
3 Month Libor	Ruffer/LCIV	9.85	LBH11
3 Month Libor +4%	M&G		LBH10
	Permira	6.96	LBH24
Markit iBoxx £ Non – Gilt	LGIM 2	3.11	LBH27
FTSE A Govt Index – Linked (All Stocks)	LGIM 2	3.99	LBH27
FTSE A Govt Index – Linked (Over 15 Year	LGIM 2	4.88	LBH27
	Non Custody CashCash	0.81	
MSCI All Countries World Index	Private Equity	1.79	LBH03
		100	

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Pensions Administration Report

Contact Officers	Sian Kunert, Finance
Papers with this report	KPI report

SUMMARY

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

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

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note this report.**

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 mypensiononline

Membership Category	Total Membership Numbers	Registered online for Self service
Active	9,380	2,678
Deferred	9,515	721
Pensioners	6,814	319

All figures as at 31 January 2019

Resources

SCC have undergone a number of changes in staffing, the team have recruited new members of staff and set up a new team structure of four hubs to cover specific work areas, this has enabled SCC to take a more project focus in delivering case resolution. Within the new intake SCC have been able to take on a number of trainees to build up knowledge and skills internally. SSC have also recruited an interim Lead Pensions Manager to help manage the contract.

In addition, temporary resources have been allocated to clear a number of file errors and a backlog in work on specific areas which is still in part due to the legacy data.

This process should improve the data quality in advance of the triennial valuation, which begins in April 2019.

Key Performance Indicators from October 2018 to January 2019.

Over the past quarter SCC saw some volatility in its performance against KPI's but overall there has been an improvement with January looking more on track, likely as result of the recent recruitment to manage the work load.

In January SCC completed 382 cases. 199 (52%) are reported via the KPI's. Of the 199 KPI cases in the month 9 (4.5%) were not completed to target dates. The average number of days to complete in excess of the target was an extra 3 days.

FINANCIAL IMPLICATIONS

There are no financial implications within this report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

Hillingdon Pensions Administation - **Key Performance**

Activity	Measure	Impact	Target	Aug-18		Sep-18		Oct-18		Nov-18		Dec-18		Jan-19		Commentary (January)
Scheme members	Pensioners, Active & Deferred															Total volume of KPI cases in January - 199
New starters set up/welcome letters				0		0		0		0		0		0		9 cases (4.52%) were completed outside of target. Of these cases 6 cases were in areas of improvment from the last quarter with 3 areas showing a slight drop in performance.
ABS sent - Councillors	Statutory deadline		Due by 31 Aug	*Achieved*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		Average number of days over target was 3.
ABS sent - Active	Statutory deadline			*Achieved*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		
ABS sent - Deferred	Statutory deadline			*10 days*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		*Achieved*		
				Volume	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	**Volume**	**Score**	
Death notification acknowledged, recorded and documentation sent	5 working days	M	**100%**	24	**100%**	5	**60%**	11	**55%**	10	**100%**	11	**100%**	24	**92%**	**2 cases late**
Payment of death grant made	10 working days	H	**100%**	7	**86%**	7	**57%**	2	**100%**	0	**N/A**	4	**75%**	4	**100%**	
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	**100%**	15	**100%**	29	**97%**	24	**92%**	43	**93%**	12	**100%**	22	**82%**	**4 cases late**
Payment of lump sum made	10 working days	H	**100%**	22	**95%**	14	**93%**	14	**71%**	31	**84%**	29	**90%**	18	**89%**	**2 cases late**
Calculation of spouses benefits	10 working days	M	**100%**	7	**57%**	5	**40%**	0	**N/A**	1	**100%**	6	**83%**	4	**100%**	
Transfers In - Quotes	20 working days	L	**100%**	0	**N/A**	6	**17%**	1	**100%**	6	**100%**	1	**100%**	5	**100%**	
Transfers In - Payments	20 working days	L	**100%**	0	**N/A**	4	**100%**	1	**100%**	1	**100%**	0	**N/A**	0	**N/A**	
Transfers Out - Quote	20 working days	L	**100%**	14	**93%**	4	**75%**	4	**100%**	10	**100%**	9	**56%**	27	**100%**	
Transfers Out - Payments	20 working days	L	**100%**	6	**83%**	8	**88%**	2	**100%**	6	**100%**	7	**100%**	12	**100%**	
Employer estimates provided	10 working days	M	**100%**	25	**100%**	10	**100%**	10	**100%**	4	**50%**	4	**100%**	4	**100%**	
Employee projections provided	10 working days	L	**100%**	9	**100%**	7	**57%**	1	**0%**	14	**43%**	3	**33%**	3	**100%**	
Refunds	20 working days	L	**100%**	5	**100%**	2	**100%**	1	**100%**	25	**92%**	19	**89%**	15	**100%**	
Deferred benefit notifications	20 working days	L	**100%**	27	**67%**	48	**79%**	14	**100%**	40	**95%**	38	**95%**	61	**98%**	**1 case late**
Complaints received- Admin				1		1		0		0		1		1		
Complaints received- Regulatory				0		0		0		0		0		0		
Compliments received				0		0		0		0		0		0		
Queries Handled by Helpdesk				733		623		697		502		319		521		

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Pension Fund Risk Register

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

REASON FOR ITEM

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

RECOMMENDATIONS TO THE PENSIONS COMMITTEE

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

Information

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

There are currently 9 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.

Cyber Security risk has been adjusted to reflect the growth of crime in this area over recent years, which is becoming a worrying statistic, the new rating closer aligns the Pension Fund Risk with the rating of this risk across the Council. There have been no other changes to the status of existing risks from those reported in January.

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 2018/19

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of the KPMG 'Fusion' tool - the position is kept under regular review and Pension Committee informed of the impact of prevailing market conditions on the funding level.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	Sian Kunert / Cllr P Corthorne
PEN 02 - Inappropriate long-term investment strategy	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 P Corthorne
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. Comments on whether mandates should be maintained or reviewed are included and where needed specific performance issues will be discussed and reviewed.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	Sian Kunert / Cllr P Corthorne

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

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 07 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 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 P Corthorne
PEN 08 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on 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 P Corthorne

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Cabinet Member
PEN 09 - 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 P Corthorne

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Attributes:

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

Attributes: **IMPACT**

THREATS:

	Small (4)	Medium (3)	Large (2)	Very Large (1)
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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UK Stewardship Code Review	

Contact Officers	Tunde Adekoya, Finance
Papers with this report	Revised Stewardship Code Compliance Paper

SUMMARY

This report provides an update on the revision of the UK Stewardship Code adherence by the London Borough of Hillingdon Pension Fund. The UK Stewardship Code sets out the principles of effective stewardship by investors. In so doing, the Code assists institutional investors better to exercise their stewardship responsibilities, which in turn gives force to the "comply or explain" system.

RECOMMENDATIONS

It is recommended that Pensions Committee note the contents of this paper.

INFORMATION

UK Stewardship Code

The UK Stewardship code was first released by the Financial Reporting Council (FRC) in 2010, adopting the same approach as the UK Corporate Governance Code of "comply or explain". This means, it does not require compliance with principles. But where institutional investors do not comply with any of the principles set out, they must explain why they have not done so on their websites.

The code was last updated in 2016 as part of the Statement of Investment Principles update, presented to committee in September 2016. A review of the fund's compliance has been undertaken to ensure full compliance with existing code and changes highlighted in yellow.

The FRC is consulting on a revised Code (January 2019) to encourage effective stewardship that operates in the interest of savers, companies, the economy, environment and society, reflects growing trends in investment, and complements recent and imminent regulatory changes. Once the changes have been finalised and released, committee will again be presented with a compliance review report for approval.

FINANCIAL IMPLICATIONS

There are no financial implications in this report.

LEGAL IMPLICATIONS
There are no legal implications in the report.

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Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and expects appointed asset managers to be signatories to code and publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy. In practice, the fund's policy is to apply the Code through its arrangements with its asset managers. To this end, a quarterly summary of fund managers' ESG activities detailing the meetings engagement meetings undertaken and issues raised at such meetings, AGM and EGMs attended and their voting statistics are provided to members as part of the Pensions Committee meeting reports. Due to the diversity of investments made on behalf of our fund by the managers engaged. Their role is quite pivotal in ESG issues as they have vast resources at their disposal to raise issues of concern to clients such as us with respective companies and feedback information from such engagements via quarterly performance reports, detailing their activities for the period. Most managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. The process described above ensures invested companies are aware of the opinion of shareholders such as our fund regarding their stewardship of the companies and consider such opinion in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager in question raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings Further to the declarations of interest at pension committee meetings, members are duty bound to make written related party declarations annually, which form part of the disclosure notes to the fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. Subsequently, any perceived conflict of interest is transparent to

	members of the public. Where conflict of interests arises during decision making process, involving member(s) of the Pension Committee or officers of the fund, such individuals may be excluded from the particular decision making process to protect the integrity of the outcome.
Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from our fund managers on voting are received and engagement activities reported to committee quarterly. Effectiveness of Fund managers' engagement activities is appraised through responses gleamed from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness. When contentious issues of national interests relating to any of the fund's investments is prominent in the press or widely debated. The fund will generally contact the relevant manager(s) to ensure they are aware of our interest and opinions on the issue and provide us with their views and steps being taken to ensure the invested company take on board such views.
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. On occasions, the fund may participate in escalation of poignant issues, principally through fund managers' engagements with parties of concern. Furthermore, fund managers engaged by the fund as part of their investment process have regular meetings with individual company boards and feedback such engagement results to us through their quarterly ESG reports. Our fund have in the past directed fund managers to divest from companies in a particular sector (Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally. One of such managers, UBS now hold UK equities on our behalf excluding Tobacco stocks.
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate**.**	The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of London CIV, which takes direction from Local Authority Pension Fund Forum (LAPFF) over environmental, social

	and governance issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights is delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does currently publish available summary voting data by manager as part of the quarterly report to Pension Committee. The fund has a stock lending arrangement with Northern Trust as part of its investment strategy. Up to 25% of value of shares/bonds held in segregated portfolios are permitted to be loaned out as part of the arrangement and secured on collateral value of minimum 109% of the assets out on loan. 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. The arrangement also allows the fund to recall any asset out on loan if required for shareholder engagement purposes without any punitive measures.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report. A table detailing the statistical analysis of the fund's managers voting patterns is published as part of the annual report.

All queries and further information on this document may be directed to Sian Kunert – Head of Pensions, Treasury & Statutory Accounts by email: SKunert@hillingdon.gov.uk

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Agenda Item 10

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