



HILLINGDON  
LONDON



# Pensions Committee

**Date:** TUESDAY, 28 JULY 2020  
**Time:** 5.00 PM  
**Venue:** VIRTUAL - LIVE ON THE  
COUNCIL'S YOUTUBE  
CHANNEL: HILLINGDON  
LONDON

## To Members of the Committee:

Martin Goddard, Chairman  
Philip Corthorne, Vice-Chairman  
Tony Eginton  
Raymond Graham  
John Morse

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**Published:** Monday, 20 July 2020

**Contact:** Democratic Services - 01896  
250636 or email:  
[democratic@hillington.gov.uk](mailto:democratic@hillington.gov.uk)  
Tel: 01895 250185  
Email: [epenny@hillington.gov.uk](mailto:epenny@hillington.gov.uk)

**Putting our residents first**

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



# Agenda

## **CHAIRMAN'S ANNOUNCEMENTS**

- 1 Apologies for Absence
- 2 Declarations of Interest in matters coming before this meeting
- 3 Minutes of the meeting dated 29 January 2020 1 - 10
- 4 To confirm that items marked Part I will be considered in public and those marked Part II will be considered in private

## **PART I - Members, Public and Press**

- 5 Audit of Accounts 11 - 70
- 6 Ratification of Delegated Decisions 71 - 82
- 7 Investment Strategy and Fund Manager Performance - Part I 83 - 136
- 8 Investment Strategy Statement & COVID-19 Review 137 - 150
- 9 Administration Report 151 - 162
- 10 Pension Fund Conflict of Interest Policy 163 - 168
- 11 Communications Policy Review 169 - 182
- 12 Risk Register Report 183 - 190
- 13 Draft Work Programme 191 - 192

## **PART II - Members Only**

*That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as amended), in that they contain exempt information and that the public interest in withholding the information outweighs the public interest in disclosing it.*

- |           |  |           |
|-----------|--|-----------|
| <b>14</b> | Investment Part II - Strategy Review and Manager Updates | 193 - 328 |
| <b>15</b> | ESG & Voting Update                                      | 329 - 372 |
| <b>16</b> | Administration Part II                                   | 373 - 378 |

## Minutes

### PENSIONS COMMITTEE

29 January 2020

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



HILLINGDON  
LONDON

|     |  |
|-----|--|
|     | <p><b>Committee Members Present:</b><br/>Councillors Martin Goddard (Chairman)<br/>Philip Corthorne (Vice-Chairman)<br/>Teji Barnes<br/>Tony Eginton<br/>John Morse</p> <p><b>LBH Officers Present:</b><br/>Tunde Adekoya, Pensions Fund Accountant<br/>James Lake, Chief Accountant<br/>Liz Penny, Democratic Services Officer<br/>Hayley Seabrook, Senior HR and Payroll Service Manager<br/>Yvonne Thompson-Hoyte, Interim Manager – Pension Fund / Pensions, Treasury and Statutory Accounts</p> <p><b>Also Present:</b><br/>Roger Hackett, Pensions Board Member<br/>Zak Muneer, Pensions Board Member<br/>Tony Noakes, Pensions Board Member<br/>Clare Scott, Investment Advisor<br/>Andrew Singh, KPMG Representative</p>   |
| 30. | <p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>Apologies were received from Paul Whaymand, Corporate Director of Finance.</p>   |
| 31. | <p><b>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING</b><br/>(<i>Agenda Item 2</i>)</p> <p>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.</p> <p>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.</p> <p>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.</p> |
| 32. | <p><b>MINUTES OF THE MEETING DATED 30 OCTOBER 2019</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED That: the minutes of the meeting dated 30 October 2019 be approved as an accurate record.</b></p>   |

33. **TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** (*Agenda Item 4*)

It was confirmed that items marked Part I (items 1-12) would be considered in public and those marked Part II (item13) would be considered in private.

34. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART I** (*Agenda Item 5*)

This item was preceded by a training session on Pension Fund Governance delivered by Andrew Singh of KPMG. Key points highlighted included:-

- The LGPS was the largest funded occupational pension scheme in the UK;
- It was administered locally through 90 local pension funds;
- The LGPS had a different legal status to trust based schemes in the private sector;
- Statutory guidance with respect to governance was issued by the Secretary of State;
- Three best practice principles ensured effective and efficient decision making;
- LBH was the administering authority (scheme manager) with legal responsibility for managing and maintaining its LGPS – there was a requirement to establish a body known as a Local Pension Board;
- The Local Government Pension Scheme Advisory Board, established in 2013, encouraged best practice and increased transparency;
- The role of the Pensions Board was to assist the Administering Authority in its role managing the Fund and ensure the Pensions Committee complied with the regulations;
- The Pensions Committee's role was to represent key stakeholder interests. It also had responsibility for decisions on the Fund's policy and strategy. The Committee had delegated authority to officers in a number of areas;
- The LCIV was an investment pool set up to manage the pooled assets of 32 London Local Authority Pension Funds, including Hillingdon;
- London Local Authority Pension Funds were required by regulation to invest via the pool if funds were available – the Hillingdon Fund had 58% of assets invested via the LCIV at present; the remaining assets were invested with third party asset managers;
- KPMG was an independent investment advisor to the Council;
- Key considerations for 2020 included exit credit legislation, responsible investment, competition and market authority, pooling, good governance review and McCloud legislation.

James Lake, Chief Accountant, presented the investment strategy and fund manager update. Members were informed the Fund was in a strong position with a total valuation of £1.127 bn; an increase of £31m, primarily through increases in equity values, from £1.096 bn at the end of the previous quarter. There was an overall investment return of +3.02% over the quarter, translating into 0.68% ahead of benchmark. The reported latest fund value as at 31 December 2019 was £1.122bn, refreshed to 1.126bn due to updated information ; a decrease of £5m, now £1bn in valuation compared to end of quarter under review. Figures as at 29 January 2020 were 1.121 bn; the slight reduction was attributed to current concerns in the market regarding Coronavirus. Longer term figures were positive indicating an increase of 7%-8% annually.

It was noted that investment performance continued to be suppressed by the underperformance of UBS UK Equity portfolio that delivered a return of -1.19% compared to the benchmark. In relation to Long Dated Inflation Linked Property, there was positive news – it was anticipated that 70% of the commitment would be drawn down by the end of February 2020. In response to Members’ requests for clarification, it was confirmed that the plan was to disinvest from LGIM & Ruffer to facilitate this re-investment. It was also confirmed that the reference to ‘recession’ on page 10 of the agenda pack was purely speculative.

James Lake also advised that the proposed removal of RPI as a measure of inflation from indexed linked gilts would be addressed as part of the strategic asset allocation as this was likely to impact on the Pensions Fund in the future. The Committee was informed that this matter would be discussed further in March 2020 with a view to reaching an outcome prior to the Government recess in July. It was possible that RPI would be aligned to CPI or an alternative thereafter. Further clarification was sought regarding the relative advantages of passive and active investments and whether active investments were preferable in a falling market. It was recognised that this was hard to predict; however, the Funds’ active managers – UBS and Epoch would be expected to provide defensiveness should markets fall. It was noted that the London LCIV was likely to launch a value equity product but this was currently on hold. Members were advised that concerns regarding the operation and governance of the London CIV would mean active mandates would need to be considered outside the LCIV which had led to the decision to consider passive options which would instead operate alongside the LCIV. It was acknowledged that the LCIV was currently undergoing a review of its governance and it was hoped that the situation would improve in the future.

The Committee observed that the Fund was investing quite heavily in UK rather than global equities at present. It was confirmed that this was primarily for historic reasons and the UK focus would be assessed as part of the strategy review..

Clare Scott, Investment Advisor, requested clarification regarding changing the duration of index-linked gilts and whether Committee approval was required for this as it was a change in the duration of an existing asset rather than a change in allocation. Members confirmed that powers had been delegated to officers in terms of allocations and durations within an asset classes . Officers were requested to continue to monitor said investment decisions and bring them back to Committee for consideration and noting.

**RESOLVED That Pensions Committee:**

- 1. Considered and discussed issues raised in the training item;**
- 2. Noted the Fund performance update.**

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

Yvonne Thompson-Hoyte, Interim Manager – Pension Fund / Pensions, Treasury and Statutory Accounts, presented the report which provided an update on the administration of the Fund, both in relation to Surrey County Council and internally at Hillingdon.

Members were informed that 4,793 members had now signed up to the Membership Self Service portal; this represented a slight increase of 777 on the last quarter but was a small proportion of total membership. Efforts were being made to increase this figure but it was a long, slow process.

Members noted that the Head of Pensions Administration at Surrey CC had resigned with effect from 10 January 2020 and enquired whether this was a cause for concern. The Committee was advised that the Assistant Director of Surrey CC had confirmed that interim measures were in place and a replacement was being actively sought. The situation would continue to be monitored closely.

Members enquired whether the figures for the last quarter to December 2019 were now available. It was confirmed that said figures had been received but had yet to be analysed. The Interim Manager of the Pension Fund would circulate these to Members in due course.

It was noted that the contract with Surrey CC was due for renewal in 2021.

The Pensions Committee agreed that James Lake, Chief Accountant, be named as the nominated officer in all Internal Disputes Resolution Policy Stage 1 appeals and as signatory for Death Grants.

**RESOLVED That:**

- 1. Pensions Committee noted the report;**
- 2. Pensions Committee agreed the proposed changes to the Internal Disputes Resolution Policy and Death Grant signatories.**

36. **DRAFT RISK MANAGEMENT REPORT** (*Agenda Item 7*)

Members' attention was drawn to two adjustments in relation to the Pension Fund Risk Register:-

- 1) PEN 07 related to concerns regarding the Outsourced Administrator. The Committee was informed that a meeting had been arranged for w/c 3 February 2020 to discuss service improvements. No deterioration in day-to-day service had been observed.
- 2) PEN13 was a new risk which related to the change in ownership / business model of KPMG. Members were advised that the current investment advisors to the fund had signed a conditional management buy out of the pensions advisory arm of the business. There would be a transition period during which staff and equipment would remain in the present location. The new company would be funded by a private equity fund. This change gave rise to some degree of uncertainty regarding the impact on the existing contract and the continuity of services. Members were reassured by KPMG that the new deal should be completed in 2-4 weeks and there would be no disruption to service. All 20 partners and 500 staff would transfer to the new business, which will be called Isio. Back office functions would be recruited to at a later stage. There would be a change to contractual documentation to reflect the new Company name. It was confirmed that David O'Hara would be an equity partner and would be remaining in the business.

**RESOLVED That:**

- 1) 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.**



|     |   |
|-----|---|
| 37. | <p><b>ADMINISTRATION STRATEGY REVIEW</b> (<i>Agenda Item 8</i>)</p> <p>The amended Pension Fund Administration Strategy was presented to the Pensions Committee for approval. Two minor amendments were noted and agreed.</p> <p><b>RESOLVED That the Pensions Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Reviewed and approved the revised Pension Fund Administration Strategy;</b></li> <li><b>2. Delegated authority to officers to implement any minor alterations following Committee review.</b></li> </ol>   |
| 38. | <p><b>RESPONSIBLE INVESTMENT POLICY</b> (<i>Agenda Item 9</i>)</p> <p>The purpose of the report was to introduce the draft London Borough of Hillingdon Pension Fund Responsible Investment Policy (RI) to the Committee. The Responsible Investment Policy outlined how the LB Hillingdon Pension Fund would incorporate Environmental Social and Governance (ESG) considerations into investment decision making. The policy had been discussed with the Leader and passed to the Pensions Board for comments. A new paragraph had been added (page 13 of the agenda pack) at the request of Pensions Board members. It was confirmed that this latest version of the RI policy superseded all existing policies. The policy would be revisited regularly to ensure it was kept up-to-date.</p> <p>Members acknowledged that responsible investment was a challenging area to monitor. However, it was observed that, once their current challenges had been resolved, most investment would be via the CIV. It was anticipated that the LCIV would be capable of building up its capabilities in the ESG area in the future. Tunde Adekoya, Pension Fund Accountant, confirmed that all LBH Fund Managers had already signed up to the new policy. He would double-check this and confirm. James Lake, Chief Accountant, suggested that a brief update regarding responsible investment could be a standing agenda item for all future Pensions Committee meetings. Members welcomed this suggestion. It was also agreed that the policy would need to be reviewed at regular intervals; annually as a minimum.</p> <p>It was noted that many members of the Pension Fund were now taking a more active interest in Pensions investments. A climate motion had recently been approved at the Full Council meeting and it was vital that LBH was seen to be investing wisely.</p> <p><b>RESOLVED That Pensions Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Approved the Responsible Investment Policy included at Appendix 1;</b></li> <li><b>2. Requested that an item regarding responsible investment be included on all future Pensions Committee agendas.</b></li> </ol> |
| 39. | <p><b>INVESTMENT CONSULTANCY SERVICES OBJECTIVES - REVISED</b> (<i>Agenda Item 10</i>)</p> <p>James Lake, Chief Accountant, presented the report. It was explained that, in order to be compliant with new regulations that came into force in December 2019, the Fund had to set strategic objectives for its appointed investment consultant – currently KPMG. The purpose of the report was to present the agreed objectives to the Pensions Committee along with the metrics for monitoring their effectiveness in meeting these objectives. Members noted the objectives and raised no concerns.</p>   |

|     |  |
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|     | <p><b>RESOLVED That Pensions Committee:</b></p> <p>1. Noted the objectives set for the Investment Consultancy Services provider, along with the indicators set out for performance measurement in the appendix.</p>  |
| 40. | <p><b>PENSION BOARD ANNUAL REPORT</b> (<i>Agenda Item 11</i>)</p> <p>The report had been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since the last report presented to Pensions Committee in January 2019. Roger Hackett, Pension Board Member, observed that the LBH Pensions Board and Pensions Committee worked extremely well together and had a good working relationship. Pensions Committee Members asked if a list of the dates of Pension Board meetings, together with meeting minutes, could be made available to them. Roger Hackett agreed to arrange this.</p> <p><b>RESOLVED That Pensions Committee noted the report.</b></p>  |
| 41. | <p><b>DRAFT WORK PROGRAMME 2020</b> (<i>Agenda Item 12</i>)</p> <p>It was noted that the October 2020 meeting date differed in the Work Programme (28<sup>th</sup>) / Programme of Meetings (29<sup>th</sup>). It was agreed that Wednesday 28 October was the preferred date. Democratic Services would update the Programme of Meetings accordingly and inform the Whips.</p> <p><b>RESOLVED That: the Draft Work Programme 2020 be noted.</b></p>   |
| 42. | <p><b>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II</b> (<i>Agenda Item 13</i>)</p> <p><i>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).</i></p> <p>The Committee received confidential information on the current market update which covered details of the current market climate and performance of various investment vehicles and updates on Managers' reports</p> <p><b>RESOLVED That Pensions Committee, following consideration of the Part II papers:</b></p> <ol style="list-style-type: none"> <li>1) <b>Noted the fund manager performance update and agreed any required decision in respect of mandates or Fund Managers;</b></li> <li>2) <b>Delegated the implementation of any decisions to the officers and Advisor – Investment Strategy Group.</b></li> </ol> |
|     | <p>The meeting, which commenced at 5.00 pm, closed at 6.35 pm.</p>   |

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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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## Minutes

### PENSIONS COMMITTEE

14 May 2020

Meeting held at VIRTUAL - Live on the Council's  
YouTube channel: Hillingdon London



|   |   |                  |
|---|---|------------------|
|   | <b>Committee Members Present:</b><br>Councillors Martin Goddard (Chairman)<br>Philip Corthorne (Vice-Chairman)<br>Tony Eginton<br>John Morse (Labour Lead)<br>Raymond Graham                      |                  |
| 1.  | <b>ELECTION OF CHAIRMAN</b> ( <i>Agenda Item 1</i> )<br><br><b>RESOLVED: That Councillor Goddard be elected as Chairman of the Pensions Committee for the 2020/21 municipal year.</b>             | <b>Action by</b> |
| 2.  | <b>ELECTION OF VICE CHAIRMAN</b> ( <i>Agenda Item 2</i> )<br><br><b>RESOLVED: That Councillor Corthorne be elected as Vice-Chairman of the Pensions Committee for the 2020/21 municipal year.</b> | <b>Action by</b> |
| The meeting, which commenced at 7.53 pm, closed at 8.03 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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|---|---------------|
| <b>EXTERNAL AUDITOR REPORT on the PENSION FUND ACCOUNTS</b> | <b>Item 5</b> |
|---|---------------|

|                         |  |
|-------------------------|--|
| Committee               | Pensions Committee   |
| Officer Reporting       | James Lake, Finance  |
| Papers with this report | EY: Pension Fund Audit Update Report, year ended 31 March 2020 (To be distributed separately ahead of Pensions Committee)<br>Draft Pension Fund Accounts 2019/20 |

## HEADLINES

The Draft Pension Fund Accounts for 2019/20 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 2019/20 Pension Fund Accounts. Due to the progress of the audit and the extended audit deadline, 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 2019/20.**

## 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 29 October 2020.

## **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:

- Posting of Investment Journals: Misstatement due to fraud or error
- Risk of Incorrect Valuation of Unquoted Investments

There are a number of outstanding items and 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. The letter includes representations on matters material to the statement of accounts, where sufficient evidence cannot reasonably be expected to exist. This will be prepared in line with the final Council accounts.

## **FINDINGS**

At the time of reporting, there were no uncorrected material misstatements over the materiality threshold of £10.7 million. In addition there are no uncorrected misstatements to report over the reporting threshold of £0.533 million.

It is expected there will be an ‘Emphasis of Matter’ relating to valuation uncertainties as a result of COVID-19. This does not impact the audit result but instead aims highlight a specific situation outside the control of the Fund. This emphasis of matter will be common throughout audits for 2019/20 and is not specific to Hillingdon.

## **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report

## **LEGAL IMPLICATIONS**

The legal implications are mentioned within the report.



# Pension Fund Account

## PENSION FUND ACCOUNT

|  | Note | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--|------|------------------------|------------------------|
| Contributions  | 4    | 47,305                 | 43,176                 |
| Transfers In from other pension funds                              | 5    | 1,746                  | 1,487                  |
|  |      | <b>49,051</b>          | <b>44,663</b>          |
| Less: Benefits   | 6    | (47,188)               | (44,016)               |
| Less: Payments to and on account of leavers                        | 7    | (6,870)                | (2,626)                |
|  |      | <b>(54,058)</b>        | <b>(46,642)</b>        |
| <b>Net additions/(withdrawals) from dealings with members</b>      |      | <b>(5,007)</b>         | <b>(1,979)</b>         |
| Less: Management expenses including fund management expenses       | 8    | (9,882)                | (8,833)                |
|  |      | <b>(14,889)</b>        | <b>(10,812)</b>        |
| <b>Return on investments</b>                                       |      |                        |                        |
| Investment income  | 9    | 23,101                 | 22,732                 |
| Profit and losses on disposal of investments and changes in market | 10A  | (86,092)               | 42,843                 |
| Taxes On Income  |      | (48)                   | (83)                   |
| <b>Net return on investments</b>                                   |      | <b>(63,039)</b>        | <b>65,492</b>          |
| <b>Net Increase/(Decrease) in the fund</b>                         |      | <b>(77,928)</b>        | <b>54,680</b>          |
| <b>Net Assets at start of year</b>                                 |      | <b>1,066,983</b>       | <b>1,012,303</b>       |
| <b>Net Assets at end of year</b>                                   |      | <b>989,055</b>         | <b>1,066,983</b>       |

## NET ASSETS STATEMENT

|  |    | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--|----|------------------------|------------------------|
| Investment Assets  | 10 | 986,131                | 1,066,215              |
| Investment Liabilities   | 10 | (17)                   | (89)                   |
| <b>Total net investments</b>   |    | <b>986,114</b>         | <b>1,066,126</b>       |
| Current Assets   | 11 | 3,574                  | 1,424                  |
| Current Liabilities  | 12 | (633)                  | (567)                  |
| <b>Net assets of the fund available to fund benefits at the end of the</b> |    | <b>989,055</b>         | <b>1,066,983</b>       |

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**  
**Director of Finance**  
**31 July 2020**

# Notes to the Pension Fund Account

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## 1. DESCRIPTION OF THE FUND

### a. General

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

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

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

### b. Membership

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

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

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

# Notes to the Pension Fund Account

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Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton Academy

## **Scheduled Bodies:**

Barnhill Academy

Belmore Academy

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

# Notes to the Pension Fund Account

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## LBDS Frays Academy Trust

- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

## London Housing Consortium

## Orchard Hill College Academy Trust

- Young Peoples Academy (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

## Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

## QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

## Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

## Ruislip High School

## Ryefield Primary School

## Vyners Academy

## Stockley Academy

## Swakeleys Academy

## Uxbridge Academy

## William Byrd School

## Willows Academy

Draft

# Notes to the Pension Fund Account

| London Borough of Hillingdon Pension Fund | 31 March 2020 | 31 March 2019 |
|---|---------------|---------------|
| Number of employers with active members   | 66            | 65            |
| <b>Number of employees in scheme</b>      |               |               |
| London Borough of Hillingdon              | 4,733         | 4,781         |
| Other employers                           | 2,702         | 2,629         |
| <b>Total</b>                              | <b>7,435</b>  | <b>7,410</b>  |
| <b>Number of Pensioners</b>               |               |               |
| London Borough of Hillingdon              | 5,170         | 5,227         |
| Other employers                           | 570           | 575           |
| <b>Total</b>                              | <b>5,740</b>  | <b>5,802</b>  |
| <b>Deferred Pensioners</b>                |               |               |
| London Borough of Hillingdon              | 7,745         | 7,153         |
| Other employers                           | 2,487         | 1,722         |
| <b>Total</b>                              | <b>10,232</b> | <b>8,875</b>  |

**Note:** To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

## 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.

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 17.3% to 42.18% of pensionable pay, as per the 2016 valuation.

## 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 (Four meetings in 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

### Pensions Committee

Cllr Martin Goddard (Chairman)  
Cllr Phillip Corthorne (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)

# Notes to the Pension Fund Account

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## 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 2019/20, 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 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). The Pension Fund Accounts have been prepared on a going concern basis.

## 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 (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.

- 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 upon 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.

# Notes to the Pension Fund Account

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## 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 2020 was £109,697k (£115,893k at 31 March 2019).
- 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 events 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.

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# 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. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values. | The total private equity investments in the financial statements are £13,614k. 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 and LCIV Stepstone | Infrastructure Valuation represents the fair value of investments held at 31 March 2020. 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. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.   | The total infrastructure alternative investments in the financial statements are £27,265k. 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 manager has confirmed its investments and valuation will not be impacted by Covid-19.  | The total private finance investments in the financial statements are £4,674k. 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.             |



# Notes to the Pension Fund Account

| 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. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.   | The total Private Debt investments in the financial statements are £64,103k. 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   |
| Pooled Property - LGIM LPI, AEW UK & UBS Property       | Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.   | The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.  |
| 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 IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson. | 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 sensitivity analysis to the method of assumptions used for year ended 31 March 2020 by the fund's actuaries. |

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

# Notes to the Pension Fund Account

## Sensitivity Analysis

| Sensitivity to the assumptions for the year ended 31 March 2020 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|---|---------------------------------------|----------------------------------|
| 0.5% p.a. increase in the Pension Increase Rate                 | 9%                                    | 134                              |
| 0.5% p.a. increase in the Salary Increase Rate                  | 1%                                    | 9                                |
| 0.5% p.a. decrease in the Real Discount Rate                    | 9%                                    | 144                              |

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

## 4. CONTRIBUTIONS

| By category                     | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---------------------------------|------------------------|------------------------|
| Employees                       | 10,109                 | 9,846                  |
| <b>Employers Contributions:</b> |                        |                        |
| Normal                          | 30,333                 | 27,465                 |
| Deficit Funding                 | 6,863                  | 5,865                  |
|                                 | <b>47,305</b>          | <b>43,176</b>          |

Deficit Funding: At the actuarial valuation on 31 March 2019 the Fund was 87% funded, with the remaining 13% deficit to be recovered over a period of 20 years.

| By authority     | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|------------------|------------------------|------------------------|
| LB Hillingdon    | 33,793                 | 30,267                 |
| Scheduled Bodies | 13,174                 | 12,509                 |
| Admitted Bodies  | 338                    | 400                    |
|                  | <b>47,305</b>          | <b>43,176</b>          |

## 5. TRANSFERS IN

|  | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--|------------------------|------------------------|
| Individual transfers in from other schemes | 1,746                  | 1,487                  |
|  | <b>1,746</b>           | <b>1,487</b>           |

# Notes to the Pension Fund Account

## 6. BENEFITS

|   | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|------------------------|------------------------|
| <b>By category</b>                            |                        |                        |
| Pensions                                      | (38,846)               | (36,423)               |
| Commutations and Lump Sum Retirement Benefits | (7,330)                | (6,750)                |
| Lump Sum Death Benefits                       | (1,012)                | (843)                  |
|   | <b>(47,188)</b>        | <b>(44,016)</b>        |

|                     | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---------------------|------------------------|------------------------|
| <b>By authority</b> |                        |                        |
| LB Hillingdon       | (42,567)               | (40,973)               |
| Scheduled Bodies    | (4,246)                | (2,579)                |
| Admitted Bodies     | (375)                  | (464)                  |
|                     | <b>(47,188)</b>        | <b>(44,016)</b>        |

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

|  | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--|------------------------|------------------------|
| Refunds to members leaving Individual transfers out to other schemes | (103)                  | (79)                   |
|  | (6,767)                | (2,547)                |
|  | <b>(6,870)</b>         | <b>(2,626)</b>         |

## 8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

|                                | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--------------------------------|------------------------|------------------------|
| Administrative Costs           | (825)                  | (840)                  |
| Investment Management Expenses | (8,767)                | (7,897)                |
| Oversight and Governance       | (290)                  | (96)                   |
|                                | <b>(9,882)</b>         | <b>(8,833)</b>         |

\* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

## 8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

|                          | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--------------------------|------------------------|------------------------|
| Management Fees          | (5,932)                | (5,934)                |
| Performance Related Fees | (780)                  | (1,405)                |
| Custody Fees             | (59)                   | (66)                   |
| Transaction Costs        | (1,996)                | (492)                  |
|                          | <b>(8,767)</b>         | <b>(7,897)</b>         |

# Notes to the Pension Fund Account

## 8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

|                    | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--------------------|------------------------|------------------------|
| Equities           | (112)                  | (28)                   |
| Pooled Investments | (1,884)                | (464)                  |
|                    | <b>(1,996)</b>         | <b>(492)</b>           |

## 8C. EXTERNAL AUDIT COSTS

|                                | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--------------------------------|------------------------|------------------------|
| Payable in Respect of External | (22)                   | (22)                   |
|                                | <b>(22)</b>            | <b>(22)</b>            |

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

## 9. INVESTMENT INCOME

|   | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|------------------------|------------------------|
| Income from Equities                                    | 5,810                  | 6,254                  |
| Pooled Property Investments                             | 6,452                  | 4,713                  |
| Pooled Investments- Unit trusts and other managed funds | 10,362                 | 11,266                 |
| Interest on cash deposits                               | 119                    | 110                    |
| Other (for example from stock lending or underwriting)  | 358                    | 389                    |
|   | <b>23,101</b>          | <b>22,732</b>          |

## 10. INVESTMENTS

|                                     | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|-------------------------------------|------------------------|------------------------|
| <b>Investment Assets</b>            |                        |                        |
| Equities                            | 84,471                 | 128,054                |
| Pooled investments                  | 706,512                | 774,129                |
| Pooled property investments         | 165,448                | 135,049                |
| Private equity                      | 13,614                 | 17,329                 |
| <b>Other Investment balances</b>    |                        |                        |
| Cash deposits                       | 15,520                 | 10,472                 |
| Investment income due               | 502                    | 1,183                  |
| Sales Settlements Outstanding       | 64                     | 0                      |
| <b>Total investment assets</b>      | <b>986,131</b>         | <b>1,066,215</b>       |
| <b>Investment liabilities</b>       |                        |                        |
| <b>Derivative contracts:</b>        |                        |                        |
| Purchase Settlements Outstanding    | (17)                   | (89)                   |
| <b>Total investment liabilities</b> | <b>(17)</b>            | <b>(89)</b>            |
| <b>Net investment assets</b>        | <b>986,114</b>         | <b>1,066,126</b>       |

# Notes to the Pension Fund Account

## 10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

|                                     | Value 1 April<br>2019<br>£'000 | Purchases at<br>cost<br>£'000 | Sales<br>proceeds<br>£'000 | Change in<br>market value<br>£'000 | Value 31<br>March 2020<br>£'000    |
|-------------------------------------|--------------------------------|-------------------------------|----------------------------|------------------------------------|------------------------------------|
| <b>2019/20</b>                      |                                |                               |                            |                                    |                                    |
| Equities                            | 128,054                        | 14,695                        | (14,825)                   | (43,453)                           | 84,471                             |
| Pooled Investments                  | 774,128                        | 117,948                       | (152,591)                  | (32,973)                           | 706,512                            |
| Pooled Property Investments         | 135,049                        | 103,606                       | (55,878)                   | (17,329)                           | 165,448                            |
| Private Equity                      | 17,329                         | 105                           | (4,265)                    | 445                                | 13,614                             |
|                                     | <b>1,054,560</b>               | <b>236,354</b>                | <b>(227,559)</b>           | <b>(93,310)</b>                    | <b>970,045</b>                     |
| <b>Other investment balances</b>    | <b>1,054,560</b>               | <b>236,354</b>                | <b>(227,559)</b>           | <b>(93,310)</b>                    | <b>970,045</b>                     |
| Cash Deposits                       | 10,472                         |                               |                            | 207                                | 15,520                             |
| Investment Income Due               | 1,183                          |                               |                            |                                    | 502                                |
| Outstanding Purchases               |                                |                               |                            | 7,011                              | 64                                 |
| <b>Total Investment Assets</b>      | <b>1,066,215</b>               |                               |                            | <b>(86,092)</b>                    | <b>986,131</b>                     |
|                                     | Value<br>1 April 2018<br>£'000 | Purchases at<br>cost<br>£'000 | Sales<br>proceeds<br>£'000 | Change in<br>market value<br>£'000 | Value<br>31 March<br>2019<br>£'000 |
| <b>2018/19</b>                      |                                |                               |                            |                                    |                                    |
| Equities                            | 128,306                        | 14,362                        | (11,745)                   | (2,869)                            | 128,054                            |
| Pooled Investments                  | 679,908                        | 490,071                       | (428,161)                  | 32,310                             | 774,129                            |
| Pooled Property Investments         | 127,808                        | 5,109                         | (1,288)                    | 3,421                              | 135,049                            |
| Private Equity                      | 20,091                         | 201                           | (6,512)                    | 3,549                              | 17,329                             |
|                                     | <b>956,113</b>                 | <b>509,743</b>                | <b>(447,707)</b>           | <b>36,411</b>                      | <b>1,054,560</b>                   |
| <b>Other investment balances</b>    | <b>956,113</b>                 | <b>509,743</b>                | <b>(447,707)</b>           | <b>36,411</b>                      | <b>1,054,560</b>                   |
| Cash Deposits                       | 53,558                         |                               |                            | 323                                | 10,472                             |
| Investment Income Due               | 757                            |                               |                            |                                    | 1,183                              |
| Adjustments to Market Value Changes |                                |                               |                            | 6,109                              |                                    |
| <b>Total Investment Assets</b>      | <b>1,010,428</b>               |                               |                            | <b>42,843</b>                      | <b>1,066,215</b>                   |

# Notes to the Pension Fund Account

## 10B. ANALYSIS OF INVESTMENTS

|   | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|------------------------|------------------------|
| <b>Equities</b>                           |                        |                        |
| <b>UK</b>                                 |                        |                        |
| Quoted                                    | 84,471                 | 128,054                |
|   | <b>84,471</b>          | <b>128,054</b>         |
| <b>Pooled funds - additional analysis</b> |                        |                        |
| Fixed income unit trust - Quoted          | 89,137                 | 82,707                 |
| Other Unit trusts - Quoted                | 184,318                | 249,858                |
| Unitised insurance policies - Quoted      | 336,973                | 343,000                |
| Limited liability partnerships - Unquoted | 96,084                 | 98,564                 |
|   | <b>706,512</b>         | <b>774,129</b>         |
| Pooled property Investments - Unquoted    | 165,448                | 135,049                |
| Private equity - Unquoted                 | 13,614                 | 17,329                 |
| Cash deposits                             | 15,520                 | 10,472                 |
| Investment income due                     | 502                    | 1,183                  |
| Sales Settlements Outstanding             | 64                     | 0                      |
|   | <b>195,148</b>         | <b>164,032</b>         |
| <b>Total investment assets</b>            | <b>986,131</b>         | <b>1,066,215</b>       |
| <b>Investment liabilities</b>             |                        |                        |
| Purchase Settlements Outstanding          | (17)                   | (89)                   |
| <b>Total investment liabilities</b>       | <b>(17)</b>            | <b>(89)</b>            |
| <b>Net investment assets</b>              | <b>986,114</b>         | <b>1,066,126</b>       |

## 10C. INVESTMENTS ANALYSED BY FUND MANAGER

| Fund Manager                                     | Market Value<br>31 March 2020<br>£'000 |            | % | Market Value<br>31 March 2019<br>£'000 |            | % |
|--|--|------------|---|--|------------|---|
|  |  |            |   |  |            |   |
| <b>Investments Managed by London CIV Pool</b>    |  |            |   |  |            |   |
| Legal & General Investment Management            | 384,373                                | 39         |   | 343,000                                | 32         |   |
| London CIV Asset Pool                            | 184,884                                | 19         |   | 249,858                                | 24         |   |
|  | <b>569,257</b>                         | <b>58</b>  |   | <b>592,858</b>                         | <b>56</b>  |   |
| <b>Investments Managed Outside of London CIV</b> |  |            |   |  |            |   |
| Adams Street Partners                            | 9,909                                  | 1          |   | 12,654                                 | 1          |   |
| AEW UK   | 50,774                                 | 5          |   | 58,927                                 | 6          |   |
| JP Morgan Asset Management                       | 89,137                                 | 9          |   | 82,707                                 | 8          |   |
| LGT Capital Partners                             | 3,705                                  | 0          |   | 4,675                                  | 0          |   |
| M&G Investments                                  | 4,674                                  | 0          |   | 7,956                                  | 1          |   |
| Macquarie Infrastructure                         | 26,699                                 | 3          |   | 29,133                                 | 3          |   |
| Permira Credit Solutions                         | 64,103                                 | 7          |   | 61,434                                 | 6          |   |
| UBS Global Asset Management (Equities)           | 86,948                                 | 9          |   | 131,174                                | 12         |   |
| UBS Global Asset Management (Property)           | 67,517                                 | 7          |   | 76,521                                 | 7          |   |
| Other*   | 13,391                                 | 1          |   | 8,086                                  | 1          |   |
|  | <b>416,857</b>                         | <b>42</b>  |   | <b>473,268</b>                         | <b>44</b>  |   |
| <b>Total</b>                                     | <b>986,114</b>                         | <b>100</b> |   | <b>1,066,126</b>                       | <b>100</b> |   |

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

\* No single holding within an investment represents more than 5% of total assets

# Notes to the Pension Fund Account

## 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 £3,572k (31 March 2019: £17,125k). 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 £3,804k (31 March 2019: £18,428k) representing 106% 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 2020<br>£'000 | 31 March 2019<br>£'000 |
|------------------------------|------------------------|------------------------|
| Debtors                      |                        |                        |
| Employers' contributions due | 51                     | 68                     |
| Employees' contributions due | 13                     | 17                     |
| Cash balances                | 3,510                  | 1,339                  |
|                              | <b>3,574</b>           | <b>1,424</b>           |

## 12. CURRENT LIABILITIES

|   | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|---|------------------------|------------------------|
| Creditors                               |                        |                        |
| Other local authorities (LB Hillingdon) | (172)                  | (223)                  |
| Other entities                          | (461)                  | (344)                  |
|   | <b>(633)</b>           | <b>(567)</b>           |

Note: Other entities liabilities are due from the Pension Fund to bodies external to the government e.g. fund managers.

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

|                              | Market Value<br>31 March 2020<br>£'000 | Market Value<br>31 March 2019<br>£'000 |
|------------------------------|--|--|
| Prudential Assurance Company | 5,249                                  | 5,086                                  |
|                              | <b>5,249</b>                           | <b>5,086</b>                           |

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, £168k 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.

# Notes to the Pension Fund Account

## 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  |
| Pooled Property investments                                  | Level 3             | Fair value in accordance with the RICS valuation - professional standards   | Nav/Fair value-based pricing derived using recent market transactions on arm's length terms, where available | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date,  |
| Unquoted equity  | Level 3             | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012) | EBITDA multiple<br>Revenue multiple<br>Discount for lack of marketability<br>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. |



# Notes to the Pension Fund Account

## 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 2020.

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 2020 £'000 | Value on Increase £'000 | Value on Decrease £'000 |
|--|-----------------------|----------------------------------|-------------------------|-------------------------|
| Pooled investments - Limited Liability Partnerships (Infrastructure) a | 10%                   | 27,265                           | 29,992                  | 24,539                  |
| Pooled investments - Limited Liability Partnerships (Private Credit) b | 10%                   | 68,777                           | 75,655                  | 61,899                  |
| Private Equity - c   | 5%                    | 13,614                           | 14,295                  | 12,933                  |
| Venture Capital  | 5%                    | 41                               | 43                      | 39                      |
| <b>Total</b>   |                       | <b>109,697</b>                   | <b>119,984</b>          | <b>99,410</b>           |

a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.

b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.

c) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

## 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.

# Notes to the Pension Fund Account

## Values as at 31 March 2020

|   | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs |                |
|---|---------------------|-------------------------|--------------------------------------|----------------|
|   | Level 1<br>£'000    | Level 2<br>£'000        | Level 3<br>£'000                     | Total<br>£'000 |
| Financial Assets at Fair Value through Profit and Loss      | 84,471              | 775,877                 | 109,697                              | 970,045        |
| Loans and Receivables                                       | 16,086              | 0                       | 0                                    | 16,086         |
| Financial Liabilities at Fair Value through Profit and Loss | (17)                | 0                       | 0                                    | (17)           |
| <b>Net investment Assets</b>                                | <b>100,540</b>      | <b>775,877</b>          | <b>109,697</b>                       | <b>986,114</b> |

## Values as at 31 March 2019

|   | Quoted Market Price | Using Observable Inputs | With Significant Unobservable Inputs |                  |
|---|---------------------|-------------------------|--------------------------------------|------------------|
|   | Level 1<br>£'000    | Level 2<br>£'000        | Level 3<br>£'000                     | Total<br>£'000   |
| Financial Assets at Fair Value through Profit and Loss      | 128,054             | 810,613                 | 115,893                              | 1,054,560        |
| Loans and Receivables                                       | 11,655              | 0                       | 0                                    | 11,655           |
| Financial Liabilities at Fair Value through Profit and Loss | (89)                | 0                       | 0                                    | (89)             |
| <b>Net investment Assets</b>                                | <b>139,620</b>      | <b>810,613</b>          | <b>115,893</b>                       | <b>1,066,126</b> |

## 14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

# Notes to the Pension Fund Account

## 14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

### Level 3 Assets Reconciliation

|   | Value<br>1 April 2019 | Transfers Into<br>Level 3 | Purchases at<br>cost | Sales<br>proceeds | Unrealised<br>gains/(losses) | Realised<br>gains/(losses) | Value<br>31 March<br>2020 |
|---|-----------------------|---------------------------|----------------------|-------------------|------------------------------|----------------------------|---------------------------|
|   | £'000                 | £'000                     | £'000                | £'000             | £'000                        | £'000                      | £'000                     |
| Private Equity - Adams Street Partners,<br>LGT Capital Partners & UBS | 17,329                |                           | 105                  | (4,265)           | (2,147)                      | 2,592                      | 13,614                    |
| Private Finance - M&G   | 7,956                 |                           | 0                    | (4,352)           | 2,113                        | (1,043)                    | 4,674                     |
| Infrastructure - Macquarie & LCIV                                     | 29,133                |                           | 643                  | (3,613)           | (935)                        | 2,037                      | 27,265                    |
| Venture Capital - UBS   | 41                    |                           | 0                    | 0                 | 0                            | 0                          | 41                        |
| Direct Lending - Permira  | 61,434                |                           | 844                  | (1,306)           | 3,131                        | 0                          | 64,103                    |
|   | <b>115,893</b>        | <b>0</b>                  | <b>1,592</b>         | <b>(13,536)</b>   | <b>2,162</b>                 | <b>3,586</b>               | <b>109,697</b>            |
| Other investment balances   | 0                     |                           |                      |                   |                              | 0                          | 0                         |
| <b>Total Investment Assets</b>  | <b>115,893</b>        |                           |                      |                   |                              | <b>3,586</b>               | <b>109,697</b>            |

There were no transfers into Level 3 in 2019/20

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3 after discussions with the fund managers. Prior years classification of these assets have been erroneous in past years, based on current valuation technique and information provided by the fund managers' assets affected. Both managers confirmed valuation methodologies or techniques have not changed from previous years. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3.

## 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

#### Pooled Property: AEW & UBS Property

Fair value is primarily derived using recent market transactions on arm's length terms, where available.

# Notes to the Pension Fund Account

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## **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.

# Notes to the Pension Fund Account

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## **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.

## **Pooled Property: AEW & UBS Property**

Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

*"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."*

## **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.

### **Pooled Property – AEW & UBS Property**

Prevalent economic conditions may affect occupancy rate or possible default in rent payments and conversely affecting transaction values. Local authority intentions, planning proposals and onerous restrictions are some of the other factors to which Pooled Property assets transactions may be sensitive towards.

# Notes to the Pension Fund Account

## 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 | Assets at amortised cost | Financial Liabilities at Amortised Cost | Total                  | Designated as fair value through P&L | Assets at amortised cost | Financial Liabilities at Amortised Cost | Total                  |
|----------------------------------|--------------------------------------|--------------------------|---|------------------------|--------------------------------------|--------------------------|---|------------------------|
|                                  | 31 March 2020<br>£'000               | 31 March 2020<br>£'000   | 31 March 2020<br>£'000                  | 31 March 2020<br>£'000 | 31 March 2019<br>£'000               | 31 March 2019<br>£'000   | 31 March 2019<br>£'000                  | 31 March 2019<br>£'000 |
| <b>Financial Assets</b>          |                                      |                          |   |                        |                                      |                          |   |                        |
| Equities                         | 84,471                               |                          | 0                                       | 84,471                 | 128,054                              | 0                        | 0                                       | 128,054                |
| Pooled Investments               | 706,512                              |                          | 0                                       | 706,512                | 774,129                              | 0                        | 0                                       | 774,129                |
| Pooled property investments      | 165,448                              |                          | 0                                       | 165,448                | 135,049                              | 0                        | 0                                       | 135,049                |
| Private Equity                   | 13,614                               |                          | 0                                       | 13,614                 | 17,329                               | 0                        | 0                                       | 17,329                 |
| Cash                             | 0                                    | 15,520                   | 0                                       | 15,520                 | 0                                    | 10,472                   | 0                                       | 10,472                 |
| Other Investment balances        | 0                                    | 566                      | 0                                       | 566                    | 0                                    | 1,183                    | 0                                       | 1,183                  |
|                                  | <b>970,045</b>                       | <b>16,086</b>            | <b>0</b>                                | <b>986,131</b>         | <b>1,054,560</b>                     | <b>11,655</b>            | <b>0</b>                                | <b>1,066,215</b>       |
| <b>Financial Liabilities</b>     |                                      |                          |   |                        |                                      |                          |   |                        |
| Purchase Settlements Outstanding | 0                                    | 0                        | (17)                                    | (17)                   | 0                                    | 0                        | (89)                                    | (89)                   |
|                                  | <b>0</b>                             | <b>0</b>                 | <b>(17)</b>                             | <b>(17)</b>            | <b>0</b>                             | <b>0</b>                 | <b>(89)</b>                             | <b>(89)</b>            |
| <b>Total</b>                     | <b>970,045</b>                       | <b>16,086</b>            | <b>(17)</b>                             | <b>986,114</b>         | <b>1,054,560</b>                     | <b>11,655</b>            | <b>(89)</b>                             | <b>1,066,126</b>       |

## 15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

|   | 31 March 2020<br>£000's | 31 March 2019<br>£000's |
|---|-------------------------|-------------------------|
| <b>Financial Assets</b>                     |                         |                         |
| Designated at Fair Value through profit and | (86,093)                | 42,843                  |
|   | <b>(86,093)</b>         | <b>42,843</b>           |

## 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.

# Notes to the Pension Fund Account

## 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<br>31 March 2020 | Percentage Change | Value on Increase | Value on Decrease |
|---------------|------------------------------|-------------------|-------------------|-------------------|
|               | £'000                        | %                 | £'000             | £'000             |
| Global Equity | 379,584                      | 12.00%            | 425,134           | 334,034           |
| UK Equity     | 84,471                       | 18.00%            | 99,676            | 69,266            |
| Bonds         | 230,845                      | 6.00%             | 244,696           | 216,994           |
| Alternatives  | 109,697                      | 2.80%             | 112,769           | 106,625           |
| Property      | 165,448                      | 4.70%             | 173,224           | 157,672           |
| <b>Total</b>  | <b>970,045</b>               |                   | <b>1,055,498</b>  | <b>884,592</b>    |

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

| Asset Type    | Value as at<br>31 March 2019 | Percentage Change | Value on Increase | Value on Decrease |
|---------------|------------------------------|-------------------|-------------------|-------------------|
|               | £'000                        | %                 | £'000             | £'000             |
| Global Equity | 464,052                      | 9.60%             | 508,601           | 419,503           |
| UK Equity     | 128,054                      | 9.60%             | 140,347           | 115,760           |
| Bonds         | 211,512                      | 6.70%             | 225,683           | 197,341           |
| Alternatives  | 115,893                      | 3.70%             | 120,181           | 111,605           |
| Property      | 135,049                      | 5.20%             | 142,072           | 128,026           |
| <b>Total</b>  | <b>1,054,560</b>             |                   | <b>1,136,884</b>  | <b>972,236</b>    |

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

**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 and cash equivalents.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest Rate Risk Sensitivity Analysis

# Notes to the Pension Fund Account

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<br>31 March 2020 | Potential<br>movement on<br>1% change in<br>interest rates | Value on<br>increase | Value on<br>decrease |
|--|------------------------------|--|----------------------|----------------------|
|  | £'000                        | £'000  | £'000                | £'000                |
| <b>Assets exposed to interest rate risks</b> |                              |  |                      |                      |
| Cash balances                                | 15,520                       | 155  | 15,675               | 15,365               |
| Bonds - pooled funds                         | 230,845                      | 2,308  | 233,153              | 228,537              |
| <b>Total change in assets available</b>      | <b>246,365</b>               | <b>2,464</b>   | <b>248,829</b>       | <b>243,901</b>       |

|  | Value as at<br>31 March 2019 | Potential<br>movement on<br>1% change in<br>interest rates | Value on<br>increase | Value on<br>decrease |
|--|------------------------------|--|----------------------|----------------------|
|  | £'000                        | £'000  | £'000                | £'000                |
| <b>Assets exposed to interest rate risks</b> |                              |  |                      |                      |
| Cash balances                                | 10,472                       | 105  | 10,577               | 10,367               |
| Bonds - pooled funds                         | 211,512                      | 2,115  | 213,627              | 209,397              |
| <b>Total change in assets available</b>      | <b>221,984</b>               | <b>2,220</b>   | <b>224,204</b>       | <b>219,764</b>       |

**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 2020 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 2020 and as at the previous period ending 31 March 2019.

## Currency exposure by asset type

|                               | Asset Value<br>31 March 2020 | Asset Value<br>31 March 2019 |
|-------------------------------|------------------------------|------------------------------|
|                               | £'000                        | £'000                        |
| Overseas Managed Funds        | 195,267                      | 214,196                      |
| Private Equity/Infrastructure | 40,879                       | 46,462                       |
|                               | <b>236,146</b>               | <b>260,658</b>               |

## 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 7.40%, based on the data provided by PIRC. A 7.40% 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. Managers that hedge against currency risk are not included in this sensitivity analysis. A 7.40% 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:



# Notes to the Pension Fund Account

## Assets exposed to currency risk

|                               | Asset Value<br>31 March 2020 | Potential market<br>movement | Value on increase | Value on<br>decrease |
|-------------------------------|------------------------------|------------------------------|-------------------|----------------------|
|                               |                              | 7.40%                        |                   |                      |
|                               | £'000                        | £'000                        | £'000             | £'000                |
| Overseas Managed Funds        | 195,267                      | 14,450                       | 209,717           | 180,817              |
| Private Equity/Infrastructure | 40,879                       | 3,025                        | 43,904            | 37,854               |
|                               | <b>236,146</b>               | <b>17,475</b>                | <b>253,621</b>    | <b>218,672</b>       |

## Assets exposed to currency risk

|                               | Asset Value<br>31 March 2019 | Potential market<br>movement | Value on increase | Value on<br>decrease |
|-------------------------------|------------------------------|------------------------------|-------------------|----------------------|
|                               |                              | 8.70%                        |                   |                      |
|                               | £'000                        | £'000                        | £'000             | £'000                |
| Overseas Managed Funds        | 214,196                      | 15,636                       | 229,832           | 198,560              |
| Private Equity/Infrastructure | 46,462                       | 3,392                        | 49,854            | 43,070               |
|                               | <b>260,658</b>               | <b>19,028</b>                | <b>279,686</b>    | <b>241,630</b>       |

**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 which assigns 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 AAf 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 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

| Summary                      | Rating<br>S&P | Balances as at<br>31 March 2020<br>£'000 | Rating<br>S&P | Balances as at<br>31 March 2019<br>£'000 |
|------------------------------|---------------|--|---------------|--|
| <b>Money market funds</b>    |               |  |               |  |
| Northern Trust               | AAf S1+       | 15,766                                   | AAf S1+       | 10,672                                   |
| <b>Bank current accounts</b> |               |  |               |  |
| Lloyds                       | A+            | 3,310                                    | A+            | 1,139                                    |
| <b>Total</b>                 |               | <b>19,076</b>                            |               | <b>11,811</b>                            |

**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 (£3,310k). 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 2020 these assets totalled £694,900k, with a further £15,766k held in cash in the Custody accounts at Northern Trust.

# Notes to the Pension Fund Account

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## 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 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as at 31 March 2022.

In line with the triennial valuation the Fund updates its 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 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 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 offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

## Significant events

The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at <http://www.lgpsregs.org/>.

## McCloud ruling

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

- Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
- Measurement of funding position at 31 March 2019: no allowance.

# Notes to the Pension Fund Account

## Contribution rates

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

| Primary Rate (%)<br>1 April 2020 - 31 March 2023 | Secondary Rate (£) |            |            |
|--|--------------------|------------|------------|
|  | 2020/21            | 2021/22    | 2022/23    |
| 20.20%   | £5,313,000         | £5,451,000 | £5,592,000 |

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.

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

The valuation of the Fund has been undertaken using a risk-based approach, this approach 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 three categories when projecting and placing a value on the future benefit payments and accrual – financial, demographic and Commutation.

### 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 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

| Description                 | 31 March 2019 | 31 March 2016 |
|-----------------------------|---------------|---------------|
| Funding Basis Discount Rate | 4.0%          | 4.0%          |
| Benefit Increases (CPI)     | 2.3%          | 2.1%          |
| Salaries Increases          | 2.6%          | 2.6%          |

### 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 2019 | 31 March 2016 |
|-----------------|---------------|---------------|
| <b>Male</b>     |               |               |
| Pensioners      | 22.1 years    | 22.6 years    |
| Non- Pensioners | 22.8 years    | 24.0 years    |
| <b>Female</b>   |               |               |
| Pensioners      | 24.3 years    | 24.6 years    |
| Non- Pensioners | 25.5 years    | 26.5 years    |

# Notes to the Pension Fund Account

## Commutation assumptions

An allowance is included for future retirements to elect to take 65% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 85% of the maximum tax-free cash for post-April 2008 service.

## 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.

The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

| Description                  | 31 March 2020 | 31 March 2019 |
|------------------------------|---------------|---------------|
|                              | % per annum   | % per annum   |
| Inflation /Pensions Increase | 1.9%          | 2.5%          |
| Salary Increase Rate         | 2.2%          | 2.9%          |
| Discount Rate                | 2.3%          | 2.4%          |

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

| Description                                   | 31 March 2020 | 31 March 2019 |
|---|---------------|---------------|
|   | £m            | £m            |
| Present Value of Promised Retirement Benefits | (1569)        | (1703)        |
| Fair Value of Scheme Assets (bid value)       | 992           | 1067          |
| <b>Net Liability</b>                          | <b>(577)</b>  | <b>(636)</b>  |

*\*Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation*

These figures are presented as required by IAS 26. 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 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

# Notes to the Pension Fund Account

## Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. The figures have been prepared by Hymans Robertson, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

| Description                                   | 31 March 2020 | 31 March 2019 |
|---|---------------|---------------|
|   | £m            | £m            |
| Present Value of Promised Retirement Benefits | (1569)        | (1703)        |
| Fair Value of Scheme Assets (bid value)       | 992           | 1067          |
| <b>Net Liability</b>                          | <b>(577)</b>  | <b>(636)</b>  |

## Going Concern

The Pension Fund accounts and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2019/20) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The Fund's triennial valuation at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. A recent review undertaken in response to the COVID-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. If a need to obtain liquidity arises 10% of the Fund's assets are held in liquid investments. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

## 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 three members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.

## Key Management Personnel

Two 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 and the Head of Pensions, Treasury and Statutory Accounts (Up to 26 Decemeber 19). Total remuneration payable to key management personnel is set out below:

|                          | 31 March 2020<br>£'000 | 31 March 2019<br>£'000 |
|--------------------------|------------------------|------------------------|
| Short term benefits      | 64                     | 74                     |
| Post employment benefits | 78                     | 75                     |
|                          | <b>142</b>             | <b>149</b>             |

\* Post-employment benefits for 2018/19 updated for consistency

# Notes to the Pension Fund Account

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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](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 20. BULK TRANSFER

There were no bulk transfers in 2019-20.

## 21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

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. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

## 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 the event of employer default.

## 23. POST BALANCE SHEET EVENTS

As a result of COVID-19 the market value of investments has been volatile with large fluctuations in asset prices. The Fund has a 20 year funding strategy designed to accommodate volatility, periods of market stress and other factors. It is well placed to deal with an event such as COVID-19. The governance structure around the Fund ensures that investment, administration and other risks are constantly monitored and where necessary remedial action can be taken. There will be no impact on pension payments.

**London Borough of  
Hillingdon Pension Fund  
Initial Audit results report**  
Year ended 31 March 2020

23 July 2020

Hillingdon Pension Fund

23 July 2020



Dear Pensions Committee Members

We are pleased to attach our initial audit results report in relation to the audit of Hillingdon Pension Fund for 2019/20 ('Pension Fund') for the forthcoming meeting of the Pensions Committee.

Our audit is currently in progress. In response to a request from management, we are using this report to communicate to the Pensions Committee the status of our audit of the Pension Fund for the year ended 31 March 2020.

As set out on page 5, a number of issues have arisen as a result of COVID-19 which have impacted our work, and may yet have an impact on our audit report.

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 are aiming to complete our audit procedures and report to the 1 October 2020 Audit Committee meeting.

We would like to thank your staff for their ongoing help during the engagement, especially as they have themselves also needed to adapt to remote working and the pressures and strains that come with that. We are very grateful for their help.

We welcome the opportunity to discuss the contents of this report with you at the Pensions Committee meeting on the 28<sup>th</sup> of July 2020.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl



# Contents



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.psa.co.uk](http://www.psa.co.uk)). It is available from the Chief Executive of each audited body and via the PSAA website.

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 Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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.



01

# Executive Summary

## Scope update

In our Audit Plan tabled at the 3<sup>rd</sup> February 2020 Audit Committee meeting, we provided an overview of our audit scope and approach for the audit of the financial statements. We are conducting our audit in accordance with this plan.

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Investments-** financial markets have experienced some volatility even before the advent of COVID-19. The uncertain impact of the virus on markets has had an impact on pooled property funds with underlying property investments being subject to the Royal Institute of Chartered Surveyors (RICS) 'material uncertainty' paragraphs in their valuation reports. There are also increased risks that market and economic trends may not be adequately reflected in assets classified as Level 3 - valued according to unobservable information. The Fund's officers have challenged valuations, especially those which are classified as level 3 (and are the most complex to value because of their nature, see p.11.). We considered level 3 investment valuations to be a significant risk when we planned the audit, and COVID-19 has exacerbated the position.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We determined that the unpredictability of the current environment gave rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Pension Fund's actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Pension Fund and in particular changes to the value of its investments post 31 March 2020.

### Changes to the scope of our audit as a result of Covid-19

- ▶ We updated our enquiries and understanding of the significant classes of transactions and the relevant controls in light of Covid-19.
- ▶ We are challenging officers on the valuations provided to them by their specialists and are testing the additional disclosures related to investment valuation uncertainties due to Covid-19.

### Changes in materiality

We updated our planning materiality assessment using the draft statements and have also reconsidered our risk assessment. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £9.920m (previously £10.669 m). This results in updated performance materiality, at 75% of overall materiality, of £7.440 m, and an updated threshold for reporting misstatements of £0.496m.

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

# Executive Summary

## Scope update (continued)

### Additional audit procedures as a result of Covid-19

Other changes in the Fund and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

**Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Pension Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

**Additional EY consultation requirements concerning the impact on auditor reports.** The uncertainty created by Covid-19 increases the importance of giving the right assurance to the Pension Fund and its stakeholders. As a result, EY's risk management team have instigated additional consultation processes on the wording of the auditor's report. In light of issues with asset valuations and going concern, this consultation process will involve significant senior level input from the audit team and EY's risk management team.

The changes to audit risks and audit approach have increased the level of work we have been required to undertake. We are currently quantifying the impact on the audit fee and will present our final fee to the Section 151 officer on completion of the audit.

## Status of the audit

Our audit of the Pension Fund's financial statements for the year ended 31 March 2020 is in progress and we are in the process of performing the procedures outlined in our audit planning report. The Pension Fund had originally planned to prepare its draft statements by 28 May, be ready for starting the audit on 26 May and facilitate completing the audit procedures by 24 July. However, the Pension Fund experienced delays in accounts preparation and readiness for the audit resulting in draft accounts being provided for audit on 15 June and the audit commencing on 1 June.

As a result we are still undertaking key audit areas relating to:

- ▶ Fair value hierarchy classification of pooled property investments.
- ▶ Completion of reviews of controls at investment managers.
- ▶ Adequacy and completeness of disclosures in the Pension Fund's accounts with respect to investments' valuation uncertainties.
- ▶ Review of all other updated disclosures in the accounts, including going concern and subsequent events disclosures.
- ▶ Accuracy of active members disclosed in the accounts.
- ▶ Triennial review of the pensions data submitted to the actuaries.
- ▶ Subsequent events review. Receipt of the signed management representation letter
- ▶ Final review of the updated financial statements and annual report following audit.

(continued over)



# Executive Summary

## Status of the audit (continued)

In light of the volume of audit work outstanding at the date of this report we have not included a draft audit report as we have in previous years. We will include the audit report in our reporting to the 1 October 2020 Audit Committee meeting.

## 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 3.

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 Pensions Committee meeting on 28<sup>th</sup> July and then to the Audit Committee on 1 October.

## Areas of audit focus

Page 49

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 Pensions 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 to report but provide an update on Independence at Section 6.



## 02 Areas of Audit Focus



## Areas of Audit Focus

### 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?

Our work in this area is ongoing and we are not yet in a position to conclude, however we have not identified findings to report to you as of the date of this report.



## Areas of Audit Focus

### 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, private debt and infrastructure funds. 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 2019/20 is at circa 11.1% (2018/19: 10.8%), and as these investments are more complex to value, we have identified the level 3 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 significant for level 3 investments held by the pension fund.

Total of level 3 investments held by the Fund at 31 March 2020 is £110 million.

##### What are we doing?

- ▶ Reviewing the latest available audited accounts for the relevant funds and ensuring there are no matters arising that highlight weaknesses in the fund's valuation;
- ▶ Where the latest audited accounts were not as at 31 March 2020, we are performing analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations; and
- ▶ Confirming that accounting entries were correctly processed in the financial statements.

##### What are our observations?

In the draft statements, pooled property assets are defined as level 2, consistent with previous years. As a result of the impact of COVID-19 on investments, many property valuers are issuing valuations for the underlying property assets including material uncertainty paragraphs in their valuation report. This increases the uncertainty around the valuation of these funds. We are therefore challenging whether it is still appropriate to classify pooled property investments as level 2 rather than level 3.

Our work in this area is ongoing, and we are not yet in a position to conclude.



## Our response to inherent risks

**New Inherent Risk - Disclosures on Going Concern and Events after the balance sheet date**

**Financial statement impact**

We have identified an Inherent risk relating to disclosures concerning the Covid-19 pandemic.

We consider the risk applies to going concern and post balance sheet disclosures.

**What is the risk?**

**Going concern:**

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We believe the risk has increased following Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Pension Fund will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

**Events after the balance sheet:**

There is increased risk that events after the balance sheet date concerning the Covid-19 pandemic may impact on the value of assets in the statement and may need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Pension Fund.

**What did we do?**

- Assessed the adequacy of disclosures required in 2019/20, and the impact on our opinion, should these be inadequate;
- Discussed management’s going concern assessment and considered any evidence of bias and consistency with the accounts;
- Ensured that an appropriate going concern disclosure has been made within the financial statements;
- Reviewed the Authority’s approach to identifying and disclosing events after the balance sheet date; and
- Considered the impact on our audit report and compliance with EY consultation requirements.

We are still working through a number of these areas to agree final disclosures with the Fund.

We will also need to formally complete internal EY consultation to agree the final audit report and conclusions in respect of Going Concern and Post Balance Sheet Event disclosures as a result of Covid-19.



# 03 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 £7.440 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 £0.496 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.

Page 55

There are currently no uncorrected misstatements. We will provide a verbal update at the Pension Committee meeting on 28<sup>th</sup> July and report a final position to the 1 October Audit Committee meeting.



# 04 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 2019/20 with the audited financial statements. The Fund has yet to publish the additional information pertaining to the Statement of Accounts for 2019/20 and as a result we are not in a position to conclude on the consistency with the financial statements as of this date.

### 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 Pension Fund 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 at this stage of the audit.

Page 57 We also have a duty to make written recommendations to the Pension Fund, 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 at this stage of the audit.

### 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 Pension Fund'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 currently have no matters to report, but as noted earlier in this report our procedures remain ongoing particularly in respect of completing the assessment of going concern and post balance sheet events disclosures, and the final form of the audit report.



05

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained 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.



06

# Independence



# Independence

## Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2020.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Pensions Committee on 28 July and then the Audit Committee on 1 October 2020.

As part of our reporting on our independence, we set out a summary of the fees you have paid us in the year ended 31<sup>st</sup> March 20. We confirm that we have not undertaken non-audit work. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

## Notes:

1. We are currently in discussion with the Section 151 officer about our proposals to increase the scale fee to take into account changes in professional and regulatory requirements, as well as changes to the scope of our audit as a result of Covid-19 as detailed on page 5.
2. We are completing procedures on IAS19 to give assurance to the auditor of the London Borough of Hillingdon. For 2019/20 we have also carried out procedures over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in the Council's financial statements and the actuarial present value of promised retirement benefits in the Pension Fund financial statements. The fees associated to IA19 assurances are outside of the scope of the PSAA regime.
3. Additional time will be required for internal consultation processes on the audit report. As this process has not yet been completed we are currently unable to quantify the impact on our audit fee.

We will discuss and agree all proposed additional fees with the Section 151 officer before reporting them to the Audit Committee. We will then seek PSAA approval for additional fee items 1 and 3.

## Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

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

| Description   | Planned Fee<br>2019/20 (£) | Final Fee<br>2018/19 (£) |
|---|----------------------------|--------------------------|
| Scale Fee   | 16,170                     | 16,170                   |
| Changes in work required to address professional and regulatory requirements and scope associated with risk | (Note 1)                   | -                        |
| Additional work due to restated investment value  | -                          | 1,265                    |
| Additional procedures on IAS19 and the triennial valuation  | (Note 2)                   | -                        |
| Additional work required for internal consultation on the audit report                                      | (Note 3)                   | -                        |
| <b>Total indicative Pension Fund Fee</b>  | <b>TBC</b>                 | <b>16,170</b>            |

## Independence

### Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, 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 1<sup>st</sup> April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

#### Services provided by Ernst & Young

The previous includes a summary of the fees that you have paid to us in the year ended 31<sup>st</sup> March 20 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

### Page 62 **New UK Independence Standards**

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

#### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.

# Independence

## Summary of key changes (continued)

- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

## Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf)





# 07

# 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 3 February 2020   |
| 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 3 February 2020   |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Going concern                       | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>  | Final Audit results report on 1 October 2020   |
| Misstatements                       | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |

# Appendix A

|                         |  | Our Reporting to you   |
|-------------------------|--|--|
| Required communications | What is reported?  | When and where   |
| Subsequent events       | <ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>   | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:                             <ol style="list-style-type: none"> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul> | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Related parties         | Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>  | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Independence            | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats - Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.   | Audit planning report on 3 February 2020 and<br>Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020 |




# Appendix A

|  |   | Our Reporting to you   |
|--|---|--|
| Required communications  | What is reported?   | When and where   |
| External confirmations   | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>   | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Consideration of laws and regulations  | <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul> | 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  | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>  | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Written representations we are requesting from management and/or those charged with governance                           | <ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>  | Final Audit results report on 1 October 2020   |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | <ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>  | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Auditors report  | <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>   | Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020   |
| Fee Reporting  | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>  | Audit planning report on 3 February 2020<br>Initial Audit results report on 28 July 2020<br>Final Audit results report on 1 October 2020               |

## 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<br>Incorporation of EY review comments on disclosure notes | EY and management  |
| Fair value hierarchy classification of pooled property investments   | Clarifications from management and EY internal consultations  | EY and management  |
| Completion of reviews of controls at the investment managers levels  | Receipt and review of final controls reports and relevant bridging letters  | EY and management  |
| Accuracy of active members disclosed in the accounts   | EY's review of updated information and calculations provided by management  | EY and management  |
| Adequacy and completeness of disclosures in the Pension Fund's accounts with respect to investments' valuation uncertainties | Financial statements review by EY and agreement of latest changes with management   | EY and management  |
| Review of all other updated disclosures in the accounts, including going concern and subsequent events disclosures           | Financial statements review by EY and agreement of latest changes with management   | EY and management  |
| Triennial review of the pensions data submitted to the actuaries   | Providing access to all relevant documentation to EY and EY's review and agreement with the report submitted to the actuaries | 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  |



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ED None

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| RATIFICATION OF DELEGATED DECISIONS |   | ITEM 6 |
|-------------------------------------|---|--------|
| Committee                           | Pensions Committee  |        |
| Officer Reporting                   | James Lake, Finance<br>Yvonne Thompson-Hoyte, Finance   |        |
| Papers with this report             | <ol style="list-style-type: none"> <li>1. Suspension of abatement Policy Decision</li> <li>2. Triennial Valuation and Funding Strategy Decision</li> <li>3. Actuarial Contract Services Decision</li> </ol> |        |

## HEADLINES

On 17 March 2020 the Head of Democratic Services advised that Pensions Committee would be cancelled until further notice due to COVID-19 restrictions. It was further advised that, in the case of the Pensions Committee, the Corporate Director of Finance has delegated authority to take decisions on behalf of the Committee in urgent cases, and will do so in consultation with Committee Members, the Leader and Deputy Leader of the Council via email or telephone if necessary. Decisions taken during this time should be tabled at the first resumption of the Pensions Committee for ratification.

## RECOMMENDATIONS

**It is recommended that the Pensions Committee ratify the delegated decisions taken by the Corporate Director of Finance after the required consultation as set out below:**

1. The suspension of the abatement policy for 12 months
2. Approval of the Triennial Valuation and Funding Strategy Statement
3. Award of Contract for Actuarial Services

## FINANCIAL IMPLICATIONS

The financial implications are included in the individual reports attached.

## LEGAL IMPLICATIONS

The legal implications are included in the individual report attached.

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## Delegated decision on behalf of Pensions Committee - Suspension of Abatement Policy

|                                  |  |
|----------------------------------|--|
| Officer With Delegated Authority | Paul Whaymand, Corporate Director of Finance, Section 151 Officer  |
| Officer Seeking Permission       | Yvonne Thompson-Hoyte, Interim Pensions Manager<br>James Lake, Chief Accountant<br>Mike Talbot – Head of Human Resources |
| Papers with Report               | 1. Chair of Scheme Advisory Board's Letter<br>2. Hillingdon Council Abatement Policy                                     |

### RECOMMENDATION

That the Hillingdon Pension Fund suspends its policy to abate pension's for 12 months to ensure that any retirees returning to work to assist with the Covid-19 emergency are not adversely affected.

### REASON FOR A DELEGATED DECISION

On 17 March 2020 the Head of Democratic Services advised that Pensions Committee would be cancelled until further notice. It was further advised that, in the case of the Pensions Committee, the Corporate Director of Finance has delegated authority to take decisions on behalf of the Committee in urgent cases, and will do so in consultation with Committee Members and also the Leader and Deputy Leader of the Council via email or telephone if necessary. All decisions taken under delegated powers will be ratified by Pensions Committee at a later date once operational.

This decision is required to support the Government programme to encourage social workers and similar professionals who have retired from local government in the last two years to re-join the workforce without penalty during the outbreak of COVID-19. The reason for urgency is outlined below.

### BACKGROUND

The United Kingdom had the first confirmed case of the virus COVID-19 in January 2020. Since that time the virus has spread widely over the United Kingdom and there has been loss of life as a result. This has caused an enormous strain on health and Social Care related services in particular. This situation is on-going.

On March 19, 2020 the Government announced a programme to encourage health and social care staff, who retired in the last two years, back to work to assist in the fight against COVID-19.

This was preceded by a letter from the Chair of the Scheme Advisory Board to the Chairs of Pension Committees advising them of the government's programme. The letter further stated that it was the government's intention that anyone returning to work in this crisis, should not suffer any impact on the public service pension they

receive. The Chair of SAB 'strongly urged' authorities that still have a policy of abatement in place to suspend them, or at the very least to make an exception for staff that may return to assist in the COVID-19 emergency (letter attached as Appendix A).

## **HILLINGDON COUNCIL ABATEMENT POLICY**

The current policy of Hillingdon Council is to apply a reduction (abatement) to the pre - 2014 pensions of staff returning to employment. Abatement of pensions after this period was removed by the LGPS 2013 regulations and therefore is not relevant.

The actual use of this policy within the Council is very rare and therefore does not affect a large number. Also at the point of retirement, pension payments would have been anticipated to be for the full duration so it is not an unexpected or additional cost to the Fund.

Many authorities have stopped all abatement citing that it is very costly and time consuming to monitor; unfair because it only affects those coming back into local government employment and not those being re-employed elsewhere and that it is a barrier to the re-employment of much needed experience and skills in local government.

The government has put forward a bill to suspend abatement for NHS workers coming back into employment in the Corona Virus Act 2020 that was introduced in parliament on 25 March 2020.

## **FINANCIAL IMPLICATIONS**

There is no extra cost to the Pension Fund on the basis that at the time of each retirement the Fund would have anticipated paying pensions and benefits in full for the duration. This would therefore have been factored in to each triennial valuation and by extension the funding and investment strategies.

## **LEGAL/REGULARORY IMPLICATIONS**

The LGPS Regulations require that each Pension Fund Administering Authority must formulate and keep under review a policy on pension abatement.

The Government through the Scheme Advisory Board has requested the Council to review this policy in light of recent developments with COVID-19

## **APPROVAL BY THE CORPORATE DIRECTOR OF FINANCE IN ACCORDANCE WITH SCHEME OF DELEGATION**

In consultation with Pensions Committee Members and also the Leader and Deputy Leader of the Council.

Signature  Date 7/4/20

Paul Whaymand - Corporate Director of Finance

## Appendix A

Local Government Pension Scheme

# Scheme Advisory Board

To Chairs of LGPS Pension Committees

19<sup>th</sup> March 2020

Dear Colleague

### **LOCAL GOVERNMENT PENSION SCHEME COVID-19 AND RE-EMPLOYMENT OF KEY STAFF**

I am writing in my capacity as Chair of the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales.

Today the government will announce a programme designed to encourage health and social care staff who retired in the last two years to return to work.

It is the intention that any who do so should not suffer any impact on the public service pension they receive. Some of these will be ex social workers in receipt of an LGPS pension.

The LGPS provides a discretion to each administering authority to set a policy on whether and in what circumstances to reduce (abate) the pension of returnees.

I am aware that there are some authorities who do have a policy of abating pensions and if this is the case in your authority I would strongly urge you to suspend that policy or at the very least amend it in order to exclude such staff who will be returning to assist in the delivery of vital services.

A copy of this letter has been sent to your Pensions Manager for information.

Yours sincerely



Councillor Roger Phillips  
Chair of Scheme Advisory Board

Scheme Advisory Board Secretariat

Local Government Association, Layden House, 76-86 Turnmill Street, London, EC1 M 5LG, London SW1P 3HZ  
T 020 7664 3328 E [elaine.english@local.gov.uk](mailto:elaine.english@local.gov.uk) [www.local.gov.uk](http://www.local.gov.uk)

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## Delegated decision on behalf of Pensions Committee - Approval of 2019 Triennial Valuation

|                                  |  |
|----------------------------------|--|
| Officer With Delegated Authority | Paul Whaymand, Corporate Director of Finance, Section 151 Officer  |
| Officer(s) Seeking Permission    | Yvonne Thompson-Hoyte, Interim Pensions Manager<br>James Lake, Chief Accountant  |
| Papers with Report               | 1. Report to Pensions Committee Dated 26 March 2020<br>2. Revised Valuation Report from Actuary<br>3. Funding Strategy Statement |

### RECOMMENDATION

It is recommended that the delegated officer on behalf of the Pensions Committee, review the final valuation report and funding strategy statement and:

1. Agree the 2019 Triennial Valuation Report for implementation
2. Approve the Funding Strategy Statement (FSS) for the London Borough of Hillingdon Pension Fund.

### REASON FOR A DELEGATED DECISION

On 17 March 2020 the Head of Democratic Services advised that Pensions Committee would be cancelled until further notice. This was just ahead of the Pensions Committee that was scheduled for 26 March 2020. It was further advised that, in the case of the Pensions Committee, the Corporate Director of Finance has delegated authority to take decisions on behalf of the Committee in urgent cases, and will do so in consultation with Committee Members and also the Leader and Deputy Leader of the Council via email or telephone if necessary.

This decision is required to implement the results of the triennial valuation and the new contribution rates that have been certified by the actuary to take effect from April 2020 in accordance with Regulation 62 (1) of LGPS Regulations 2013.

### BACKGROUND

The triennial valuation report and the funding strategy statement, were included in the report pack to be tabled at the Pensions Committee for decision on 26 March 2020. Ahead of the Committee on 17 March 2020 the Head of Democratic Services advised that Pensions Committee would be cancelled until further notice due to developments relating to COVID-19. As a result the Pensions Committee was not able to consider this report.

As outlined in the Committee papers attached, the draft assumption report and the funding strategy statement was approved by the Pensions Committee in October 2019.

### **CHANGES SINCE OCTOBER 2019 COMMITTEE**

Changes have been made to the FSS to incorporate recent legislation on exit credits and to update Appendix A with the results of the consultation. Appendix 4 has been added to the valuation report to provide information for the Government Actuarial Department to meet their requirements under section 13 of the Public Services Pensions Act.

The final triennial valuation report was completed and based on the original assumptions. The certified contribution rates to be paid by employers into the fund is outlined in Appendix 3 of the valuation report.

### **FURTHER CHANGES RELATING TO COVID-19**

The actuary submitted an amended report on 25 March 2020 following the escalation of the COVID-19 pandemic.

A post valuation statement has been added on page 11 acknowledging the current volatility in the global stock markets due to the COVID-19 pandemic but concluded that no changes would be made at this time due to the long-term outlook of the Fund.

Further comments were added on page 21 of the revised report advising that the Administering Authority reserved the right to revisit the contribution rates of existing employers in the event there is an indication they may cease to be part of the Fund.

### **FINANCIAL IMPLICATIONS**

Financial implications have been incorporated in the report

### **LEGAL/REGULARORY IMPLICATIONS/**

The legal and regulatory implications have been incorporated within the report.

### **APPROVAL BY THE CORPORATE DIRECTOR OF FINANCE IN ACCORDANCE WITH SCHEME OF DELEGATION**

In consultation with Pensions Committee Members and also the Leader and Deputy Leader of the Council.

Signature  \_\_\_\_\_ Date 14/4/20

Paul Whaymand - Corporate Director of Finance

## Delegated decision on behalf of Pensions Committee - Actuarial Contract Award

|                                  |   |
|----------------------------------|---|
| Officer With Delegated Authority | Paul Whaymand, Corporate Director of Finance, Section 151 Officer |
| Officer(s) Seeking Permission    | James Lake – Chief Accountant                                     |
| Papers with Report               | 1. Intention to Award Letters<br>2. Evaluation Report             |

### RECOMMENDATION

It is recommended that the delegated officer on behalf of the Pensions Committee:

1. **Accepts the tender from Hymans Robertson LLP for the provision of actuarial services to the Hillingdon Pension Fund for a four year period from 1 August 2020 to the 31 July 2024.**
2. **Furthermore, agrees that this includes the provision to extend the contract for a further three years (up to 7 years in total) with any extension to be agreed by the Corporate Director of Finance in consultation with Pensions Committee.**

### REASON FOR A DELEGATED DECISION

On 17 March 2020 the Head of Democratic Services advised that the Pensions Committee would be cancelled until further notice. This was just ahead of the Pensions Committee that was scheduled for 26 March 2020. It was further advised that, in the case of the Pensions Committee, the Corporate Director of Finance has delegated authority to take decisions on behalf of the Committee in urgent cases, and will do so in consultation with Committee Members and also the Leader and Deputy Leader of the Council via email or telephone if necessary.

The Local Government Pension Scheme requires an Administering Authority to obtain the services of an actuary to carry out specific functions on behalf of the Fund. The contract for the current providers, Hyman Robertson expires on 31 July 2020. Hillingdon Council as the Administering Authority of the Hillingdon Pension Fund, has a statutory obligation to appoint an Actuary to the fund at the expiration of the current contract.

### THE TENDER PROCESS

#### Invitation to Tender

The procurement was conducted using the National LGPS Framework for Actuarial Services. The Framework OJEU compliant and provides a pool of potential providers for Local Authorities to invite to tender.

An invitation to tender was issued to the 4 providers on the National Framework on 2 March 2020. Submissions were received from 2 providers at the close of the tender on 24 March 2020

The providers were required to demonstrate their ability to deliver actuarial services to the Hillingdon Pension Fund by providing written responses to 6 questions and then expanding on them further by way of a presentation. The weighted scores for this area are presented in the Technical section of the table below.

The providers were also asked to cost a range of services for ease of comparison. In practice, there will always be some non-standard work commissioned from each of these services, depending on circumstances and so the total spend on these contracts can vary. The weighted scores for this area are presented in the Commercial area of the table below.

### **Evaluation Results**

The evaluation exercise was conducted by 2 Hillingdon Council officers and the results and criteria are set out in the table below.

| <b>Service provider</b> | Technical –Quality & Service Fit Weighted Score (max 60%) | Commercial - Price Weighted Score (max 40%) | Total Weighted Score |
|-------------------------|---|---|----------------------|
| <b>Hymans Robertson</b> | 55.44%  | 40.00%                                      | 95.44%               |
| <b>Provider 2</b>       | 40.20%  | 27.78%                                      | 67.98%               |

### **Terms of the Contract**

The term of the proposed new contract will be from 1 August for an initial period of 4 years, with options to extend for a further period of 3 years, giving a total potential contract period of 7 years.

### **FINANCIAL IMPLICATIONS**

The financial implications are outlined in part II of the agenda items

### **LEGAL/REGULARORY IMPLICATIONS**

In accordance with Article 8 (8.06)(b)(8) of the Council Constitution, in respect of the Pensions Committee Terms of Reference, the Pensions committee has authority to

review the appointment of specialist advisors and service providers and make new appointments as necessary.

The procurement process has been carried out in accordance with the Public Contracts Regulations 2015.

In addition, Procurement & Contract Standing Orders – Schedule H Standing Order 4 was followed by way of obtaining tenders via way of the LGPS framework agreement for the relevant values and was completed with the relevant Procurement Officer

**APPROVED BY THE CORPORATE DIRECTOR OF FINANCE IN ACCORDANCE WITH SCHEME OF DELEGATION**

In consultation with Pensions Committee Members and also the Leader and Deputy Leader of the Council.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Paul Whaymand - Corporate Director of Finance

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## INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

ITEM 7

|                         |   |
|-------------------------|---|
| Committee               | Pensions Committee                      |
| Officer Reporting       | James Lake & Babatunde Adekoya, Finance |
| Papers with this report | Northern Trust Performance Report       |

### HEADLINES

The total value of the fund was £989m at 31 March 2020, a decrease of £137m from £1,126m at the end of previous quarter. There was an overall investment return of -11.77% over the quarter, translating into -2.93% behind the benchmark.

A detailed analysis of the performance of each investment manager compiled by the independent investment advisor is included in Part II of this report.

### Update

The latest fund value as at 30 June 2020 was £1,069m, an increase of £80m in valuation compared to end of quarter under review.

### RECOMMENDATIONS

It is recommended that Pensions Committee:

1. Note the Fund performance update.

### SUPPORTING INFORMATION

#### 1. Fund Performance

Over the last quarter to 31 March 2020, the Fund returned -11.77%, underperforming the benchmark return of -9.10% by 267 basis points. The Fund value decreased over the quarter by £137m, to £989m.

| Period of measurement     | Fund Return % | Benchmark % | Arithmetic Excess |
|---------------------------|---------------|-------------|-------------------|
| Quarter                   | -9.10         | -11.77      | -2.67             |
| 1 Year                    | -6.10         | -3.50       | -2.60             |
| 3 Year                    | 0.51          | 2.00        | -1.49             |
| 5 Year                    | 4.10          | 4.67        | -0.57             |
| Since Inception (09/1995) | 6.38          | 6.44        | -0.06             |

During the quarter, distributions received from alternative investments were \$652k, €611k & £1.7m. £856k was paid to the LCIV-Stepstone Infrastructure Fund and Permira Credit solutions as drawdown of investment commitments.

The effects of COVID-19 impacted investment performance for the quarter and this resulted in underperformance by eight of the twelve engaged fund managers. UBS Equities and AEW with -11.69% & -15.56% behind respective benchmark returns were the biggest contributors to underperformance during the quarter under review. Though, the quarter under review was quite disappointing, both Private Equity portfolios of Adams Street and LGT Capital Partners managed to outperform their respective benchmarks with relative returns of +31.85 and 25.31% respectively.

Relative performance over a one-year rolling period was -2.60% behind the benchmark with the largest detractors again being both UBS Equities and Epoch Investments; with returns of -14.17% & -7.10% below benchmarks. Both Private Equity portfolios of Adams Street and LGT Capital Partners were the largest contributors to relative benchmark returns over the rolling one-year period with an outperformance of 26.40% and 15.20%, respectively compared to benchmark.

## **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.

The asset allocation is currently being reviewed as required by the LGPS regulations following the initial results of the triennial valuation.



### Current Asset Allocation by Asset Class

| ASSET CLASS           | Market Value As at 31 March 2020 | Actual Asset Allocation | Benchmark Allocation | Market Value As at 30 June 2020 |
|-----------------------|----------------------------------|-------------------------|----------------------|---------------------------------|
|                       | £'000                            | %                       | %                    | £'000                           |
|                       | UK Equities                      | 84,471                  | 8.54                 | 45                              |
| Global Equities       | 324,012                          | 32.76                   | 377,163              |                                 |
| UK Index Linked Gilts | 141,707                          | 14.33                   | 24                   | 156,330                         |
| Multi Asset Credit    | 89,137                           | 9.01                    |                      | 94,971                          |
| Property              | 118,048                          | 11.94                   | 12                   | 116,738                         |

| Current Asset Allocation by Manager |                         | Market Value As at 31 March 2020 | Actual Asset Weighting | Market Value As at 30 June 2020 |
|-------------------------------------|-------------------------|----------------------------------|------------------------|---------------------------------|
| FUND MANAGER                        | ASSET CLASS             | £'000                            | %                      | £'000                           |
| ADAMS STREET                        | Private Equity          | 11,203                           | 1.13                   | 8,857                           |
| LGT                                 | Private Equity          | 3,672                            | 0.37                   | 3,427                           |
| AEW                                 | Property                | 50,774                           | 5.13                   | 50,742                          |
| JP MORGAN                           | Multi Asset Credit      | 89,137                           | 9.01                   | 94,971                          |
| LCIV - EPOCH                        | Global Equities         | 128,745                          | 13.02                  | 144,688                         |
| LCIV - RUFFER                       | DGF/Absolute Returns    | 55,573                           | 5.62                   | 59,116                          |
| LCIV - STEPSTONE                    | Infrastructure          | 567                              | 0.06                   | 3,752                           |
| M&G                                 | Private Credit          | 5,236                            | 0.53                   | 2,594                           |
| MACQUARIE                           | Infrastructure          | 26,883                           | 2.72                   | 26,003                          |
| PERMIRA                             | Private Credit          | 65,017                           | 6.57                   | 63,475                          |
| LGIM                                | Global Equities         | 195,267                          | 19.74                  | 232,475                         |
|                                     | LPI Property            | 47,399                           | 4.79                   | 47,955                          |
|                                     | UK Index Linked Gilts   | 141,707                          | 14.33                  | 156,330                         |
| UBS EQUITIES                        | UK Equities             | 84,471                           | 8.54                   | 89,662                          |
|                                     | Property                | 22                               | 0.00                   | 22                              |
|                                     | Private Equity          | 41                               | 0.00                   | 41                              |
|                                     | Cash & Cash Equivalents | 2,817                            | 0.28                   | 2,658                           |
| UBS PROPERTY                        | Property                | 67,252                           | 6.80                   | 65,974                          |
|                                     | Cash & Cash Equivalents | 350                              | 0.04                   | 263                             |
| Non Custody                         | Cash & Cash Equivalents | 12,901                           | 1.30                   | 15,798                          |
|                                     |                         | <b>989,034</b>                   | <b>100</b>             | <b>1,068,803</b>                |

|                            |                |               |            |                  |
|----------------------------|----------------|---------------|------------|------------------|
| DGF/Absolute Returns       | 55,573         | 5.62          | 0          | 59,116           |
| Private Equity             | 14,916         | 1.51          | 1          | 12,325           |
| Infrastructure             | 27,450         | 2.78          | 8          | 29,755           |
| Private Credit             | 70,253         | 7.10          | 5          | 66,069           |
| Long Lease Property        | 47,399         | 4.79          | 5          | 47,955           |
| Cash & Cash<br>Equivalents | 16,068         | 1.62          | 0          | 18,719           |
| <b>Totals</b>              | <b>989,034</b> | <b>100.00</b> | <b>100</b> | <b>1,068,803</b> |

The Fund has £3.2m awaiting drawdown on Private Credit. £55m is committed to LCIV Stepstone Infrastructure Fund; these funds are currently held in the LCIV Ruffer Absolute Return Fund, of which £3.8m has been drawn-down at the time of writing this report.

### 3. Market and Financial climate overview

The spread of Covid-19 profoundly affected global markets in the first quarter. Equities suffered steep declines and government bond yields fell (prices rose) as investors favoured their perceived safety.

Shares fell across developed markets as coronavirus spread and countries went into lockdown to try to contain the outbreak. Governments and central banks announced measures to support businesses and households and reduce borrowing costs.

#### UK Equity

UK equities tumbled as efforts to deal with the coronavirus pandemic hit economic activity indiscriminately and simultaneously. Prior to these events, domestic politics and Brexit had dominated the narrative around UK assets and the economy for much of the quarter. At the height of the market sell-off, all assets (including government bonds) fell amid fears around the stability of the financial system.

Against this backdrop, sterling hit multi-decade lows versus the US dollar as investors sought safety in cash, particularly US dollars. In line with other central banks, the Bank of England materially reduced interest rates, cutting by 65 basis points to 0.10%. This response was co-ordinated with the UK government, which unveiled an unprecedented series of fiscal support measures, in line with initiatives by many other developed nations.

Oil and gas was the worst performing industry groups over the period, selling off on concerns about falling demand in the wake of the virus, as well as the failure of

negotiations between OPEC (the Organisation of the Petroleum-Exporting Countries) and Russia to control the global supply of oil. The consumer services sector also performed very poorly as investors sought to calibrate the effect of a sharp fall in consumer demand as the UK and other governments introduced lockdown measures.

## **US**

US equities declined significantly over the quarter as the coronavirus outbreak spread. Confirmed US cases of Covid-19 rose from 150 to over 100,000 between 4 March and 27 March, and the economic impact grew clearer. Jobless claims rocketed by over three million in the last week of March and economic indicators suggest more pain will follow. The Federal Reserve (Fed) cut interest rates twice in March for the first time since the global financial crisis and announced unlimited quantitative easing (buying bonds). US interest rates now stand at 0-0.25%. The US Senate also passed a \$2 trillion stimulus package. The proposed package includes \$250 billion worth of direct payments to households, \$500 billion for loans to distressed companies and \$350 billion for small business loans. All sectors saw significant declines. Energy stocks were hit hard, with the addition of the oil price war weighing heavily. Financials and industrials also fell sharply. The information technology and healthcare sectors held up better, albeit with what would be considered steep falls in any other quarter.

## **Eurozone**

Eurozone equities experienced a sharp fall in Q1 due to the spread of coronavirus. Italy and Spain became some of the most severely affected countries. Nations across Europe took steps to restrict the movement of people and shut down parts of the economy in an effort to slow the spread of the virus. Growth in Europe was already fragile - the eurozone economy grew by just 0.1% in Q4 2019, with Germany registering zero growth.

The flash Markit composite purchasing managers' index (PMI) for March fell to a record low of 31.4, compared to 51.6 in February. The PMI survey covers companies in both the services and manufacturing sectors, and an index reading below 50 indicates economic contraction.

All sectors fell over the quarter. Defensive areas of the market such as healthcare and utilities held up best. Financials and industrials were among the worst hit sectors.

## **Japan**

After a relatively stable start to the year, the Japanese market fell steeply in late February and early March before recovering some ground to end the quarter with a total return of -17.5%. Even allowing for the exceptional environment, the yen was extraordinarily volatile through this period but probably remained slightly weaker than one might otherwise expect.

Market dynamics were chaotic, especially during the mid-March rebound, with some days marked by a strong recovery of those stocks and sectors seen as most heavily oversold, while other days seem to represent a more genuine willingness by investors to take on risk in larger cap cyclical sectors (i.e. those that are most sensitive to the economic cycle). Smaller companies have been significantly weaker than the main indices across the quarter, despite some relative recovery in the second half of March. Style influences were also prevalent, as value stocks underperformed across the quarter, with particular weakness in the first half of March. Value stocks are those that tend to trade at a lower price relative to their fundamentals, such as dividends, earnings and sales.

## **Emerging Markets**

Emerging market (EM) equities fell heavily in Q1, negatively impacted by the Covid-19 pandemic. The spread of the virus beyond China led to lockdowns globally and resulted in sharp falls in economic activity. Against this backdrop, a stronger US dollar was a further headwind for EM. The MSCI Emerging Markets Index decreased in value and underperformed the MSCI World Index.

Brazil was the weakest market in the index, with currency weakness amplifying negative returns.

Colombia was another underperformer as it was additionally impacted by the fall in crude oil prices following the failure of talks to limit oil production. Greece, South Africa and Pakistan all underperformed.

By contrast, China recorded a negative return but outperformed the MSCI Emerging Markets Index as the number of Covid-19 cases declined, and economic activity began to resume. The initial response to the virus outbreak led the authorities to effectively quarantine the city of Wuhan, and the wider province of Hubei. These measures only began to be eased at the end of the quarter. A mixture of interest rate cuts and fiscal (tax and spending) measures were also announced during the quarter.

## **Global Bonds**

Government bond yields declined over the quarter, meaning bond prices rose, as higher risk assets such as shares saw heavy declines amid rising fears over the Covid-19 pandemic. Investors favoured the perceived safety of government bonds due to the growing likelihood of a deep global recession. The moves largely occurred in late-February and March as numerous countries went into lockdown in response to the pandemic, seriously depressing economic activity. This resulted in severe declines and extreme daily swings in assets prices on a scale comparable to the crises of 2008 and 2011.

The US 10-year yield dropped from 1.92% to 0.63% over the quarter, while the two-year yield dropped from 1.57% to 0.23%. The German 10-year yield fell from -0.19% to -0.49%, France's from 0.12% to 0%. The Italian 10-year yield rose from 1.41% to 1.57%. Spain's increased from 0.47% to 0.71%. The UK 10-year yield fell from 0.82% to 0.32%.

Corporate bonds, and emerging market debt and currencies declined significantly, mainly in March, and underperformed government bonds, with moves exacerbated by a sharp tightening in liquidity. For several days, companies were unable to issue bonds although this improved later in the month.

High yield credit was hit hard given the heightened risk aversion. The sell-off was sharper in more vulnerable sectors related to travel and retailing, as well as in energy as the oil price plummeted.

## **4. Strategy Update**

At the Pensions Committee in January 2020, following the results of the triennial valuation a revised strategic asset allocation was agreed. The resulting updated Investment Strategy Statement (ISS) is brought to Committee in July for approval.

In addition a separate COVID-19 strategy review was commissioned to assess the revised asset allocation and pending ISS to ascertain whether it remained fit for purpose. Further details are included in item 8.

A 5% allocation to Infrastructure is yet to be fully drawn and funds remain with LCIV (Ruffer) until required.

The £50m allocation to Long-Lease Property with LGIM was fully drawn in March 2020.

The index-linked bond allocation was rebalanced to reduce the risk associated with the potential removal of the RPI index as well as aligning the holding with the duration of the Fund's liabilities.

The Corporate Director of Finance in May 2020 under delegated authority consented to requests from both Permira Credit Solutions II & III for authorisation to proposed recycling arrangements by the funds. The amendments will enable both funds reinvest interest payments received from investee companies in follow-on investments, rather than distribute the money to investors. Thus, provide much needed liquidity for both funds in the current global financial climate.

## **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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NORTHERN  
TRUST

# London Borough of Hillingdon

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## Investment Risk & Analytical Services

March 31, 2020

# Table of Contents

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|  |    |   |    |
|--|----|---|----|
| <b>Section 1. London Borough of Hillingdon</b>     | 4  | <b>Section 2. Adam Street</b>                       | 23 |
| 1.1. <u>Client Commentary</u>                      | 4  | 2.1. <u>Executive Summary</u>                       | 23 |
| 1.2. <u>Client Commentary (cntd)</u>               | 5  | <b>Section 3. AEW UK</b>                            | 24 |
| 1.3. <u>Investment Hierarchy</u>                   | 6  | 3.1. <u>Executive Summary</u>                       | 24 |
| 1.4. <u>Investment Hierarchy(2)</u>                | 8  | <b>Section 4. Epoch Investment P Income</b>         | 25 |
| 1.5. <u>Market Value Summary - Three Months</u>    | 10 | 4.1. <u>Executive Summary</u>                       | 25 |
| 1.6. <u>Executive Summary</u>                      | 11 | <b>Section 5. JP Morgan</b>                         | 26 |
| 1.7. <u>Asset Allocation by Manager</u>            | 12 | 5.1. <u>Executive Summary</u>                       | 26 |
| 1.8. <u>Asset Class Performance</u>                | 14 | <b>Section 6. Legal &amp; General 1</b>             | 27 |
| 1.9. <u>Regional Performance - LBH Regional</u>    | 15 | 6.1. <u>Executive Summary</u>                       | 27 |
| 1.10 <u>Regional Performance(2) - LBH Regional</u> | 16 | 6.2. <u>Regional Performance - LBH26 - Regional</u> | 28 |
| 1.11 <u>Total Plan Benchmark</u>                   | 17 | <b>Section 7. Legal &amp; General 2</b>             | 29 |
| 1.12 <u>Portfolio Benchmarks</u>                   | 18 | 7.1. <u>Executive Summary</u>                       | 29 |
| 1.13 <u>Historical Performance</u>                 | 19 | 7.2. <u>Regional Performance - LBH27</u>            | 30 |
|  |    | <b>Section 8. LGT</b>                               | 31 |
|  |    | 8.1. <u>Executive Summary</u>                       | 31 |
|  |    | <b>Section 9. London CIV Ruffer</b>                 | 32 |
|  |    | 9.1. <u>Executive Summary</u>                       | 32 |



---

|  |    |
|--|----|
| <b>Section 10. M&amp;G Investments</b>   | 33 |
| 10.1 <u>Executive Summary</u>  | 33 |
| <b>Section 11. Macquarie</b>   | 34 |
| 11.1 <u>Executive Summary</u>  | 34 |
| <b>Section 12. Premira Credit</b>  | 35 |
| 12.1 <u>Executive Summary</u>  | 35 |
| <b>Section 13. UBS</b>   | 36 |
| 13.1 <u>Executive Summary</u>  | 36 |
| 13.2 <u>Sector Performance - Eq UK ICB</u>                                     | 37 |
| 13.3 <u>Sector Detail - Eq UK ICB</u>  | 38 |
| 13.4 <u>Sector Attribution Overview - LBH04 Sector Att ex ccy</u>              | 39 |
| 13.5 <u>Sector Attribution Detail - LBH04 Sector Att ex ccy - Three Months</u> | 40 |
| 13.6 <u>Sector Attribution Detail - LBH04 Sector Att ex ccy - One Year</u>     | 42 |
| <b>Section 14. UBS Property</b>  | 44 |
| 14.1 <u>Executive Summary</u>  | 44 |
| <b>Section 15. Appendix</b>  | 45 |
| 15.1 <u>Disclaimer(s)</u>  | 45 |

## Client Commentary

### Total Scheme Commentary

Things had changed for global equity markets into 2020, The FTSE World was down -16.1% over quarter one. Brexit, the US-China trade war and European slow down; this trinity had been the key theme and there is only 1 theme now, The global pandemic. At the sector level, black numbers were few in the worst quarter for global markets since 2008. IT and Health Care were stronger, they returned positively over 1 year and the latter lost least over the Q1. Energy carried its weak run into the New Year as the worst performing sector over both short and long term. Financials was also down more than 30% over Q1. Around the world, The FTSE North America index returned -14.5% over the Q1. Institutional investors had been focused on buying US Blue Chip Mega Cap stocks like Apple, Disney and Visa. The MSCI Emerging Markets index returned -18.3% over the quarter. It was a weak end to the year in the UK, zero growth in the UK economy in Q4, manufacturing contracted for a 3rd consecutive quarter and the service sector slowed. It becomes more apparent how interconnected everything is at times like this, e.g. the impact of grounding the world's fleet of aircraft would have wide ranging implications for the supply chain beyond just airlines, oil firms and airports. Rolls Royce has suspended its dividend for the first time in over 20 years which has a knock on effect to pension fund performance.

Global bond markets fell during quarter one. The response from G7 finance ministers was a pledge to do 'whatever it takes' in terms of monetary and fiscal policies to restore growth and confidence to the global economies. Whilst equity markets displayed some bounce back (around 5-10%) at the end of the quarter this was relatively muted following the sell-off in previous weeks, equity markets were down 20-30% over the year-to-date period. Fixed income markets in comparison fared better and the JPM Global Bond Index returned double digit returns in excess of 10%. In the UK, Brexit now seems a distant memory as much talk of this occurred in 2019. The UK officially stopped being a member of the EU on the 31st January 2020. Recent months have now focused on the global pandemic. In the UK market, the Bank of England has cut interest rates twice due to the outbreak, firstly by 0.5% then by 0.15% to +0.1%. This is the lowest rate in the UK central banks 325 year history. Consequently, yields were down over the quarter. The FTSE All Stock Gilts Index returned +6.32% over the quarter in a turnaround to the negative returns observed in Q4. FTSE Index linked gilts returned +1.64% over quarter 1, despite showing negative returns in March of -4%.

Within this environment the London Borough of Hillingdon returned -11.77% which was behind the Total Plan benchmark of -9.10%. In monetary terms this is a loss in assets of £132.5 million and the value of the combined scheme now stands at £989 million as at 31st March 2020.

The Scheme's one year return of -6.10% is 2.69% behind the benchmark of -3.50% following this quarters underperformance. While over the longer periods, with nine positive quarters over the last 3 years, the Scheme has again underperformed, producing a return of 0.51% over three year versus 2.00%. Then the scheme continues to underperform over the 5 year period where we observe figures of 4.10% per annum (vs the benchmark 4.67%). Then since inception in September 1995, the Fund remains behind target by 6 basis points with an annualised return of 6.38% against a target of 6.44%.

### Manager Commentary

#### AEW UK

The AEW UK Property Fund posted a total return of -16.66%, trailing behind the IPD UK PPF I Balanced Funds Index for the fourth time since mid- 2017. Rolling one year returns now see losses, with the mandate returning -6.30% versus -0.01% for the IPD Index They continue to be behind over the three year period returning 2.20% against the benchmark of 4.89%. This translates as 2.57% relative underperformance. With positive absolute returns in all but two periods and four quarters in the red on a relative basis, growth is observed but behind benchmark over three years. Since the funds inception date of July 2014, the fund return is 6.30%, leading to an underperformance of over 1% when compared to the IPD figure of 7.32%.

#### JP Morgan

In the latest quarter JP Morgan posted a decrease in assets of -6.23% leading to an underperformance of -7.16% when compared to the 1.00% target for the 3 Month LIBOR + 3% p.a. Then with positive results in three of the last four quarters, the one year return of -1.67% is in negative territory and is behind the 3.95% target by over 5%. Then over three years they post returns behind the benchmark with figures of 0.97% vs 3.80%. Since the mandate funded their return of 3.01% is just behind the target return of 3.72% 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 1 account and fixed income to the No2 account. LGIM portfolio now represent almost 20% of the scheme as of 31st March 2020. Over the last three months the Legal & General No. 1 mandate post a return of -18.21% in line with the custom fixed weight blended benchmark. In the period since inception in October 2016, they return 1.29%, which is just below the benchmark return of 1.38%.

#### Legal & General 2

The No 2 Legal & General mandate returned +1.86% against +0.37% 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 period since inception, they remain broadly in line with the benchmark, returning 4.99% against 4.96% for the benchmark.

## Client Commentary (cntd)

### Manager Commentary

#### London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 221 basis point underperformance of the 3-mth Sterling LIBOR target. The investment is above the benchmark over all longer term periods. This is seen in a five year return of 2.31% versus 0.75%, then similarly for the since inception period (May 2010) figures of 4.65% versus 0.85% per annum, which translates as a relative return of almost 4%.

#### M&G Investments

M&G posted losses in Q1 by producing a return of -6.78% against the 3 Month LIBOR +4% p.a. target of 1.24%, demonstrating an underperformance of 7.92%. This is a turnaround from the outperformance seen in quarter four, the full year return remains ahead of the benchmark by 3.18%, coming from figures of 8.28% against 4.95%. Over the three and five year the account registers figures of 4.70% vs 4.80% and 7.10% vs 4.75% respectively; since inception (May 2010) return falls slightly to 6.43% pa whilst the benchmark is 4.74% 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 gains of 6.20%, against the 1.00% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 5.15%. With eleven quarters of positive absolute returns and ten positive relative returns, outperformance is seen in all longer periods. Over the rolling year a double digit growth of 14.67% beats the target of 3.95% by 10.31%, similarly the three year result of 12.96% versus 3.80% exhibits positive relative return at 8.82%. The annualised return over 5 years rises to 16.56%, and remains ahead of the 3.75% seen for the benchmark; then since inception (September 2010) the 6.72% is ahead of the target of 3.73%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.88%, which is ahead of the benchmark figure of 3.71%.

#### UBS

During Q1 the UBS UK Equity investments returned -33.88%, trailing the -25.13% for the FTSE All Share. Looking into the attribution analysis this underperformance was due to sector positioning and selection effects. The most significant being the negative returns in Financials (-281bps) and weak performance in Industrials (-277bps), while the largest positive impact comes from Oil & Gas (+40 bps). Whitbread and Relx posted gains over quarter one and added a combined 8bps value add. Cash positions further added to relative performance.

The manager falls behind over the one year, stemming from figures of -29.545% vs -18.45% which translates as a relative return of -13.59%. This is largely attributable to selection effects, the biggest impacts come from both Financials (-387bps) and Consumer Services (-236 bps). The longer time periods again show a poor picture, with three and five years behind the index, culminating in a since inception (January 1989) return of 8.26% versus 7.60% on an annualised basis.

### Manager Commentary

#### Premira Credit

The Premira Credit Fund saw a growth of 1.35% over the first quarter of 2020, this was just ahead of the 3 Month LIBOR +4% p.a. target of 1.24%. The fund has outperformed in all of the last four quarters and are still ahead of target, leading to an outperformance of 1.77%, created from figures of 6.81% against 4.95%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 8.08% against the benchmark of 4.72%, leading to a relative position of over 3%.

#### UBS Property

In line with the previous period, the latest quarter for the UBS Property posted an underperformance of 0.12%, generated from a return of -1.42% against the IPD UK PPFI All Balanced Funds index of -1.30%. Over the one year the manager is behind the index, with a full year return of -0.92% vs -0.01%. 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 5.93% against 5.76%. Then since inception, in March 2006, the fund return falls to 3.66% per annum which is broadly in line with the benchmark.

#### Private Equity

The private equity assets saw a 12.22% rise in value for Adam Street. LGT also saw an increase of 6.66%. 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 11.87%, 15.20% and 18.73% for the one, three and five year periods respectively, while Adam Street posted 22.74%, 13.34% and 14.35% 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 now show modest gains of 6.14% and 11.09%). LGT are ahead over the five year outperforming by 688bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 7.89% pa, while LGT sees a more modest dip to 11.39%.

#### Epoch

Over the first quarter the investment in Epoch's income equity fund generated a return of -19.18%. Since inception (November 2017) the fund has observed a fall in value -3.91% compared to the MSCI World figure of -0.02%, this leads to a relative return of approx -3%.

#### LCIV Infrastructure Fund

The LCIV Infrastructure fund was launched in quarter four and the valuation at 31<sup>st</sup> March was 566k

## 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 |
| <b>London Borough of Hillingdon</b> | <b>989,034,245</b>      | <b>100.00</b> | <b>-11.77</b> | <b>-9.10</b>  | <b>-2.93</b>    | <b>-11.77</b> | <b>-9.10</b>  | <b>-2.93</b>    | <b>-6.10</b>  | <b>-3.50</b>  | <b>-2.69</b>    |
| Total Plan Benchmark                |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>AEW UK</b>                       | <b>50,774,104</b>       | <b>5.13</b>   | <b>-16.66</b> | <b>-1.30</b>  | <b>-15.56</b>   | <b>-16.66</b> | <b>-1.30</b>  | <b>-15.56</b>   | <b>-6.30</b>  | <b>-0.01</b>  | <b>-6.29</b>    |
| LBH22 AEW Benchmark                 |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>JP Morgan</b>                    | <b>89,136,628</b>       | <b>9.01</b>   | <b>-6.23</b>  | <b>1.00</b>   | <b>-7.16</b>    | <b>-6.23</b>  | <b>1.00</b>   | <b>-7.16</b>    | <b>-1.67</b>  | <b>3.95</b>   | <b>-5.40</b>    |
| LBH15 JPM LIBOR +3%pa               |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Legal &amp; General 1</b>        | <b>195,267,217</b>      | <b>19.74</b>  | <b>-18.21</b> | <b>-18.17</b> | <b>-0.04</b>    | <b>-18.21</b> | <b>-18.17</b> | <b>-0.04</b>    | <b>-8.81</b>  | <b>-8.74</b>  | <b>-0.08</b>    |
| LBH26 L&G Benchmark                 |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Legal &amp; General 2</b>        | <b>141,707,057</b>      | <b>14.33</b>  | <b>1.86</b>   | <b>0.37</b>   | <b>1.48</b>     | <b>1.86</b>   | <b>0.37</b>   | <b>1.48</b>     | <b>3.14</b>   | <b>2.00</b>   | <b>1.12</b>     |
| LBH27 L&G Benchmark                 |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>M&amp;G Investments</b>          | <b>5,759,181</b>        | <b>0.58</b>   | <b>-6.78</b>  | <b>1.24</b>   | <b>-7.92</b>    | <b>-6.78</b>  | <b>1.24</b>   | <b>-7.92</b>    | <b>8.28</b>   | <b>4.95</b>   | <b>3.18</b>     |
| LBH10 3 Month LIBOR +4%pa           |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Macquarie</b>                    | <b>27,222,341</b>       | <b>2.75</b>   | <b>6.20</b>   | <b>1.00</b>   | <b>5.15</b>     | <b>6.20</b>   | <b>1.00</b>   | <b>5.15</b>     | <b>14.67</b>  | <b>3.95</b>   | <b>10.31</b>    |
| LBH14 Macquarie LIBOR +3%pa         |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Premira Credit</b>               | <b>65,017,445</b>       | <b>6.57</b>   | <b>1.35</b>   | <b>1.24</b>   | <b>0.10</b>     | <b>1.35</b>   | <b>1.24</b>   | <b>0.10</b>     | <b>6.81</b>   | <b>4.95</b>   | <b>1.77</b>     |
| LBH24 Premira LIBOR +4%pa           |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>UBS</b>                          | <b>87,351,992</b>       | <b>8.83</b>   | <b>-33.88</b> | <b>-25.13</b> | <b>-11.69</b>   | <b>-33.88</b> | <b>-25.13</b> | <b>-11.69</b>   | <b>-30.01</b> | <b>-18.45</b> | <b>-14.17</b>   |
| LBH04 UBS Benchmark                 |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>UBS Property</b>                 | <b>67,602,390</b>       | <b>6.84</b>   | <b>-1.42</b>  | <b>-1.30</b>  | <b>-0.12</b>    | <b>-1.42</b>  | <b>-1.30</b>  | <b>-0.12</b>    | <b>-0.92</b>  | <b>-0.01</b>  | <b>-0.91</b>    |
| LBH06 UBS Property Benchmark        |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Adam Street</b>                  | <b>11,203,069</b>       | <b>1.13</b>   | <b>12.22</b>  | <b>-14.89</b> | <b>31.85</b>    | <b>12.22</b>  | <b>-14.89</b> | <b>31.85</b>    | <b>22.74</b>  | <b>-2.89</b>  | <b>26.40</b>    |
| Adam Street PE Bmark                |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>LGT</b>                          | <b>3,672,903</b>        | <b>0.37</b>   | <b>6.66</b>   | <b>-14.89</b> | <b>25.31</b>    | <b>6.66</b>   | <b>-14.89</b> | <b>25.31</b>    | <b>11.87</b>  | <b>-2.89</b>  | <b>15.20</b>    |
| LGT PE Bmark                        |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>Epoch Investment P Income</b>    | <b>128,745,257</b>      | <b>13.02</b>  | <b>-19.18</b> | <b>-15.65</b> | <b>-4.18</b>    | <b>-19.18</b> | <b>-15.65</b> | <b>-4.18</b>    | <b>-12.51</b> | <b>-5.83</b>  | <b>-7.10</b>    |
| LBH11001 MSCI World ND              |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>London CIV Ruffer</b>            | <b>55,577,533</b>       | <b>5.62</b>   | <b>-1.96</b>  | <b>0.26</b>   | <b>-2.21</b>    | <b>-1.96</b>  | <b>0.26</b>   | <b>-2.21</b>    | <b>3.55</b>   | <b>0.95</b>   | <b>2.58</b>     |
| LBH11003 Ruffer BM Libor            |                         |               |               |               |                 |               |               |                 |               |               |                 |
| <b>LCIV Infrastructure Fund</b>     | <b>566,500</b>          | <b>0.06</b>   | <b>0.00</b>   | <b>1.00</b>   | <b>-0.99</b>    | <b>0.00</b>   | <b>1.00</b>   | <b>-0.99</b>    | <b>-</b>      | <b>-</b>      | <b>-</b>        |
| LBH11004 3M Llibor +3%              |                         |               |               |               |                 |               |               |                 |               |               |                 |

| 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 |
| <b>LGIM LPI Income Property</b> | <b>47,398,791</b>       | <b>4.79</b>   | -            | -     | -               | -            | -     | -               | -        | -     | -               |
| LBH28 L&G RPI                   |                         |               |              |       |                 |              |       |                 |          |       |                 |

## Investment Hierarchy(2)

| Account/Group -% Rate of Return                             | Ending Market Value GBP | Ending Weight | Three Years  |              |                 | Five Years   |              |                 | Inception to Date |              |                 | Inception Date    |
|---|-------------------------|---------------|--------------|--------------|-----------------|--------------|--------------|-----------------|-------------------|--------------|-----------------|-------------------|
|   |                         |               | Port         | Index        | Relative Excess | Port         | Index        | Relative Excess | Port              | Index        | Relative Excess |                   |
| <b>London Borough of Hillingdon</b><br>Total Plan Benchmark | <b>989,034,245</b>      | <b>100.00</b> | <b>0.51</b>  | <b>2.00</b>  | <b>-1.47</b>    | <b>4.10</b>  | <b>4.67</b>  | <b>-0.55</b>    | <b>6.38</b>       | <b>6.44</b>  | <b>-0.05</b>    | <b>30/09/1995</b> |
| <b>AEW UK</b><br>LBH22 AEW Benchmark                        | <b>50,774,104</b>       | <b>5.13</b>   | <b>2.20</b>  | <b>4.89</b>  | <b>-2.57</b>    | <b>4.93</b>  | <b>6.06</b>  | <b>-1.06</b>    | <b>6.30</b>       | <b>7.32</b>  | <b>-0.95</b>    | <b>30/06/2014</b> |
| <b>JP Morgan</b><br>LBH15 JPM LIBOR +3%pa                   | <b>89,136,628</b>       | <b>9.01</b>   | <b>0.97</b>  | <b>3.80</b>  | <b>-2.73</b>    | <b>2.38</b>  | <b>3.76</b>  | <b>-1.32</b>    | <b>3.01</b>       | <b>3.72</b>  | <b>-0.69</b>    | <b>08/11/2011</b> |
| <b>Legal &amp; General 1</b><br>LBH26 L&G Benchmark         | <b>195,267,217</b>      | <b>19.74</b>  | <b>-0.27</b> | <b>-0.12</b> | <b>-0.15</b>    | -            | -            | -               | <b>1.29</b>       | <b>1.38</b>  | <b>-0.09</b>    | <b>31/10/2016</b> |
| <b>Legal &amp; General 2</b><br>LBH27 L&G Benchmark         | <b>141,707,057</b>      | <b>14.33</b>  | <b>4.52</b>  | <b>4.49</b>  | <b>0.03</b>     | -            | -            | -               | <b>4.99</b>       | <b>4.96</b>  | <b>0.03</b>     | <b>22/02/2017</b> |
| <b>M&amp;G Investments</b><br>LBH10 3 Month LIBOR +4%pa     | <b>5,759,181</b>        | <b>0.58</b>   | <b>4.70</b>  | <b>4.80</b>  | <b>-0.10</b>    | <b>7.10</b>  | <b>4.75</b>  | <b>2.24</b>     | <b>6.43</b>       | <b>4.74</b>  | <b>1.62</b>     | <b>31/05/2010</b> |
| <b>Macquarie</b><br>LBH14 Macquarie LIBOR +3%pa             | <b>27,222,341</b>       | <b>2.75</b>   | <b>12.96</b> | <b>3.80</b>  | <b>8.82</b>     | <b>16.56</b> | <b>3.75</b>  | <b>12.35</b>    | <b>6.72</b>       | <b>3.73</b>  | <b>2.88</b>     | <b>30/09/2010</b> |
| <b>Premira Credit</b><br>LBH24 Premira LIBOR +4%pa          | <b>65,017,445</b>       | <b>6.57</b>   | <b>6.60</b>  | <b>4.80</b>  | <b>1.72</b>     | <b>8.33</b>  | <b>4.75</b>  | <b>3.42</b>     | <b>8.08</b>       | <b>4.72</b>  | <b>3.22</b>     | <b>30/11/2014</b> |
| <b>UBS</b><br>LBH04 UBS Benchmark                           | <b>87,351,992</b>       | <b>8.83</b>   | <b>-9.27</b> | <b>-4.24</b> | <b>-5.26</b>    | <b>-1.51</b> | <b>0.57</b>  | <b>-2.07</b>    | <b>8.26</b>       | <b>7.60</b>  | <b>0.62</b>     | <b>31/12/1988</b> |
| <b>UBS Property</b><br>LBH06 UBS Property Benchmark         | <b>67,602,390</b>       | <b>6.84</b>   | <b>3.87</b>  | <b>4.89</b>  | <b>-0.98</b>    | <b>5.93</b>  | <b>5.76</b>  | <b>0.16</b>     | <b>3.66</b>       | <b>3.72</b>  | <b>-0.05</b>    | <b>31/03/2006</b> |
| <b>Adam Street</b><br>Adam Street PE Bmark                  | <b>11,203,069</b>       | <b>1.13</b>   | <b>13.34</b> | <b>6.14</b>  | <b>6.78</b>     | <b>14.35</b> | <b>11.09</b> | <b>2.93</b>     | <b>7.89</b>       | -            | -               | <b>31/01/2005</b> |
| <b>LGT</b><br>LGT PE Bmark                                  | <b>3,672,903</b>        | <b>0.37</b>   | <b>15.20</b> | <b>6.14</b>  | <b>8.53</b>     | <b>18.73</b> | <b>11.09</b> | <b>6.88</b>     | <b>11.39</b>      | -            | -               | <b>31/05/2004</b> |
| <b>Epoch Investment P Income</b><br>LBH11001 MSCI World ND  | <b>128,745,257</b>      | <b>13.02</b>  | -            | -            | -               | -            | -            | -               | <b>-3.91</b>      | <b>-0.02</b> | <b>-3.90</b>    | <b>08/11/2017</b> |
| <b>London CIV Ruffer</b><br>LBH11003 Ruffer BM Libor        | <b>55,577,533</b>       | <b>5.62</b>   | <b>0.60</b>  | <b>0.80</b>  | <b>-0.19</b>    | <b>2.31</b>  | <b>0.75</b>  | <b>1.55</b>     | <b>4.65</b>       | <b>0.85</b>  | <b>3.77</b>     | <b>28/05/2010</b> |
| <b>LCIV Infrastructure Fund</b><br>LBH11004 3M Libor +3%    | <b>566,500</b>          | <b>0.06</b>   | -            | -            | -               | -            | -            | -               | <b>0.00</b>       | <b>1.49</b>  | <b>-1.47</b>    | <b>14/11/2019</b> |

| Account/Group -% Rate of Return | Ending Market Value GBP | Ending Weight | Three Years |       |                 | Five Years |       |                 | Inception to Date |             |                 | Inception Date    |
|---------------------------------|-------------------------|---------------|-------------|-------|-----------------|------------|-------|-----------------|-------------------|-------------|-----------------|-------------------|
|                                 |                         |               | Port        | Index | Relative Excess | Port       | Index | Relative Excess | Port              | Index       | Relative Excess |                   |
| <b>LGIM LPI Income Property</b> | <b>47,398,791</b>       | <b>4.79</b>   | -           | -     | -               | -          | -     | -               | <b>-5.36</b>      | <b>0.13</b> | <b>-5.48</b>    | <b>11/03/2020</b> |
| LBH28 L&G RPI                   |                         |               |             |       |                 |            |       |                 |                   |             |                 |                   |

## Market Value Summary - Three Months

| Account/Group                       | 31/12/2019<br>Market Value | 31/12/2019<br>Weight | Net Contribution* | Income       | Fees      | Appreciation    | 31/03/2020<br>Market Value | 31/03/2020<br>Weight | Change in Weight |
|-------------------------------------|----------------------------|----------------------|-------------------|--------------|-----------|-----------------|----------------------------|----------------------|------------------|
| <b>London Borough of Hillingdon</b> | <b>1,125,558</b>           | <b>100.00</b>        | <b>-4,473</b>     | <b>4,809</b> | <b>17</b> | <b>-136,859</b> | <b>989,034</b>             | <b>100.00</b>        | <b>0.00</b>      |
| Adam Street                         | 10,364                     | 0.92                 | -391              | 0            | 0         | 1,231           | 11,203                     | 1.13                 | 0.21             |
| AEW UK                              | 60,922                     | 5.41                 | 0                 | 799          | 0         | -10,947         | 50,774                     | 5.13                 | -0.28            |
| Cash & Other Assets                 | 0                          | 0.00                 | 0                 | 0            | 0         | 0               | 0                          | 0.00                 | 0.00             |
| Cash & Other Assets                 | 11,030                     | 0.98                 | 929               | 17           | 0         | 55              | 12,032                     | 1.22                 | 0.24             |
| Epoch Investment P Income           | 159,294                    | 14.15                | 0                 | 1,075        | 0         | -31,624         | 128,745                    | 13.02                | -1.14            |
| JP Morgan                           | 95,060                     | 8.45                 | 0                 | 0            | 0         | -5,923          | 89,137                     | 9.01                 | 0.57             |
| LCIV Infrastructure Fund            | 82                         | 0.01                 | 484               | 0            | 0         | 0               | 566                        | 0.06                 | 0.05             |
| Legal & General 1                   | 238,746                    | 21.21                | -14               | 0            | 14        | -43,465         | 195,267                    | 19.74                | -1.47            |
| Legal & General 2                   | 172,515                    | 15.33                | -35,460           | 0            | 3         | 4,652           | 141,707                    | 14.33                | -1.00            |
| LGIM LPI Income Property            | -                          | -                    | 50,000            | 0            | 0         | -2,601          | 47,399                     | 4.79                 | -                |
| LGT                                 | 3,624                      | 0.32                 | -180              | 0            | 0         | 230             | 3,673                      | 0.37                 | 0.05             |
| London CIV Ruffer                   | 72,322                     | 6.43                 | -15,000           | 743          | 0         | -2,487          | 55,578                     | 5.62                 | -0.81            |
| M&S Investments                     | 7,185                      | 0.64                 | -939              | 1            | 0         | -488            | 5,759                      | 0.58                 | -0.06            |
| Manuarie                            | 25,634                     | 2.28                 | -0                | 0            | 0         | 1,589           | 27,222                     | 2.75                 | 0.47             |
| Premira Credit                      | 66,520                     | 5.91                 | -2,399            | 600          | 0         | 296             | 65,017                     | 6.57                 | 0.66             |
| UBS                                 | 133,114                    | 11.83                | -935              | 884          | 0         | -45,711         | 87,352                     | 8.83                 | -2.99            |
| UBS Property                        | 69,146                     | 6.14                 | -569              | 691          | 0         | -1,665          | 67,602                     | 6.84                 | 0.69             |

Min -2.99  0.69 Max

Market Values are represented in thousands.

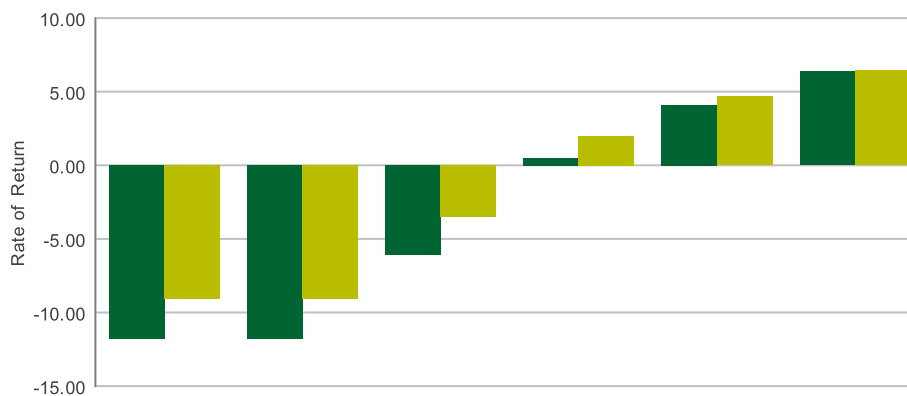
\*Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.

Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.



# Executive Summary

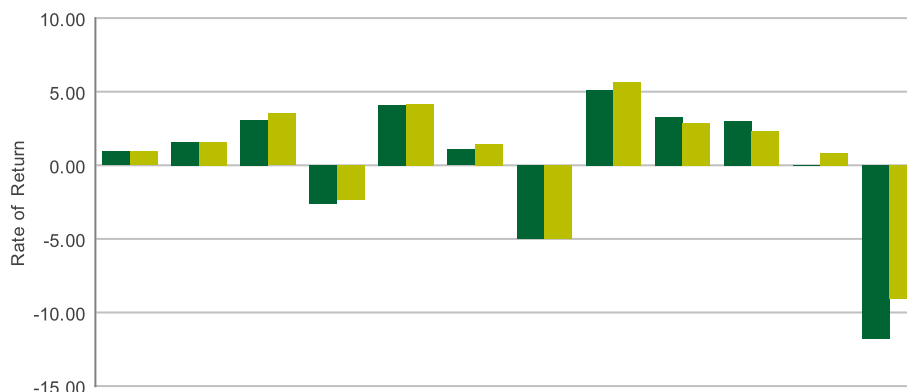
## LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



|              | Three Months  | Year to Date  | One Year     | Three Years | Five Years | ITD  |
|--------------|---------------|---------------|--------------|-------------|------------|------|
| <b>Fund</b>  | <b>-11.77</b> | <b>-11.77</b> | <b>-6.10</b> | 0.51        | 4.10       | 6.38 |
| <b>Index</b> | <b>-9.10</b>  | <b>-9.10</b>  | <b>-3.50</b> | 2.00        | 4.67       | 6.44 |

Index: Total Plan Benchmark

## LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|              | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18       | Q2 '18 | Q3 '18 | Q4 '18       | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20        |
|--------------|--------|--------|--------|--------------|--------|--------|--------------|--------|--------|--------|--------|---------------|
| <b>Fund</b>  | 0.94   | 1.59   | 3.08   | <b>-2.60</b> | 4.08   | 1.08   | <b>-5.02</b> | 5.10   | 3.27   | 3.02   | 0.03   | <b>-11.77</b> |
| <b>Index</b> | 0.95   | 1.60   | 3.53   | <b>-2.34</b> | 4.16   | 1.45   | <b>-5.01</b> | 5.64   | 2.87   | 2.34   | 0.84   | <b>-9.10</b>  |

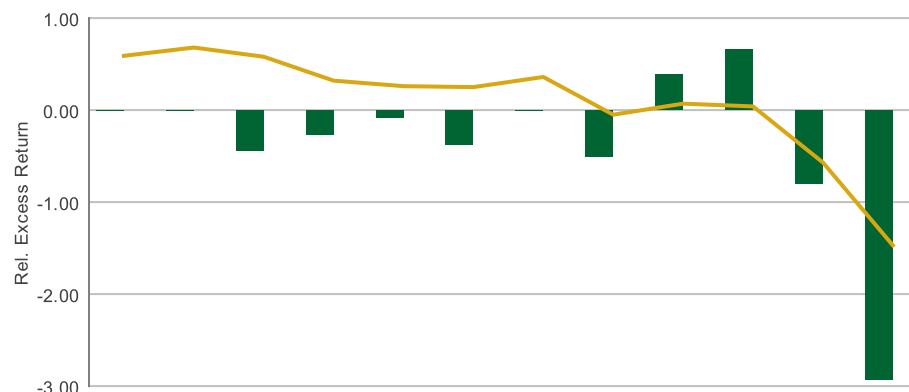
Index: Total Plan Benchmark

## RISK STATISTICS

|                            | 1 Yr         | 3 Yrs        | 5 Yrs        |
|----------------------------|--------------|--------------|--------------|
| Return                     | <b>-6.10</b> | 0.51         | 4.10         |
| Index Return               | <b>-3.50</b> | 2.00         | 4.67         |
| Relative Excess Return     | <b>-2.69</b> | <b>-1.47</b> | <b>-0.55</b> |
| Standard Deviation         | 9.79         | 6.96         | 6.57         |
| Index Standard Deviation   | 8.13         | 6.21         | 5.92         |
| Tracking Error             | 2.09         | 1.46         | 1.43         |
| Information Ratio          | <b>-1.24</b> | <b>-1.02</b> | <b>-0.40</b> |
| Sharpe Ratio               | <b>-0.72</b> | <b>-0.04</b> | 0.51         |
| Index Sharpe Ratio         | <b>-0.55</b> | 0.19         | 0.66         |
| Sortino Ratio              | <b>-0.76</b> | <b>-0.05</b> | 0.68         |
| Treynor Ratio              | <b>-5.91</b> | <b>-0.26</b> | 3.09         |
| Jensen's Alpha             | <b>-1.75</b> | <b>-1.55</b> | <b>-0.85</b> |
| Relative Volatility (Beta) | 1.19         | 1.10         | 1.09         |
| R Squared                  | 0.98         | 0.96         | 0.96         |

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

## LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES

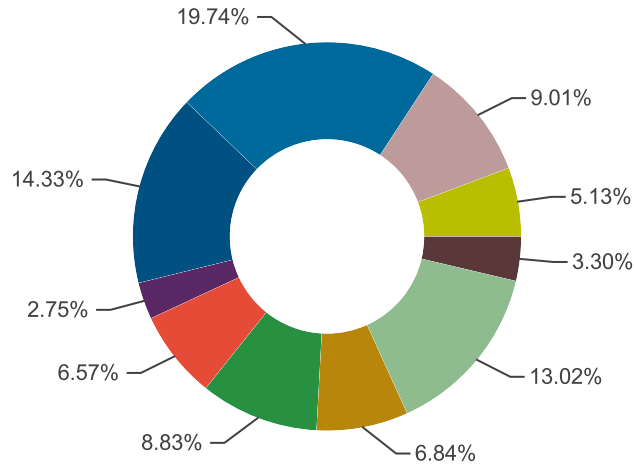


|                    | Q2 '17       | Q3 '17       | Q4 '17       | Q1 '18       | Q2 '18       | Q3 '18       | Q4 '18       | Q1 '19       | Q2 '19 | Q3 '19 | Q4 '19       | Q1 '20       |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------|--------|--------------|--------------|
| <b>3M R.Excess</b> | <b>-0.01</b> | <b>-0.01</b> | <b>-0.44</b> | <b>-0.27</b> | <b>-0.08</b> | <b>-0.37</b> | <b>-0.01</b> | <b>-0.51</b> | 0.39   | 0.66   | <b>-0.80</b> | <b>-2.93</b> |
| <b>3Y R.Excess</b> | 0.59         | 0.68         | 0.58         | 0.32         | 0.26         | 0.25         | 0.36         | <b>-0.05</b> | 0.07   | 0.04   | <b>-0.57</b> | <b>-1.47</b> |

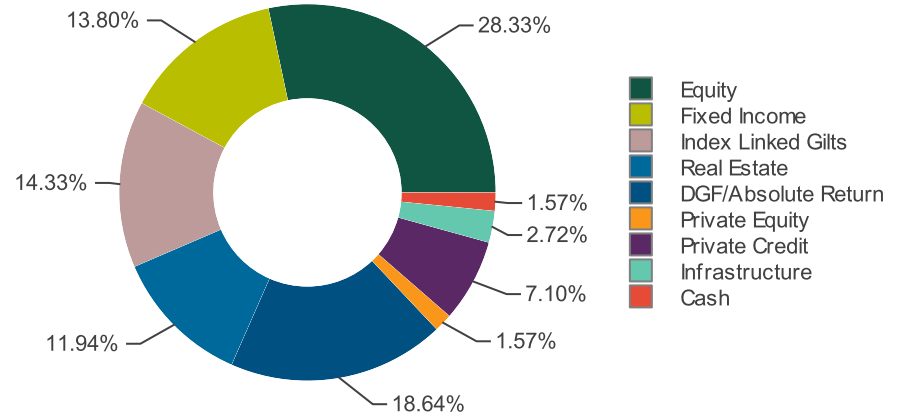
Index: Total Plan Benchmark

# Asset Allocation by Manager

## MANAGER WEIGHTS



## LONDON BOROUGH OF HILLINGDON ASSET CLASS WEIGHTS



\*Manager weights less than 2% have been grouped together.

Page 102

|                                     | Ending Market Value GOF GBP | Ending Weight | Equity         | Fixed Income   | Index Linked Gilts | Real Estate    | DGF/ Absolute Return | Private Equity | Private Credit | Infrastructure | Cash          |
|-------------------------------------|-----------------------------|---------------|----------------|----------------|--------------------|----------------|----------------------|----------------|----------------|----------------|---------------|
| <b>London Borough of Hillingdon</b> | <b>989,034</b>              | <b>100.00</b> | <b>280,169</b> | <b>136,535</b> | <b>141,707</b>     | <b>118,112</b> | <b>184,318</b>       | <b>15,483</b>  | <b>70,254</b>  | <b>26,883</b>  | <b>15,573</b> |
| <b>AEW UK</b>                       | 50,774                      | 5.13          |                |                |                    | 50,774         |                      |                |                |                | 0             |
| <b>JP Morgan</b>                    | 89,137                      | 9.01          |                | 89,137         |                    |                |                      |                |                |                |               |
| <b>Legal &amp; General 1</b>        | 195,267                     | 19.74         | 195,267        |                |                    |                |                      |                |                |                |               |
| <b>Legal &amp; General 2</b>        | 141,707                     | 14.33         |                |                | 141,707            |                |                      |                |                |                | 0             |
| <b>M&amp;G Investments</b>          | 5,759                       | 0.58          |                |                |                    |                |                      |                | 5,236          |                | 523           |
| <b>Macquarie</b>                    | 27,222                      | 2.75          |                |                |                    |                |                      |                | 0.53           |                | 0.05          |
| <b>Newton</b>                       |                             |               |                |                |                    |                |                      |                |                | 26,883         | 340           |
|                                     |                             |               |                |                |                    |                |                      |                |                | 2.72           | 0.03          |

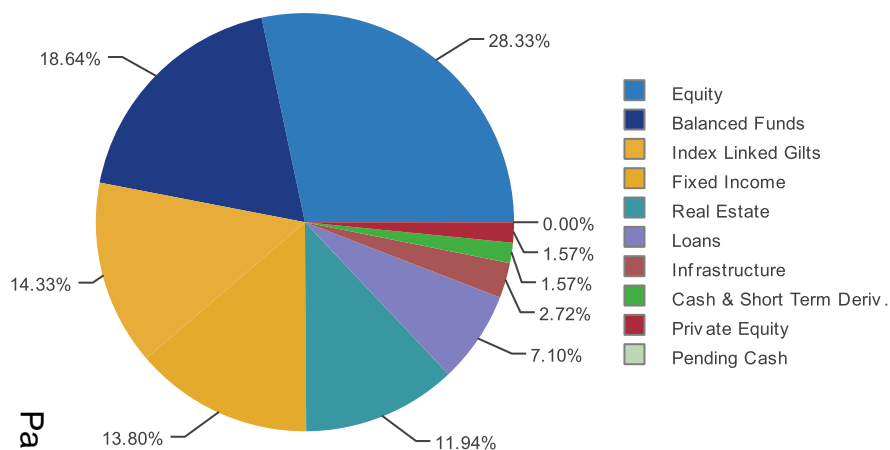
|                                 | Ending<br>Market Value<br>GOF GBP | Ending Weight | Equity | Fixed Income | Index Linked<br>Gilts | Real Estate | DGF/<br>Absolute<br>Return | Private<br>Equity | Private Credit | Infrastructure | Cash   |
|---------------------------------|-----------------------------------|---------------|--------|--------------|-----------------------|-------------|----------------------------|-------------------|----------------|----------------|--------|
| <b>Premira Credit</b>           | 65,017                            | 6.57          |        |              |                       |             |                            |                   | 65,017         |                | 0      |
|                                 |                                   |               |        |              |                       |             |                            |                   | 6.57           |                | 0.00   |
| <b>UBS</b>                      | 87,352                            | 8.83          | 84,896 |              |                       |             |                            | 41                |                |                | 2,414  |
|                                 |                                   |               | 8.58   |              |                       |             |                            | 0.00              |                |                | 0.24   |
| <b>UBS Property</b>             | 67,602                            | 6.84          |        |              |                       | 67,338      |                            |                   |                |                | 264    |
|                                 |                                   |               |        |              |                       | 6.81        |                            |                   |                |                | 0.03   |
| <b>Adam Street</b>              | 11,203                            | 1.13          |        |              |                       |             |                            | 11,203            |                |                |        |
|                                 |                                   |               |        |              |                       |             |                            | 1.13              |                |                |        |
| <b>LGT</b>                      | 3,673                             | 0.37          | 1      |              |                       |             |                            | 3,672             |                |                |        |
|                                 |                                   |               | 0.00   |              |                       |             |                            | 0.37              |                |                |        |
| <b>Cash &amp; Other Assets</b>  | 12,032                            | 1.22          |        |              |                       |             |                            |                   |                |                | 12,032 |
|                                 |                                   |               |        |              |                       |             |                            |                   |                |                | 1.22   |
| <b>Transition</b>               |                                   |               |        |              |                       |             |                            |                   |                |                |        |
| <b>Cash &amp; Other Assets</b>  | 0                                 | 0.00          |        |              |                       |             |                            |                   |                |                | 0      |
|                                 |                                   |               |        |              |                       |             |                            |                   |                |                | 0.00   |
| <b>Cooh Investment P Income</b> | 128,745                           | 13.02         |        |              |                       |             | 128,745                    |                   |                |                |        |
|                                 |                                   |               |        |              |                       |             | 13.02                      |                   |                |                |        |

\*Market Values are represented in thousands.

\*Underlying assets of the fund have been included in the market value and allocation.

# Asset Class Performance

## ASSET CLASS ENDING WEIGHTS



Page 104

## MARKET VALUE SUMMARY OVER TIME

|                        | 3 Mos     | 1 Yr      | YTD       |
|------------------------|-----------|-----------|-----------|
| Beginning Market Value | 1,125,558 | 1,062,250 | 1,125,558 |
| Net Contribution       | -4,473    | -9,333    | -4,473    |
| Income                 | 4,809     | 22,765    | 4,809     |
| Fees                   | 17        | 68        | 17        |
| Appreciation           | -136,859  | -86,648   | -136,859  |
| Ending Market Value    | 989,034   | 989,034   | 989,034   |

\*Market Values are in 000s.

| Asset Class                         | End MV             | End Wt        | 3 Mos         | YTD           | 1 Yr          | 3 Yrs        | 5 Yrs        | ITD          |
|-------------------------------------|--------------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|
| <b>Equity</b>                       | <b>280,169,369</b> | <b>28.33</b>  | <b>-23.96</b> | <b>-23.96</b> | <b>-16.80</b> | <b>-3.83</b> | <b>1.55</b>  |              |
| Common Stock                        | 280,169,369        | 28.33         | -23.96        | -23.96        | -16.80        | -3.83        | 1.55         |              |
| <b>Fixed Income</b>                 | <b>136,535,419</b> | <b>13.80</b>  | <b>-5.37</b>  | <b>-5.37</b>  | <b>-0.69</b>  | <b>1.29</b>  | <b>3.03</b>  |              |
| Marketable Bonds                    | 0                  | 0.00          | 2.86          | 2.86          | 8.12          | 4.32         | 4.73         |              |
| Other Fixed Income                  | 136,535,419        | 13.80         | -6.59         | -6.59         | -2.04         | 0.85         | 2.31         |              |
| <b>Index Linked Gilts</b>           | <b>141,707,057</b> | <b>14.33</b>  | <b>2.66</b>   | <b>2.66</b>   | <b>3.21</b>   | <b>3.17</b>  | <b>6.84</b>  |              |
| <b>Balanced Funds</b>               | <b>184,317,767</b> | <b>18.64</b>  | <b>-14.41</b> | <b>-14.41</b> | <b>-8.03</b>  | <b>-2.27</b> |              |              |
| <b>Real Estate</b>                  | <b>118,112,169</b> | <b>11.94</b>  | <b>-8.61</b>  | <b>-8.61</b>  | <b>-3.45</b>  | <b>3.08</b>  | <b>5.13</b>  | <b>7.79</b>  |
| <b>Private Equity</b>               | <b>15,482,925</b>  | <b>1.57</b>   | <b>10.55</b>  | <b>10.55</b>  | <b>19.54</b>  | <b>14.16</b> | <b>16.01</b> |              |
| <b>Loans</b>                        | <b>70,253,543</b>  | <b>7.10</b>   | <b>0.58</b>   | <b>0.58</b>   | <b>7.00</b>   | <b>6.81</b>  | <b>8.07</b>  |              |
| <b>Cash &amp; Short Term Deriv.</b> | <b>15,527,078</b>  | <b>1.57</b>   | <b>0.59</b>   | <b>0.59</b>   | <b>2.03</b>   | <b>1.82</b>  | <b>2.71</b>  |              |
| <b>Pending Cash</b>                 | <b>46,398</b>      | <b>0.00</b>   | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>     | <b>-</b>     |
| <b>Securities Lending</b>           | <b>0</b>           | <b>0.00</b>   | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>     | <b>-</b>     |
| <b>Infrastructure</b>               | <b>26,882,521</b>  | <b>2.72</b>   | <b>6.18</b>   | <b>6.18</b>   | <b>14.70</b>  | <b>13.11</b> | <b>16.85</b> |              |
| <b>Total Fund Gross of Fees</b>     | <b>989,034,245</b> | <b>100.00</b> | <b>-11.77</b> | <b>-11.77</b> | <b>-6.10</b>  | <b>0.51</b>  | <b>4.10</b>  | <b>6.38</b>  |
| Total Plan Benchmark                |                    |               | -9.10         | -9.10         | -3.50         | 2.00         | 4.67         | 6.44         |
| <b>Excess Return</b>                |                    |               | <b>-2.93</b>  | <b>-2.93</b>  | <b>-2.69</b>  | <b>-1.47</b> | <b>-0.55</b> | <b>-0.05</b> |

Excess is calculated using relative methodology

## Regional Performance

| Category - Base Rates of Return     | Ending Market value<br>GBP - GOF | Ending Weight | Three Months  |               |                 | Year to Date  |               |                 | One Year      |               |                 |
|-------------------------------------|----------------------------------|---------------|---------------|---------------|-----------------|---------------|---------------|-----------------|---------------|---------------|-----------------|
|                                     |                                  |               | Portfolio     | Index         | Relative Excess | Portfolio     | Index         | Relative Excess | Portfolio     | Index         | Relative Excess |
| <b>London Borough of Hillingdon</b> | <b>989,034,245</b>               | <b>100.00</b> | <b>-11.77</b> | <b>-9.10</b>  | <b>-2.93</b>    | <b>-11.77</b> | <b>-9.10</b>  | <b>-2.93</b>    | <b>-6.10</b>  | <b>-3.50</b>  | <b>-2.69</b>    |
| <b>Equity</b>                       | <b>280,169,369</b>               | <b>28.33</b>  | <b>-23.96</b> | <b>-20.13</b> | <b>-4.79</b>    | <b>-23.96</b> | <b>-20.13</b> | <b>-4.79</b>    | <b>-16.80</b> | <b>-11.77</b> | <b>-5.70</b>    |
| <b>United Kingdom</b>               | <b>84,896,260</b>                | <b>8.58</b>   | <b>-34.52</b> | <b>-25.13</b> | <b>-12.54</b>   | <b>-34.52</b> | <b>-25.13</b> | <b>-12.54</b>   | <b>-30.61</b> | <b>-18.45</b> | <b>-14.91</b>   |
| <b>Overseas Equities</b>            | <b>195,273,108</b>               | <b>19.74</b>  | <b>-18.21</b> | -             | -               | <b>-18.21</b> | -             | -               | <b>-8.81</b>  | -             | -               |
| Europe ex UK                        | 5,891                            | 0.00          | -             | -             | -               | -             | -             | -               | -             | -             | -               |
| Asia Pacific inc Japan              | -                                | -             | -             | -             | -               | -             | -             | -               | -             | -             | -               |
| Emerging Markets                    | 28,070,092                       | 2.84          | -19.04        | -19.01        | -0.05           | -19.04        | -19.01        | -0.05           | -13.24        | -13.03        | -0.24           |
| L&G GPCT World Dev Eq Idx GBP Hdg   | 82,804,339                       | 8.37          | -20.47        | -20.45        | -0.03           | -20.47        | -20.45        | -0.03           | -10.58        | -10.60        | 0.02            |
| World Developed Equity Index        | 84,392,787                       | 8.53          | -15.56        | -15.56        | 0.00            | -15.56        | -15.56        | 0.00            | -5.37         | -5.38         | 0.01            |
| <b>Fixed Income</b>                 | <b>136,535,419</b>               | <b>13.80</b>  | <b>-5.37</b>  | <b>1.00</b>   | <b>-6.30</b>    | <b>-5.37</b>  | <b>1.00</b>   | <b>-6.30</b>    | <b>-0.69</b>  | <b>3.95</b>   | <b>-4.46</b>    |
| UK Corporate Bonds                  | 0                                | 0.00          | 2.86          | -3.38         | 6.45            | 2.86          | -3.38         | 6.45            | 8.12          | 1.45          | 6.58            |
| Global Corporate Bonds              | 136,535,419                      | 13.80         | -6.59         | 1.00          | -7.52           | -6.59         | 1.00          | -7.52           | -2.04         | 3.95          | -5.76           |
| <b>Index Linked Gilts</b>           | <b>141,707,057</b>               | <b>14.33</b>  | <b>2.66</b>   | <b>1.71</b>   | <b>0.93</b>     | <b>2.66</b>   | <b>1.71</b>   | <b>0.93</b>     | <b>3.21</b>   | <b>2.07</b>   | <b>1.12</b>     |
| <b>Real Estate</b>                  | <b>118,112,169</b>               | <b>11.94</b>  | <b>-8.61</b>  | <b>-1.30</b>  | <b>-7.40</b>    | <b>-8.61</b>  | <b>-1.30</b>  | <b>-7.40</b>    | <b>-3.45</b>  | <b>-0.01</b>  | <b>-3.44</b>    |
| <b>Balanced funds</b>               | <b>184,317,767</b>               | <b>18.64</b>  | <b>-14.41</b> | <b>-9.09</b>  | <b>-5.86</b>    | <b>-14.41</b> | <b>-9.09</b>  | <b>-5.86</b>    | <b>-8.03</b>  | <b>-2.74</b>  | <b>-5.44</b>    |
| Epoch Investment                    | 128,745,257                      | 13.02         | -19.18        | -15.65        | -4.18           | -19.18        | -15.65        | -4.18           | -12.51        | -5.83         | -7.10           |
| DS/Absolute Return                  | 55,572,510                       | 5.62          | -1.96         | 0.26          | -2.21           | -1.96         | 0.26          | -2.21           | 3.55          | 0.95          | 2.58            |
| <b>Private Equity</b>               | <b>15,482,925</b>                | <b>1.57</b>   | <b>10.55</b>  | <b>-14.89</b> | <b>29.88</b>    | <b>10.55</b>  | <b>-14.89</b> | <b>29.88</b>    | <b>19.54</b>  | <b>-2.89</b>  | <b>23.11</b>    |
| <b>Private Credit</b>               | <b>70,253,543</b>                | <b>7.10</b>   | <b>0.58</b>   | <b>1.24</b>   | <b>-0.65</b>    | <b>0.58</b>   | <b>1.24</b>   | <b>-0.65</b>    | <b>7.00</b>   | <b>4.95</b>   | <b>1.96</b>     |
| <b>Infrastructure</b>               | <b>26,882,521</b>                | <b>2.72</b>   | <b>6.18</b>   | <b>1.00</b>   | <b>5.13</b>     | <b>6.18</b>   | <b>1.00</b>   | <b>5.13</b>     | <b>14.70</b>  | <b>3.95</b>   | <b>10.35</b>    |
| <b>Cash &amp; Synthetic Cash</b>    | <b>15,573,476</b>                | <b>1.57</b>   | <b>0.55</b>   | <b>0.12</b>   | <b>0.43</b>     | <b>0.55</b>   | <b>0.12</b>   | <b>0.43</b>     | <b>1.81</b>   | <b>0.56</b>   | <b>1.25</b>     |
| <b>Foreign Exchange</b>             | <b>-</b>                         | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>        | <b>-</b>      | <b>-</b>      | <b>-</b>        | <b>-</b>      | <b>-</b>      | <b>-</b>        |

## Regional Performance(2)

| Category - Base Rates of Return     | Three Years  |              |                 | Five Years   |              |                 | Inception to Date |             |                 |
|-------------------------------------|--------------|--------------|-----------------|--------------|--------------|-----------------|-------------------|-------------|-----------------|
|                                     | Portfolio    | Index        | Relative Excess | Portfolio    | Index        | Relative Excess | Portfolio         | Index       | Relative Excess |
| <b>London Borough of Hillingdon</b> | <b>0.51</b>  | <b>2.00</b>  | <b>-1.47</b>    | <b>4.10</b>  | <b>4.67</b>  | <b>-0.55</b>    | <b>6.38</b>       | <b>6.44</b> | <b>-0.05</b>    |
| <b>Equity</b>                       | <b>-3.83</b> | <b>-0.60</b> | <b>-3.25</b>    | <b>1.55</b>  | <b>4.14</b>  | <b>-2.49</b>    | -                 | -           | -               |
| <b>United Kingdom</b>               | <b>-9.70</b> | <b>-4.24</b> | <b>-5.70</b>    | <b>-2.01</b> | <b>0.57</b>  | <b>-2.57</b>    | <b>5.24</b>       | <b>5.95</b> | <b>-0.66</b>    |
| <b>Overseas Equities</b>            | <b>-0.36</b> | -            | -               | <b>3.57</b>  | -            | -               | <b>5.76</b>       | -           | -               |
| Europe ex UK                        | -            | -            | -               | -            | -            | -               | -                 | -           | -               |
| Asia Pacific inc Japan              | -            | -            | -               | -            | -            | -               | -                 | -           | -               |
| Emerging Markets                    | <b>-1.45</b> | <b>-1.22</b> | <b>-0.23</b>    | 2.63         | 3.56         | <b>-0.89</b>    | -                 | -           | -               |
| L&G GPCT World Dev Eq Idx GBP Hdg   | -            | -            | -               | -            | -            | -               | -                 | -           | -               |
| World Developed Equity Index        | -            | -            | -               | -            | -            | -               | -                 | -           | -               |
| <b>Fixed Income</b>                 | <b>1.29</b>  | <b>3.80</b>  | <b>-2.42</b>    | <b>3.03</b>  | <b>3.79</b>  | <b>-0.74</b>    | -                 | -           | -               |
| UK Corporate Bonds                  | 4.32         | 2.12         | 2.15            | 4.70         | 3.20         | 1.46            | -                 | -           | -               |
| Global Corporate Bonds              | 0.85         | 3.80         | <b>-2.85</b>    | 2.31         | 3.76         | <b>-1.39</b>    | -                 | -           | -               |
| <b>Index Linked Gilts</b>           | <b>3.17</b>  | <b>2.79</b>  | <b>0.37</b>     | <b>6.84</b>  | <b>5.96</b>  | <b>0.83</b>     | -                 | -           | -               |
| <b>Real Estates</b>                 | <b>3.08</b>  | <b>4.89</b>  | <b>-1.73</b>    | <b>5.13</b>  | <b>5.76</b>  | <b>-0.60</b>    | <b>7.79</b>       | <b>7.53</b> | <b>0.24</b>     |
| <b>Balanced funds</b>               | <b>-2.27</b> | <b>0.55</b>  | <b>-2.80</b>    | -            | -            | -               | -                 | -           | -               |
| Epoch Investment                    | -            | -            | -               | -            | -            | -               | -                 | -           | -               |
| Dist/Absolute Return                | 0.61         | 0.80         | <b>-0.19</b>    | -            | 0.75         | -               | -                 | -           | -               |
| <b>Private Equity</b>               | <b>14.16</b> | <b>6.14</b>  | <b>7.56</b>     | <b>16.01</b> | <b>11.09</b> | <b>4.43</b>     | -                 | -           | -               |
| <b>Private Credit</b>               | <b>6.81</b>  | <b>4.80</b>  | <b>1.92</b>     | <b>8.07</b>  | <b>4.75</b>  | <b>3.17</b>     | -                 | -           | -               |
| <b>Infrastructure</b>               | <b>13.11</b> | <b>3.80</b>  | <b>8.97</b>     | <b>16.85</b> | <b>3.75</b>  | <b>12.62</b>    | -                 | -           | -               |
| <b>Cash &amp; Synthetic Cash</b>    | <b>0.80</b>  | <b>0.43</b>  | <b>0.38</b>     | <b>1.92</b>  | <b>0.37</b>  | <b>1.54</b>     | -                 | -           | -               |
| <b>Foreign Exchange</b>             | -            | -            | -               | -            | -            | -               | -                 | -           | -               |

| <b>Overall Fund BenchMark</b>                     |                        |               |
|---|------------------------|---------------|
| <b>Index</b>                                      | <b>Manager</b>         | <b>%</b>      |
| FTSE All Share                                    | UBS<br>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<br>AEW    | 13.39         |
| 3 Month Libor +3%                                 | JP Morgan<br>Macquarie | 10.53         |
| MSCI World ND                                     | Epoch/LCIV             | 13.47         |
| 3 Month Libor                                     | Ruffer/LCIV            | 9.85          |
| 3 Month Libor +4%                                 | M&G<br>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          |
|   |                        | <b>100.00</b> |

## Portfolio Benchmarks

### AEW UK

100.00 IPD UK PPFI All Balanced Funds Index

### JP Morgan

7.55 3 Month LIBOR +3%pa

### Legal & General (LBH26)

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

### Legal & General (LBH27)

23.87 FTSE Index Linked Gilts All Stocks  
 18.56 FTSE Index Linked Gilts15+ Years  
 19.88 FTSE Emerging Markets  
 18.30 iBoxx Sterling Non-Gilts  
 20.21 FTSE Developed GBP Hedged

### London CIV Ruffer

100.00 3 Month LIBOR

### Epoch Ruffer

100.00 MSCI World Index (Net)

### M&G Investments

100.00 3 Month LIBOR +4%pa

### Macquarie

100.00 3 Month LIBOR +3%pa

### Premira Credit

100.00 3 Month LIBOR +4%pa

### UBS

100.00 FTSE All Share

### UBS Property

100.00 IPD UK PPFI All Balanced Funds Index

### LGIM LPI Income Property

100.00 RPI

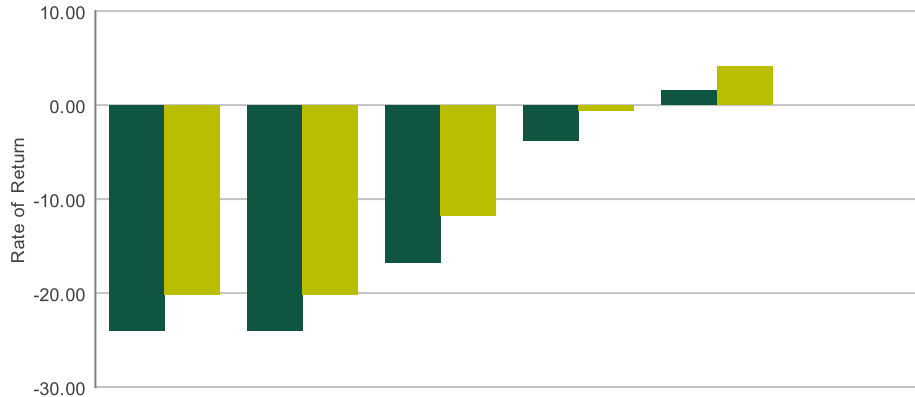
### London CIV Infrastructure

100.00 3 Month LIBOR + 3%



# Historical Performance

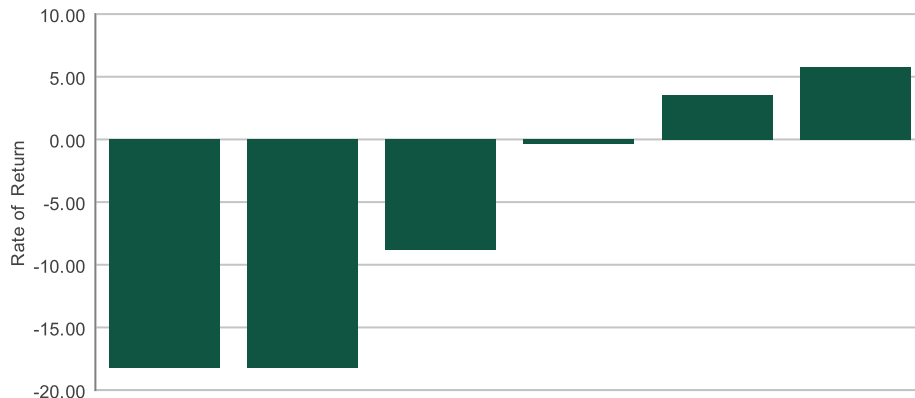
## EQUITY



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | -23.96       | -23.96       | -16.80   | -3.83       | 1.55       | -   |
| Index    | -20.13       | -20.13       | -11.77   | -0.60       | 4.14       | -   |

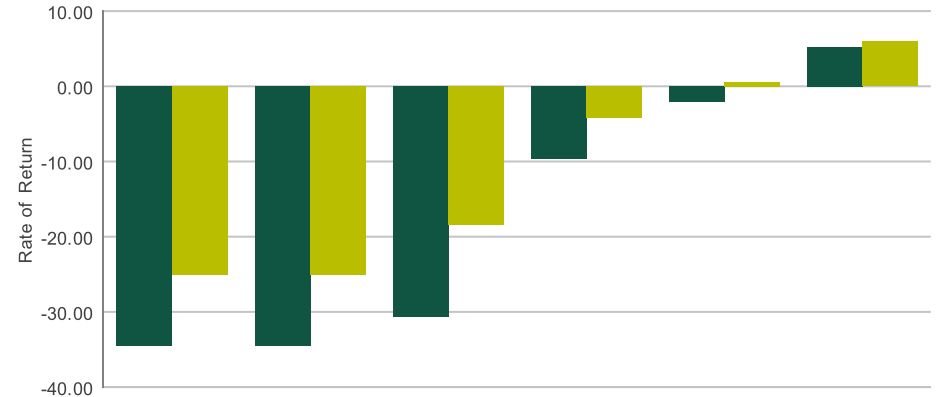
Index: Total Equity Benchmark

## OVERSEAS EQUITIES



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|----------|--------------|--------------|----------|-------------|------------|------|
| Category | -18.21       | -18.21       | -8.81    | -0.36       | 3.57       | 5.76 |
| Index    | -18.21       | -18.21       | -8.81    | -0.36       | 3.57       | 5.76 |

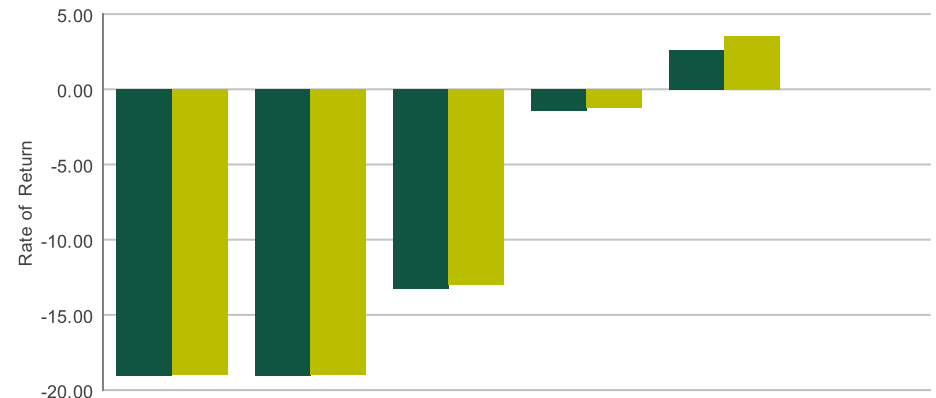
## UNITED KINGDOM



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|----------|--------------|--------------|----------|-------------|------------|------|
| Category | -34.52       | -34.52       | -30.61   | -9.70       | -2.01      | 5.24 |
| Index    | -25.13       | -25.13       | -18.45   | -4.24       | 0.57       | 5.95 |

Index: FTSE All Share UK Equity

## EMERGING MARKETS

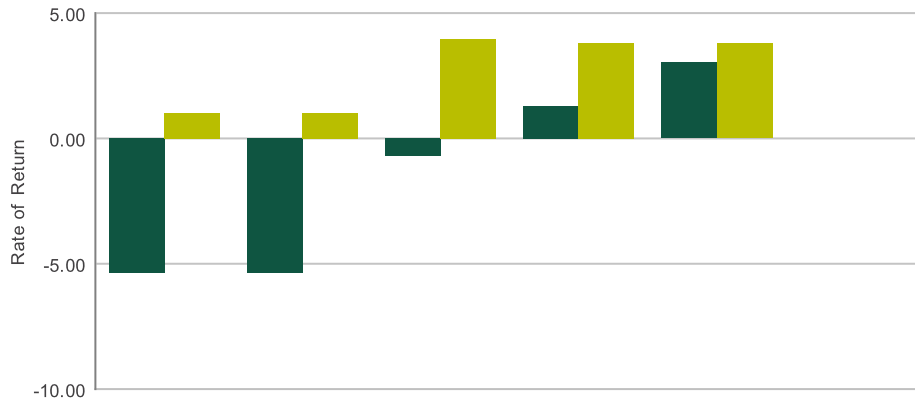


|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | -19.04       | -19.04       | -13.24   | -1.45       | 2.63       | -   |
| Index    | -19.01       | -19.01       | -13.03   | -1.22       | 3.56       | -   |

Index: LBH Emerging Markets

# Historical Performance

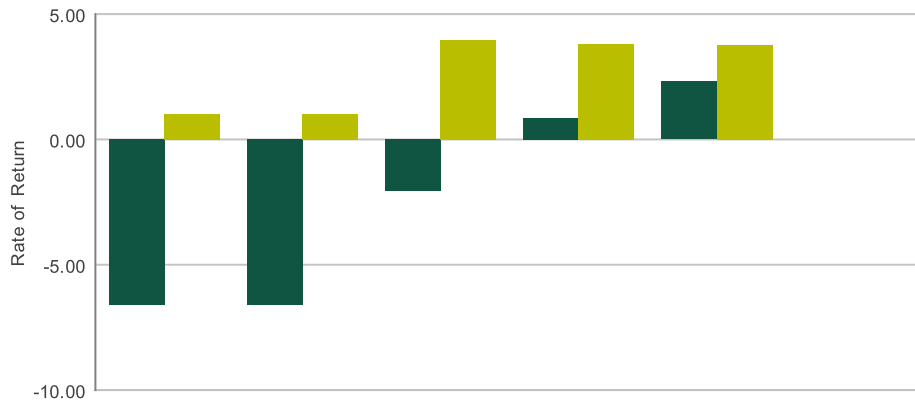
## FIXED INCOME



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | -5.37        | -5.37        | -0.69    | 1.29        | 3.03       | -   |
| Index    | 1.00         | 1.00         | 3.95     | 3.80        | 3.79       | -   |

Index: LBH Fixed Income Benchmark

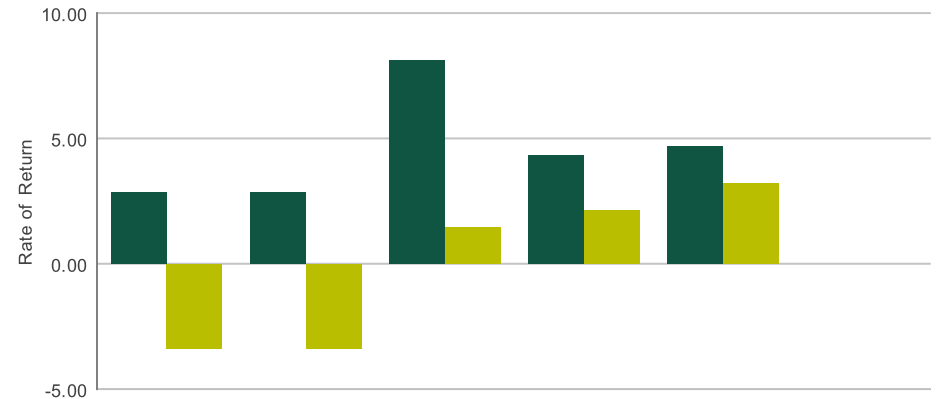
## GLOBAL CORPORATE BONDS



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | -6.59        | -6.59        | -2.04    | 0.85        | 2.31       | -   |
| Index    | 1.00         | 1.00         | 3.95     | 3.80        | 3.76       | -   |

Index: LIBOR GBP 3 Month +3% pa

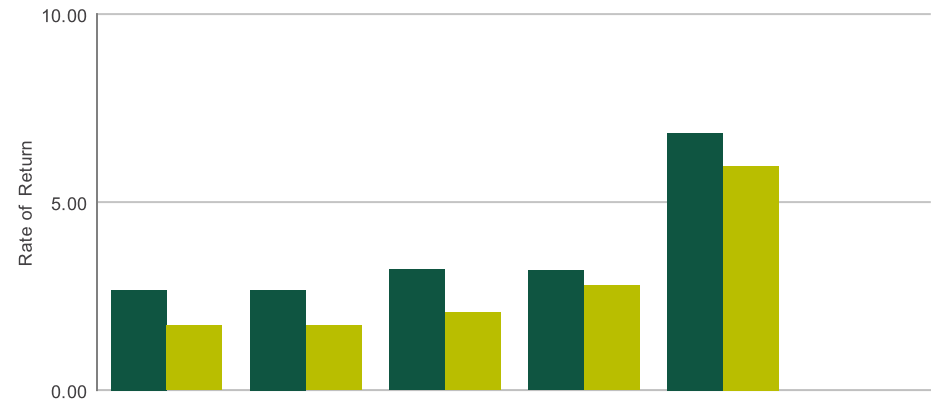
## UK CORPORATE BONDS



|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | 2.86         | 2.86         | 8.12     | 4.32        | 4.70       | -   |
| Index    | -3.38        | -3.38        | 1.45     | 2.12        | 3.20       | -   |

Index: LBH Non-Gilts Benchmark

## INDEX LINKED GILTS

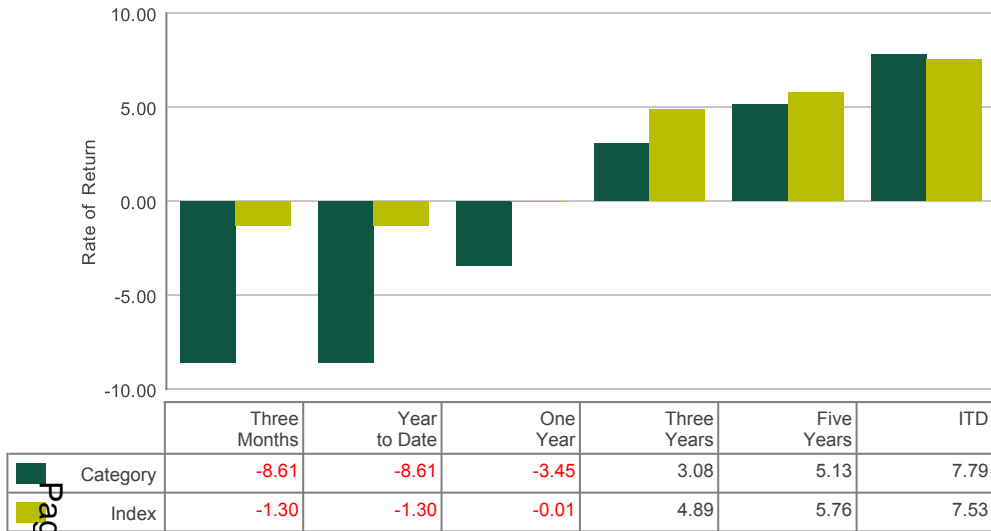


|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | 2.66         | 2.66         | 3.21     | 3.17        | 6.84       | -   |
| Index    | 1.71         | 1.71         | 2.07     | 2.79        | 5.96       | -   |

Index: LBH Index Linked Benchmark

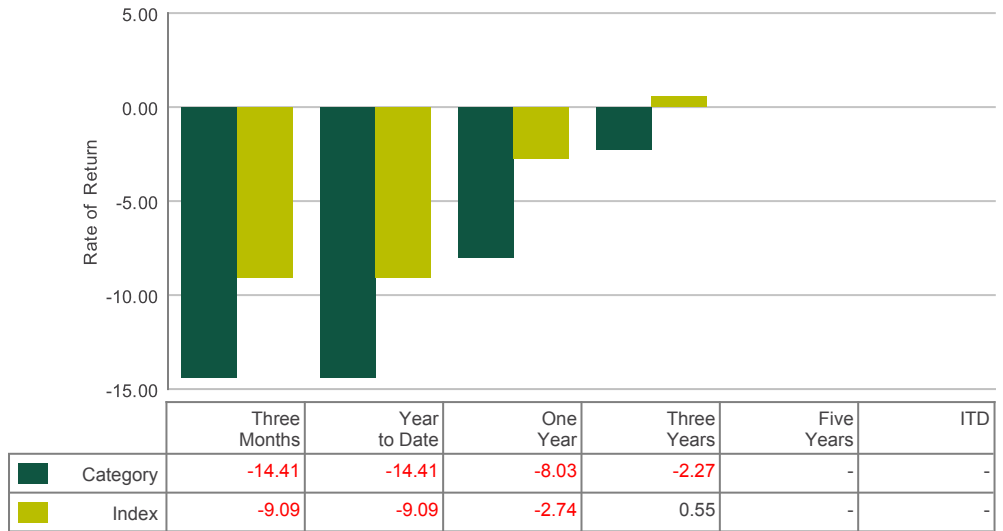
# Historical Performance

## REAL ESTATES



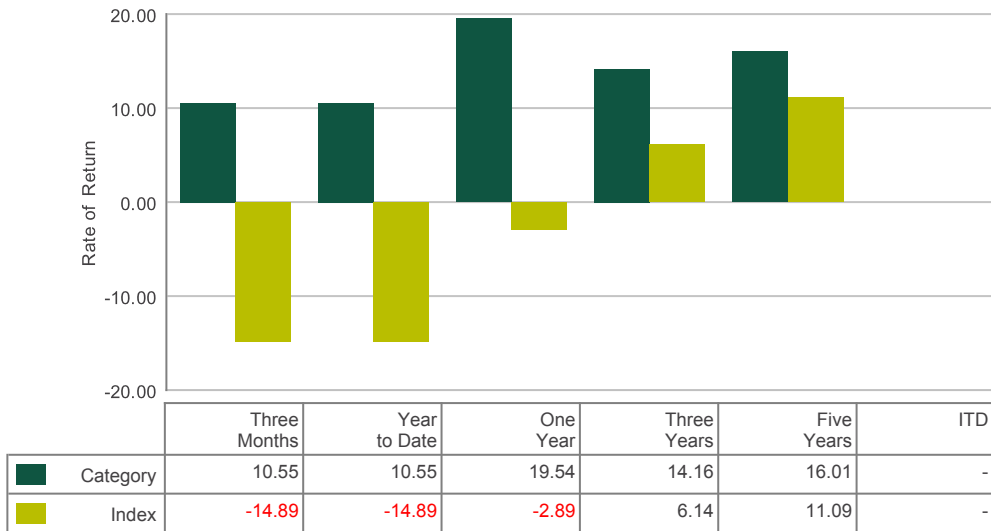
Index: IPD UK PPFI All Bal Funds Index

## BALANCED FUNDS



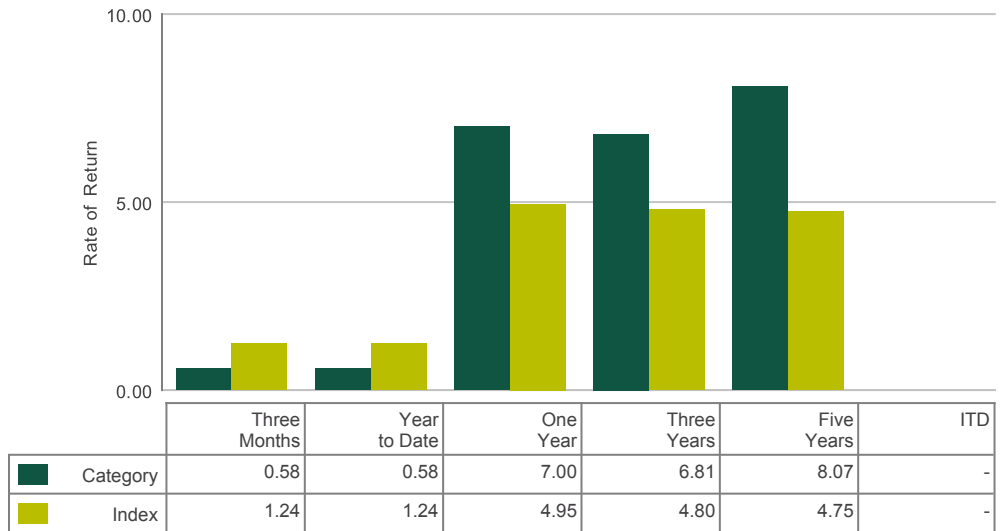
Index: Balanced Fund Benchmark

## PRIVATE EQUITY



Index: MSCI ACWI +4% pa

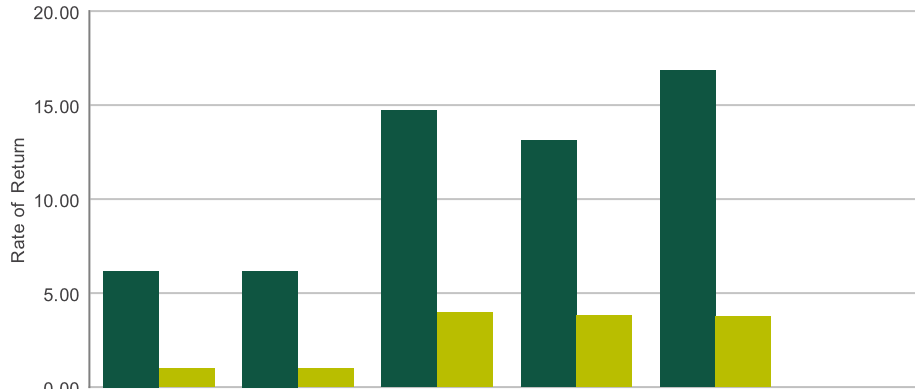
## PRIVATE CREDIT



Index: LIBOR GBP 3 Month +4% pa

# Historical Performance

## INFRASTRUCTURE

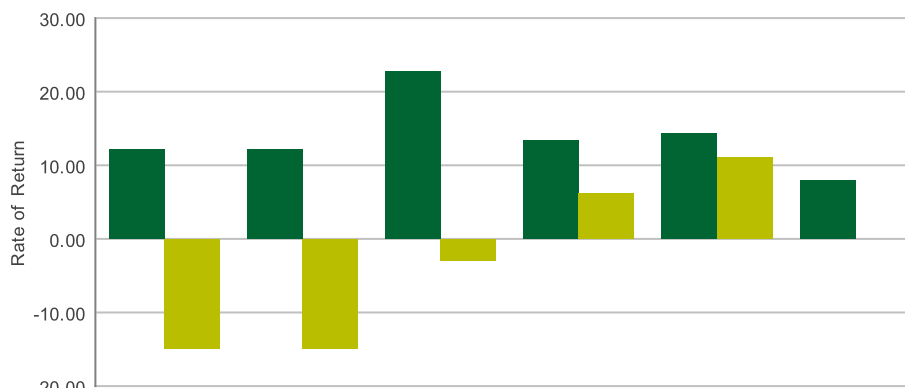


|          | Three Months | Year to Date | One Year | Three Years | Five Years | ITD |
|----------|--------------|--------------|----------|-------------|------------|-----|
| Category | 6.18         | 6.18         | 14.70    | 13.11       | 16.85      | -   |
| Index    | 1.00         | 1.00         | 3.95     | 3.80        | 3.75       | -   |

Index: LIBOR GBP 3 Month +3% pa

# Executive Summary

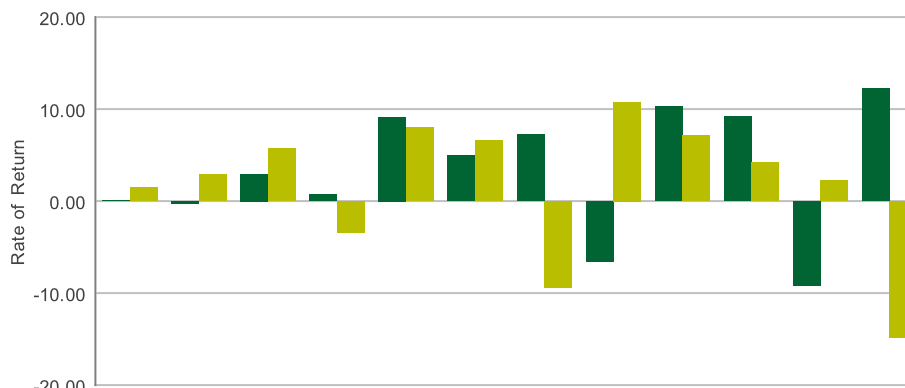
## ADAM STREET TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | 12.22        | 12.22        | 22.74    | 13.34       | 14.35      | 7.89 |
| Index | -14.89       | -14.89       | -2.89    | 6.14        | 11.09      | -    |

Index: Adam Street PE Bmark

## ADAM STREET ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 0.04   | -0.31  | 2.94   | 0.70   | 9.15   | 4.99   | 7.25   | -6.63  | 10.32  | 9.21   | -9.22  | 12.22  |
| Index | 1.48   | 2.85   | 5.75   | -3.39  | 7.97   | 6.55   | -9.37  | 10.77  | 7.12   | 4.17   | 2.24   | -14.89 |

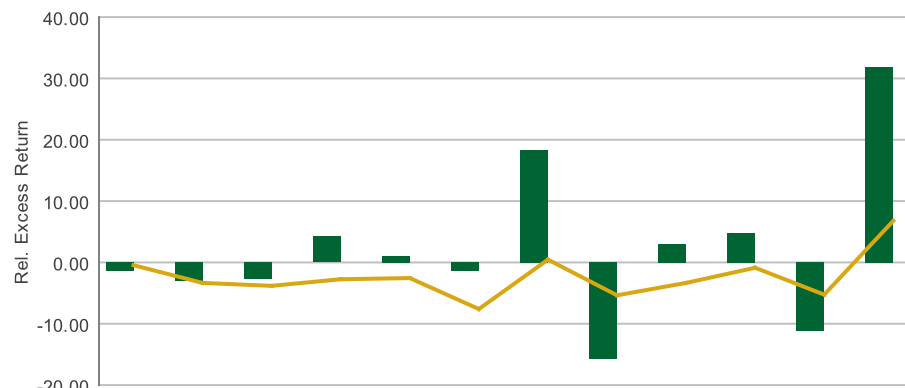
Index: Adam Street PE Bmark

## RISK STATISTICS

|                            | 1 Yr    | 3 Yrs  | 5 Yrs   |
|----------------------------|---------|--------|---------|
| Return                     | 22.74   | 13.34  | 14.35   |
| Index Return               | -2.89   | 6.14   | 11.09   |
| Relative Excess Return     | 26.40   | 6.78   | 2.93    |
| Standard Deviation         | 13.46   | 10.94  | 10.58   |
| Index Standard Deviation   | 14.81   | 11.81  | 11.54   |
| Tracking Error             | 22.27   | 18.16  | 16.28   |
| Information Ratio          | 1.15    | 0.40   | 0.20    |
| Sharpe Ratio               | 1.62    | 1.15   | 1.29    |
| Index Sharpe Ratio         | -0.26   | 0.45   | 0.90    |
| Sortino Ratio              | 3.20    | 2.09   | 2.60    |
| Treynor Ratio              | -100.13 | -49.43 | -181.16 |
| Jensen's Alpha             | 21.97   | 14.81  | 15.02   |
| Relative Volatility (Beta) | -0.22   | -0.25  | -0.08   |
| R Squared                  | 0.06    | 0.08   | 0.01    |

Index: Adam Street PE Bmark. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## ADAM STREET ROLLING QUARTERS TOTAL FUND GROSS OF FEES

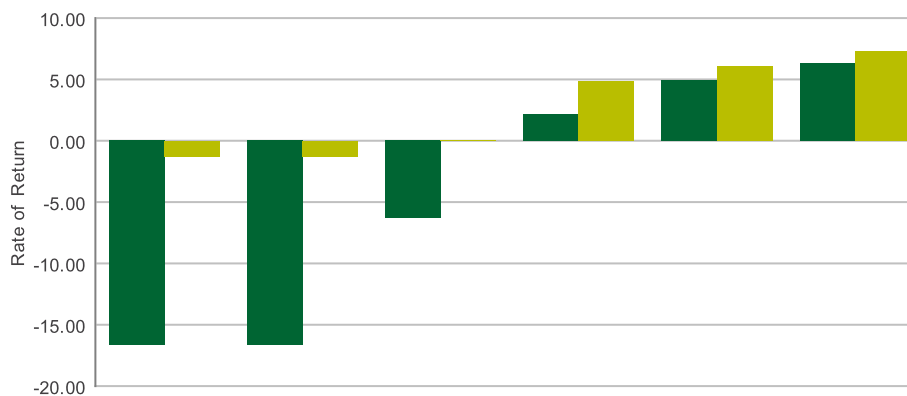


|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | -1.42  | -3.07  | -2.65  | 4.23   | 1.09   | -1.46  | 18.34  | -15.71 | 2.99   | 4.84   | -11.21 | 31.85  |
| 3Y R.Excess | -0.45  | -3.34  | -3.82  | -2.74  | -2.55  | -7.60  | 0.46   | -5.36  | -3.34  | -0.87  | -5.25  | 6.78   |

Index: Adam Street PE Bmark

# Executive Summary

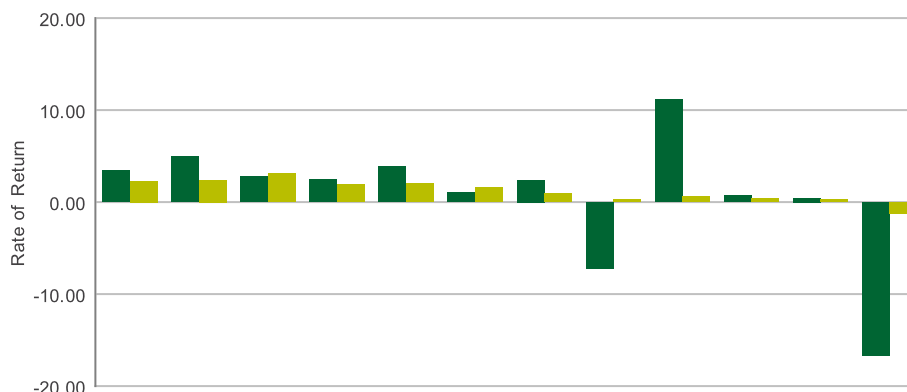
## AEW UK TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | -16.66       | -16.66       | -6.30    | 2.20        | 4.93       | 6.30 |
| Index | -1.30        | -1.30        | -0.01    | 4.89        | 6.06       | 7.32 |

Index: LBH22 AEW Benchmark

## AEW UK ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 3.41   | 4.94   | 2.82   | 2.43   | 3.87   | 1.05   | 2.41   | -7.27  | 11.14  | 0.72   | 0.44   | -16.66 |
| Index | 2.30   | 2.40   | 3.10   | 1.90   | 2.00   | 1.60   | 0.90   | 0.30   | 0.60   | 0.40   | 0.30   | -1.30  |

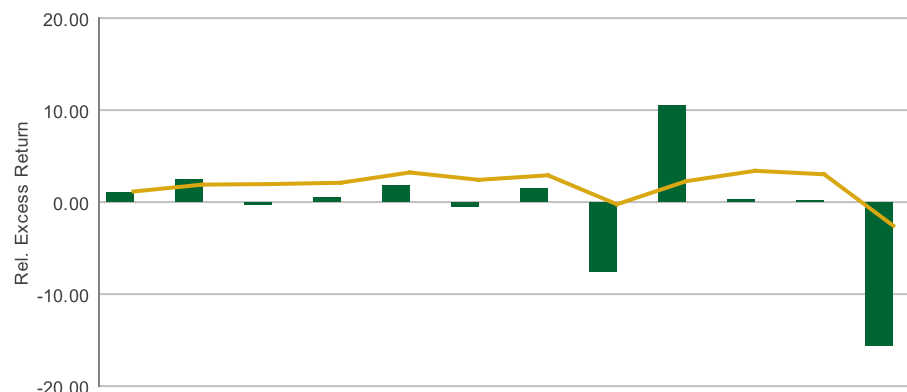
Index: LBH22 AEW Benchmark

## RISK STATISTICS

|                            | 1 Yr  | 3 Yrs  | 5 Yrs  |
|----------------------------|-------|--------|--------|
| Return                     | -6.30 | 2.20   | 4.93   |
| Index Return               | -0.01 | 4.89   | 6.06   |
| Relative Excess Return     | -6.29 | -2.57  | -1.06  |
| Standard Deviation         | 19.72 | 12.83  | 13.99  |
| Index Standard Deviation   | 1.97  | 1.71   | 2.49   |
| Tracking Error             | 17.99 | 11.72  | 12.22  |
| Information Ratio          | -0.35 | -0.23  | -0.09  |
| Sharpe Ratio               | -0.37 | 0.11   | 0.30   |
| Index Sharpe Ratio         | -0.48 | 2.40   | 2.13   |
| Sortino Ratio              | -0.42 | 0.13   | 0.39   |
| Treynor Ratio              | -0.82 | 0.28   | 1.00   |
| Jensen's Alpha             | 2.88  | -16.24 | -15.33 |
| Relative Volatility (Beta) | 8.81  | 4.95   | 4.17   |
| R Squared                  | 0.79  | 0.46   | 0.57   |

Index: LBH22 AEW Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## AEW UK ROLLING QUARTERS TOTAL FUND GROSS OF FEES

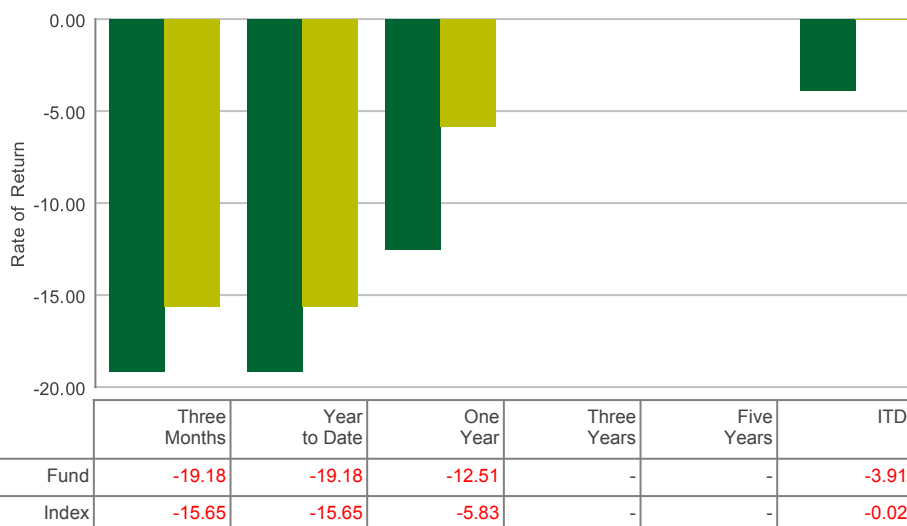


|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | 1.08   | 2.48   | -0.27  | 0.52   | 1.83   | -0.54  | 1.50   | -7.54  | 10.48  | 0.31   | 0.14   | -15.56 |
| 3Y R.Excess | 1.15   | 1.90   | 1.96   | 2.10   | 3.22   | 2.42   | 2.91   | -0.24  | 2.27   | 3.40   | 3.02   | -2.57  |

Index: LBH22 AEW Benchmark

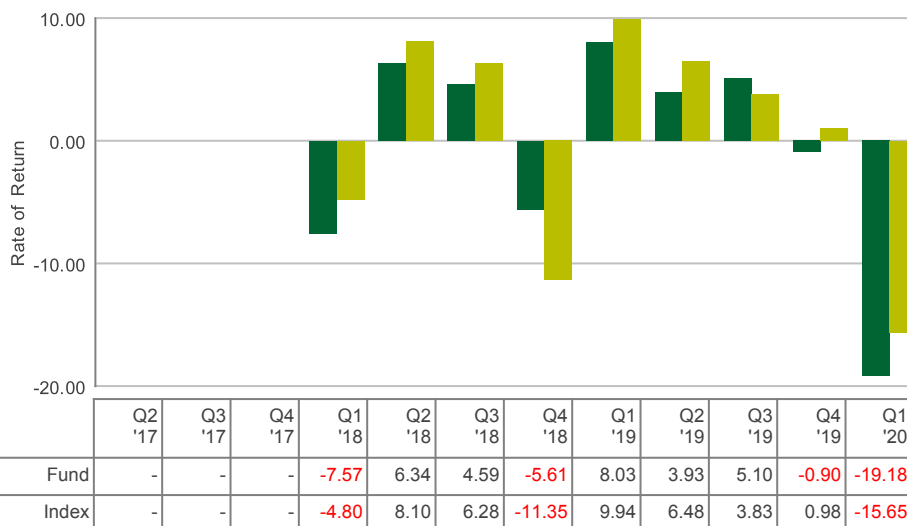
# Executive Summary

## EPOCH INVESTMENT P INCOME TOTAL FUND GROSS OF FEES



Index: LBH11001 MSCI World ND

## EPOCH INVESTMENT P INCOME ROLLING QUARTERS TOTAL FUND GROSS OF FEES



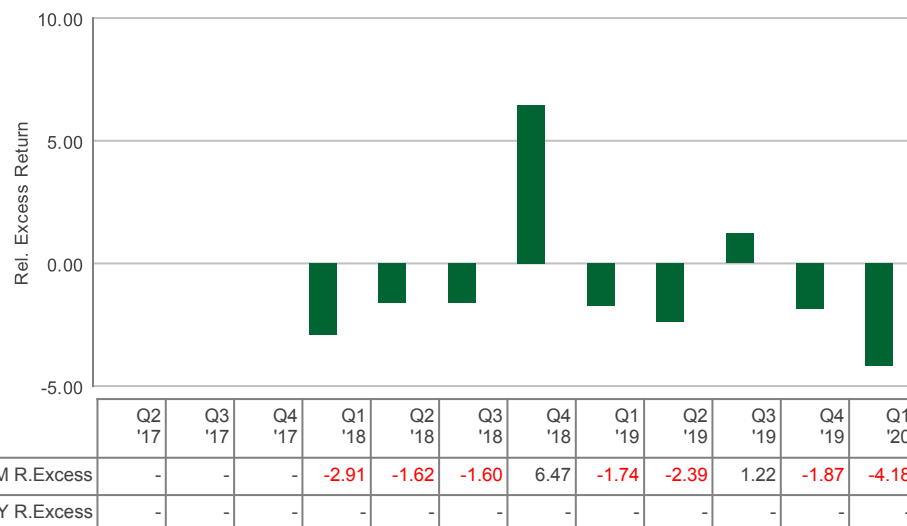
Index: LBH11001 MSCI World ND

## RISK STATISTICS

|                             | 3 Mos   | 1 Yr    | 3 Yrs   | 5 Yrs   |
|-----------------------------|---------|---------|---------|---------|
| Return                      | -19.18  | -12.51  | -       | -       |
| Index Return                | -15.65  | -5.83   | -       | -       |
| Excess Return               | -3.53   | -6.68   | -       | -       |
| Standard Deviation          | -       | 15.69   | -       | -       |
| Index Standard Deviation    | -       | 15.09   | -       | -       |
| Tracking Error              | -       | 5.68    | -       | -       |
| Information Ratio           | -       | -1.18   | -       | -       |
| Sharpe Ratio                | -       | -0.86   | -       | -       |
| Index Sharpe Ratio          | -       | -0.45   | -       | -       |
| Jensen's Alpha              | -       | -7.12   | -       | -       |
| Relative Volatility (Beta)  | -       | 0.97    | -       | -       |
| R Squared                   | -       | 0.87    | -       | -       |
| Beginning MV (in 000s)      | 159,294 | 147,156 | -       | -       |
| Net Contributions (in 000s) | 0       | 0       | -       | -       |
| Income (in 000s)            | 1,075   | 5,481   | 11,349  | 11,349  |
| Appreciation (in 000s)      | -31,624 | -23,892 | -24,262 | -24,262 |
| Ending MV (in 000s)         | 128,745 | 128,745 | 128,745 | 128,745 |

Index: LBH11001 MSCI World ND. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

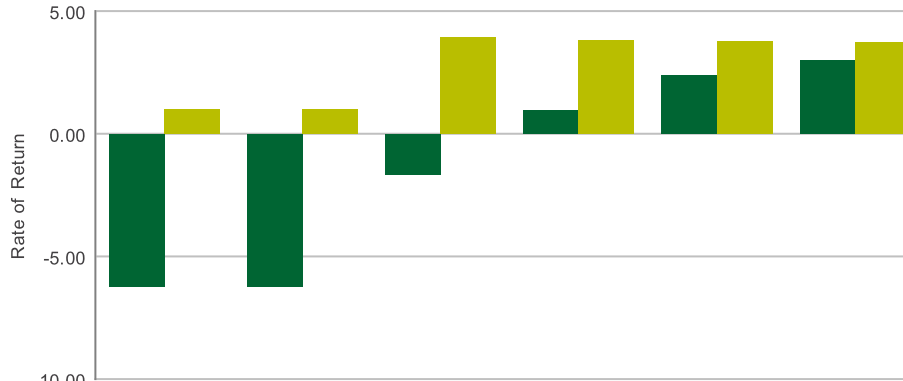
## EPOCH INVESTMENT P INCOME ROLLING QUARTERS TOTAL FUND GROSS OF FEES



Index: LBH11001 MSCI World ND

# Executive Summary

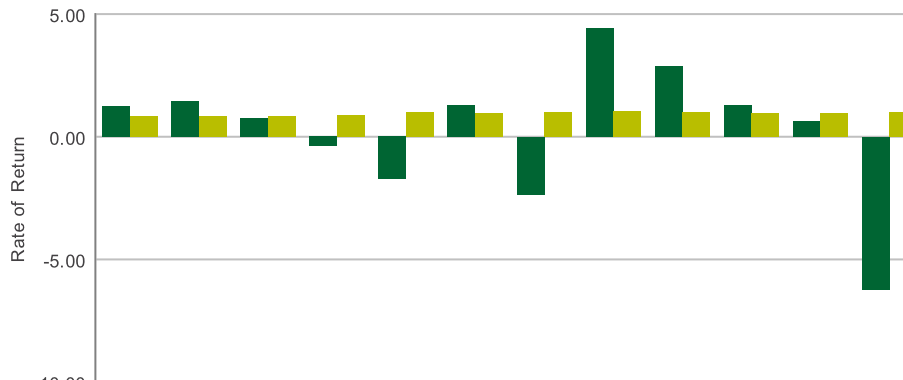
## JP MORGAN TOTAL FUND GROSS OF FEES



|   |  | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|---|--|--------------|--------------|----------|-------------|------------|------|
| <span style="color: green;">■</span> Fund       |  | -6.23        | -6.23        | -1.67    | 0.97        | 2.38       | 3.01 |
| <span style="color: lightgreen;">■</span> Index |  | 1.00         | 1.00         | 3.95     | 3.80        | 3.76       | 3.72 |

Index: LBH15 JPM LIBOR +3%pa

## JP MORGAN ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|   |  | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|---|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <span style="color: green;">■</span> Fund       |  | 1.24   | 1.45   | 0.76   | -0.38  | -1.72  | 1.30   | -2.35  | 4.44   | 2.87   | 1.30   | 0.64   | -6.23  |
| <span style="color: lightgreen;">■</span> Index |  | 0.85   | 0.82   | 0.83   | 0.87   | 1.00   | 0.95   | 0.99   | 1.04   | 0.99   | 0.95   | 0.95   | 1.00   |

Index: LBH15 JPM LIBOR +3%pa

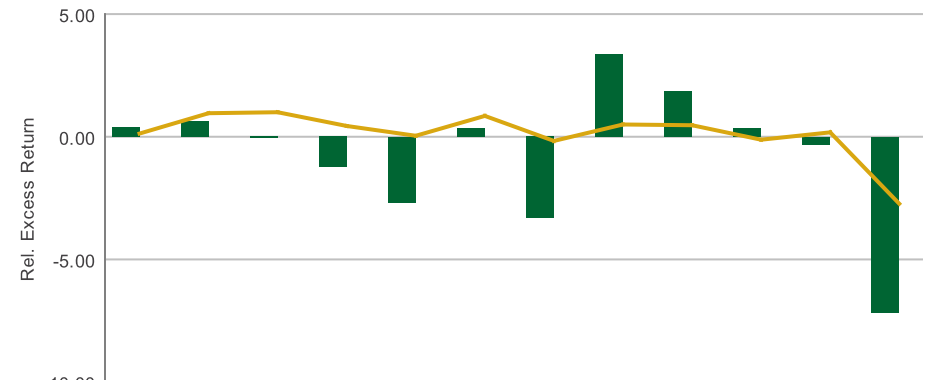
## RISK STATISTICS

|                            | 1 Yr   | 3 Yrs  | 5 Yrs  |
|----------------------------|--------|--------|--------|
| Return                     | -1.67  | 0.97   | 2.38   |
| Index Return               | 3.95   | 3.80   | 3.76   |
| Relative Excess Return     | -5.40  | -2.73  | -1.32  |
| Standard Deviation         | 7.01   | 4.65   | 4.24   |
| Index Standard Deviation   | 0.03   | 0.09   | 0.07   |
| Tracking Error             | 7.02   | 4.66   | 4.25   |
| Information Ratio          | -0.80  | -0.61  | -0.32  |
| Sharpe Ratio               | -0.37  | 0.04   | 0.39   |
| Index Sharpe Ratio         | 100.26 | 33.04  | 40.47  |
| Sortino Ratio              | -0.39  | 0.04   | 0.50   |
| Treynor Ratio              | -0.02  | 0.00   | 0.02   |
| Jensen's Alpha             | -99.02 | -94.67 | -95.92 |
| Relative Volatility (Beta) | 129.78 | 88.41  | 95.65  |
| R Squared                  | 0.08   | 0.07   | 0.09   |

Index: LBH15 JPM LIBOR +3%pa. Risk Free Index: JP Morgan 3 month Cash (GBP)

Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## JP MORGAN ROLLING QUARTERS TOTAL FUND GROSS OF FEES



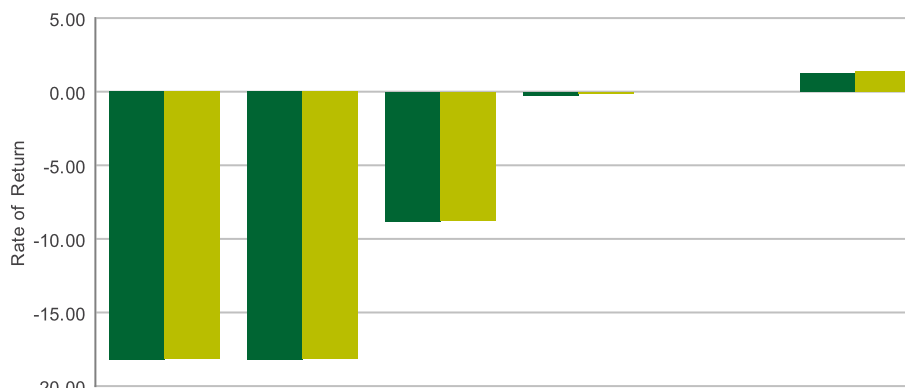
|   | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <span style="color: green;">■</span> 3M R.Excess      | 0.39   | 0.62   | -0.06  | -1.24  | -2.69  | 0.35   | -3.31  | 3.36   | 1.86   | 0.34   | -0.31  | -7.16  |
| <span style="color: lightgreen;">■</span> 3Y R.Excess | 0.13   | 0.96   | 1.00   | 0.44   | 0.04   | 0.85   | -0.17  | 0.50   | 0.47   | -0.12  | 0.18   | -2.73  |

Index: LBH15 JPM LIBOR +3%pa



# Executive Summary

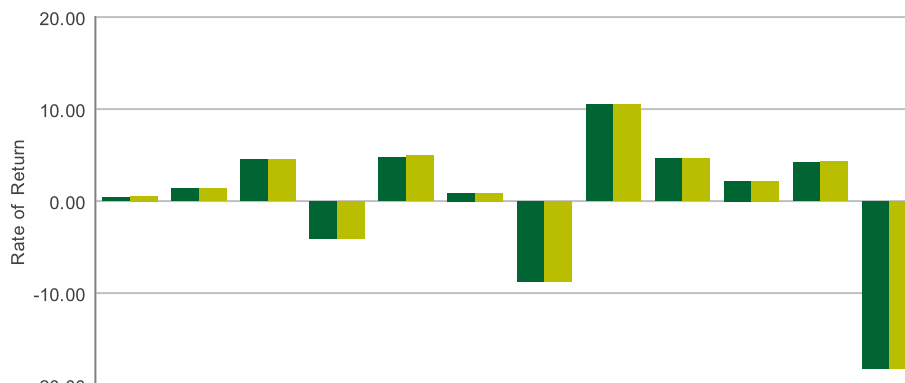
## LEGAL & GENERAL 1 TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | -18.21       | -18.21       | -8.81    | -0.27       | -          | 1.29 |
| Index | -18.17       | -18.17       | -8.74    | -0.12       | -          | 1.38 |

Index: LBH26 L&G Benchmark

## LEGAL & GENERAL 1 ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 0.40   | 1.37   | 4.55   | -4.03  | 4.78   | 0.89   | -8.79  | 10.48  | 4.67   | 2.19   | 4.23   | -18.21 |
| Index | 0.55   | 1.38   | 4.53   | -4.05  | 4.97   | 0.88   | -8.73  | 10.48  | 4.67   | 2.19   | 4.26   | -18.17 |

Index: LBH26 L&G Benchmark

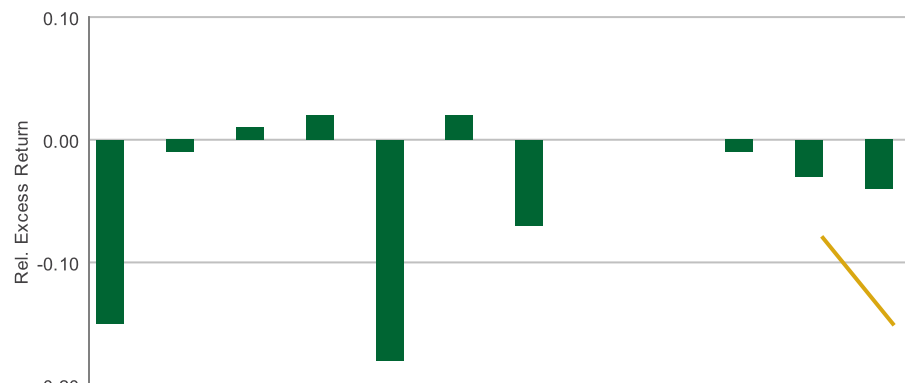
## RISK STATISTICS

|                             | 3 Mos   | 1 Yr    | 3 Yrs   | 5 Yrs   |
|-----------------------------|---------|---------|---------|---------|
| Return                      | -18.21  | -8.81   | -0.27   | -       |
| Index Return                | -18.17  | -8.74   | -0.12   | -       |
| Excess Return               | -0.04   | -0.08   | -0.15   | -       |
| Standard Deviation          | -       | 16.23   | 11.54   | -       |
| Index Standard Deviation    | -       | 16.21   | 11.54   | -       |
| Tracking Error              | -       | 0.12    | 0.16    | -       |
| Information Ratio           | -       | -0.63   | -0.93   | -       |
| Sharpe Ratio                | -       | -0.60   | -0.09   | -       |
| Index Sharpe Ratio          | -       | -0.60   | -0.08   | -       |
| Jensen's Alpha              | -       | -0.07   | -0.15   | -       |
| Relative Volatility (Beta)  | -       | 1.00    | 1.00    | -       |
| R Squared                   | -       | 1.00    | 1.00    | -       |
| Beginning MV (in 000s)      | 238,746 | 214,196 | 224,558 | -       |
| Net Contributions (in 000s) | -14     | -57     | -28,598 | -       |
| Income (in 000s)            | 0       | 0       | 0       | 0       |
| Appreciation (in 000s)      | -43,465 | -18,871 | -693    | 10,635  |
| Ending MV (in 000s)         | 195,267 | 195,267 | 195,267 | 195,267 |

Index: LBH26 L&G Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)

Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## LEGAL & GENERAL 1 ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | -0.15  | -0.01  | 0.01   | 0.02   | -0.18  | 0.02   | -0.07  | -0.00  | -0.00  | -0.01  | -0.03  | -0.04  |
| 3Y R.Excess | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -0.08  | -0.15  |

Index: LBH26 L&G Benchmark

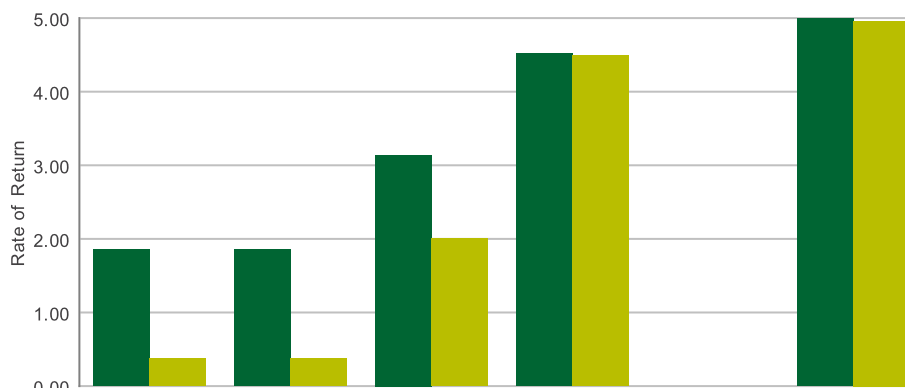
## Regional Performance

| Category                                  | Ending Market value<br>GBP - GOF | Ending Weight | Base Rates of Return |               |               |              |            |                   |
|---|----------------------------------|---------------|----------------------|---------------|---------------|--------------|------------|-------------------|
|   |                                  |               | Three Months         | Year to Date  | One Year      | Three Years  | Five Years | Inception to Date |
| <b>Legal &amp; General Inves Manageme</b> | <b>195,267,217</b>               | <b>100.00</b> | <b>-18.21</b>        | <b>-18.21</b> | <b>-8.81</b>  | <b>-0.27</b> | -          | <b>1.29</b>       |
| <i>LBH26 L&amp;G Benchmark</i>            |                                  |               | <i>-18.17</i>        | <i>-18.17</i> | <i>-8.74</i>  | <i>-0.12</i> | -          | <i>1.38</i>       |
| <i>Excess Return</i>                      |                                  |               | <i>-0.04</i>         | <i>-0.04</i>  | <i>-0.08</i>  | <i>-0.15</i> | -          | <i>-0.09</i>      |
| <b>Total Fund - Foreign Exchange</b>      | <b>195,267,217</b>               | <b>100.00</b> | <b>-18.21</b>        | <b>-18.21</b> | <b>-8.81</b>  | <b>-0.27</b> | -          | <b>1.29</b>       |
| <i>LBH26 L&amp;G Benchmark</i>            |                                  |               | <i>-18.17</i>        | <i>-18.17</i> | <i>-8.74</i>  | <i>-0.12</i> | -          | <i>1.38</i>       |
| <i>Excess Return</i>                      |                                  |               | <i>-0.04</i>         | <i>-0.04</i>  | <i>-0.08</i>  | <i>-0.15</i> | -          | <i>-0.09</i>      |
| <b>Equity</b>                             | <b>195,267,217</b>               | <b>100.00</b> | <b>-18.21</b>        | <b>-18.21</b> | <b>-8.81</b>  | <b>0.60</b>  | -          | <b>2.66</b>       |
| Emerging Markets                          | 28,070,092                       | 14.38         | -19.04               | -19.04        | -13.24        | -1.51        | -          | -0.42             |
| <i>FTSE Emerging</i>                      |                                  |               | <i>-19.01</i>        | <i>-19.01</i> | <i>-13.03</i> | <i>-1.22</i> | -          | <i>-0.16</i>      |
| <i>Excess Return</i>                      |                                  |               | <i>-0.04</i>         | <i>-0.04</i>  | <i>-0.21</i>  | <i>-0.29</i> | -          | <i>-0.26</i>      |
| L&G GPCT World Dev Eq Idx GBP Hdg         | 82,804,339                       | 42.41         | -20.47               | -20.47        | -10.58        | -            | -          | -                 |
| <i>FTSE Developed Hdg GBP</i>             |                                  |               | <i>-20.45</i>        | <i>-20.45</i> | <i>-10.60</i> | -            | -          | -                 |
| <i>Excess Return</i>                      |                                  |               | <i>-0.02</i>         | <i>-0.02</i>  | <i>0.02</i>   | -            | -          | -                 |
| World Developed Equity Index              | 84,392,787                       | 43.22         | -15.56               | -15.56        | -5.37         | -            | -          | -                 |
| <i>FTSE Developed</i>                     |                                  |               | <i>-15.56</i>        | <i>-15.56</i> | <i>-5.38</i>  | <i>2.65</i>  | -          | <i>4.72</i>       |
| <i>Excess Return</i>                      |                                  |               | <i>0.00</i>          | <i>0.00</i>   | <i>0.01</i>   | -            | -          | -                 |

• Excess is calculated using arithmetic methodology

# Executive Summary

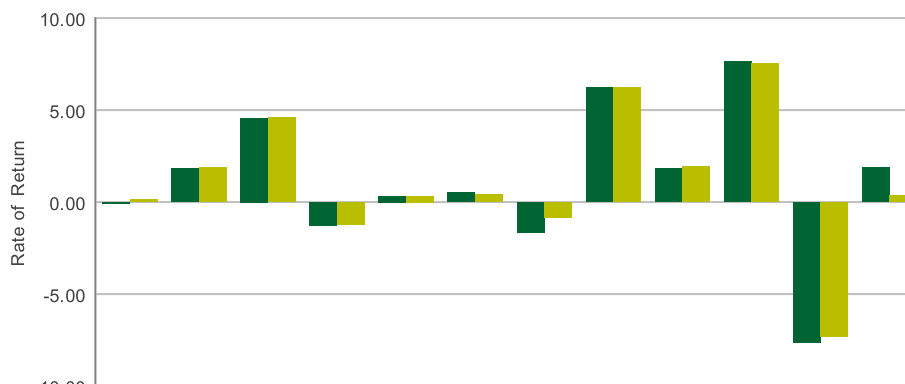
## LEGAL & GENERAL 2 TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | 1.86         | 1.86         | 3.14     | 4.52        | -          | 4.99 |
| Index | 0.37         | 0.37         | 2.00     | 4.49        | -          | 4.96 |

Index: LBH27 L&G Benchmark

## LEGAL & GENERAL 2 ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | -0.06  | 1.83   | 4.57   | -1.29  | 0.33   | 0.54   | -1.65  | 6.25   | 1.84   | 7.63   | -7.62  | 1.86   |
| Index | 0.16   | 1.88   | 4.58   | -1.25  | 0.33   | 0.43   | -0.83  | 6.21   | 1.93   | 7.54   | -7.30  | 0.37   |

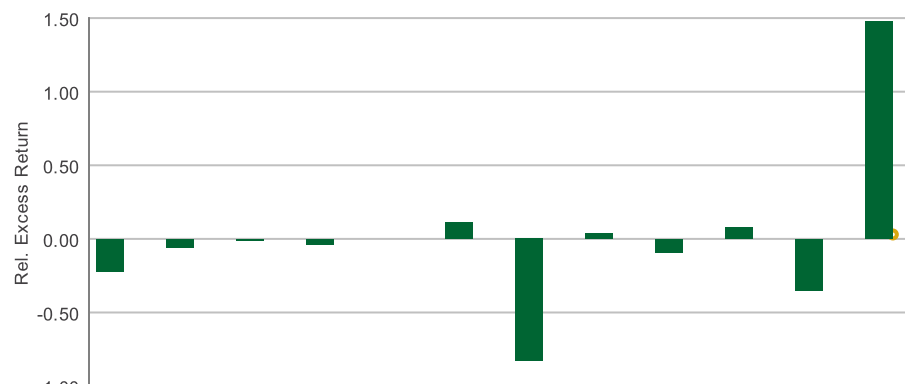
Index: LBH27 L&G Benchmark

## RISK STATISTICS

|                            | 1 Yr  | 3 Yrs | 5 Yrs |
|----------------------------|-------|-------|-------|
| Return                     | 3.14  | 4.52  | -     |
| Index Return               | 2.00  | 4.49  | -     |
| Relative Excess Return     | 1.12  | 0.03  | -     |
| Standard Deviation         | 10.44 | 7.84  | -     |
| Index Standard Deviation   | 10.90 | 8.00  | -     |
| Tracking Error             | 1.39  | 0.95  | -     |
| Information Ratio          | 0.82  | 0.04  | -     |
| Sharpe Ratio               | 0.21  | 0.48  | -     |
| Index Sharpe Ratio         | 0.10  | 0.46  | -     |
| Sortino Ratio              | 0.32  | 0.81  | -     |
| Treynor Ratio              | 2.31  | 3.83  | -     |
| Jensen's Alpha             | 1.15  | 0.12  | -     |
| Relative Volatility (Beta) | 0.95  | 0.97  | -     |
| R Squared                  | 0.98  | 0.99  | -     |

Index: LBH27 L&G Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## LEGAL & GENERAL 2 ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | -0.22  | -0.06  | -0.01  | -0.04  | -0.00  | 0.11   | -0.83  | 0.04   | -0.09  | 0.08   | -0.35  | 1.48   |
| 3Y R.Excess | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | -      | 0.03   |

Index: LBH27 L&G Benchmark

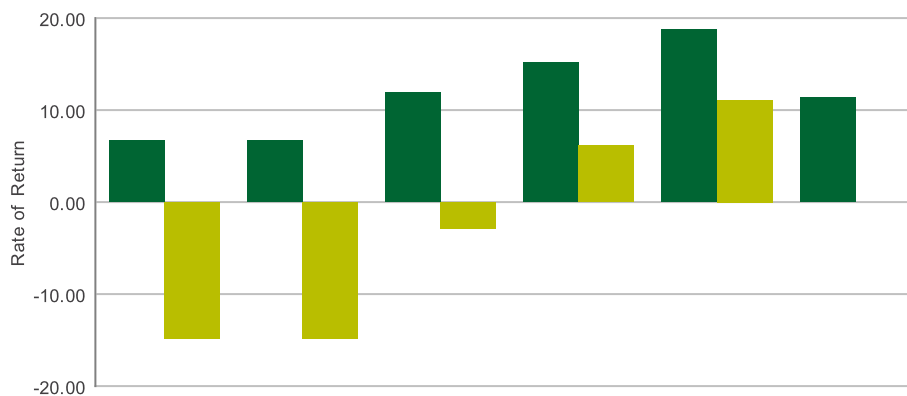
## Regional Performance

| Category                             | Ending<br>Market value<br>GBP - GOF | Ending<br>Weight | Base Rates of Return |                 |             |                |               |                      |
|--------------------------------------|-------------------------------------|------------------|----------------------|-----------------|-------------|----------------|---------------|----------------------|
|                                      |                                     |                  | Three<br>Months      | Year<br>to Date | One<br>Year | Three<br>Years | Five<br>Years | Inception<br>to Date |
| <b>Legal &amp; General INV Mgmt</b>  | <b>141,707,057</b>                  | <b>100.00</b>    | <b>1.86</b>          | <b>1.86</b>     | <b>3.14</b> | <b>4.52</b>    | -             | <b>4.99</b>          |
| <i>LBH27 L&amp;G Benchmark</i>       |                                     |                  | <i>0.37</i>          | <i>0.37</i>     | <i>2.00</i> | <i>4.49</i>    | -             | <i>4.96</i>          |
| <i>Excess Return</i>                 |                                     |                  | <i>1.48</i>          | <i>1.48</i>     | <i>1.14</i> | <i>0.03</i>    | -             | <i>0.03</i>          |
| <b>Total Fund - Foreign Exchange</b> | <b>141,707,057</b>                  | <b>100.00</b>    | <b>1.86</b>          | <b>1.86</b>     | <b>3.14</b> | <b>4.52</b>    | -             | <b>4.99</b>          |
| <b>Fixed Income</b>                  | <b>0</b>                            | <b>0.00</b>      | <b>2.86</b>          | <b>2.86</b>     | <b>8.12</b> | <b>4.32</b>    | -             | <b>4.75</b>          |
| <i>CCAJ INVT Grade CP Bnd</i>        | <i>0</i>                            | <i>0.00</i>      | <i>2.86</i>          | <i>2.86</i>     | <i>8.12</i> | <i>4.32</i>    | -             | <i>5.42</i>          |
| <i>Markit iBoxx £ Non - Gilt</i>     |                                     |                  | <i>-3.38</i>         | <i>-3.38</i>    | <i>1.46</i> | <i>2.12</i>    | -             | <i>2.61</i>          |
| <i>Excess Return</i>                 |                                     |                  | <i>6.23</i>          | <i>6.23</i>     | <i>6.66</i> | <i>2.20</i>    | -             | <i>2.81</i>          |
| <b>Index Linked Gilts</b>            | <b>141,707,057</b>                  | <b>100.00</b>    | <b>2.66</b>          | <b>2.66</b>     | <b>3.21</b> | <b>3.29</b>    | -             | <b>4.63</b>          |
| <i>LBH27 Index Linked</i>            |                                     |                  | <i>1.71</i>          | <i>1.71</i>     | <i>2.07</i> | <i>2.90</i>    | -             | <i>4.25</i>          |
| <i>Excess Return</i>                 |                                     |                  | <i>0.95</i>          | <i>0.95</i>     | <i>1.14</i> | <i>0.39</i>    | -             | <i>0.38</i>          |
| <b>Cash &amp; Short Term Deriv.</b>  | <b>0</b>                            | <b>0.00</b>      | -                    | -               | -           | -              | -             | -                    |

• Excess is calculated using arithmetic methodology

# Executive Summary

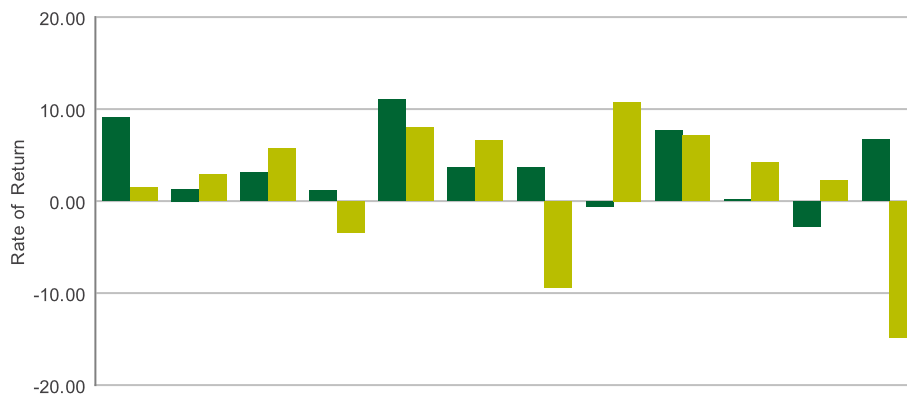
## LGT TOTAL FUND GROSS OF FEES



|   | Three Months | Year to Date | One Year | Three Years | Five Years | ITD   |
|---|--------------|--------------|----------|-------------|------------|-------|
| <span style="color: green;">■</span> Fund   | 6.66         | 6.66         | 11.87    | 15.20       | 18.73      | 11.39 |
| <span style="color: yellow;">■</span> Index | -14.89       | -14.89       | -2.89    | 6.14        | 11.09      | -     |

Index: LGT PE Bmark

## LGT ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|   | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <span style="color: green;">■</span> Fund   | 9.05   | 1.32   | 3.09   | 1.14   | 11.05  | 3.69   | 3.66   | -0.62  | 7.71   | 0.19   | -2.81  | 6.66   |
| <span style="color: yellow;">■</span> Index | 1.48   | 2.85   | 5.75   | -3.39  | 7.97   | 6.55   | -9.37  | 10.77  | 7.12   | 4.17   | 2.24   | -14.89 |

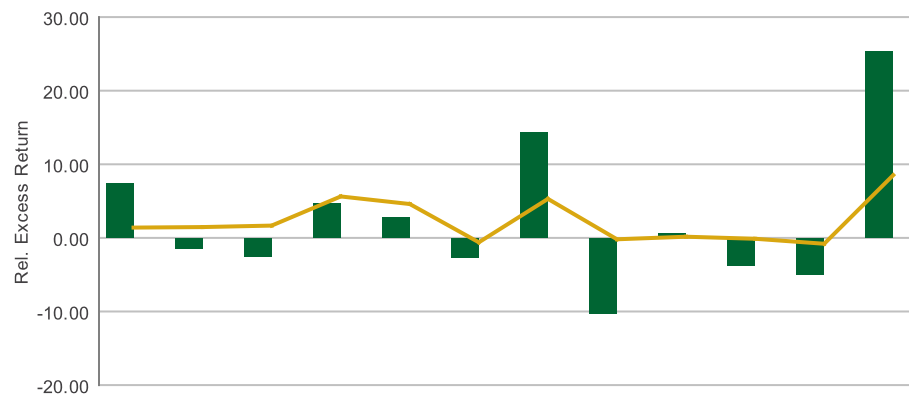
Index: LGT PE Bmark

## RISK STATISTICS

|                            | 1 Yr   | 3 Yrs   | 5 Yrs  |
|----------------------------|--------|---------|--------|
| Return                     | 11.87  | 15.20   | 18.73  |
| Index Return               | -2.89  | 6.14    | 11.09  |
| Relative Excess Return     | 15.20  | 8.53    | 6.88   |
| Standard Deviation         | 7.92   | 7.91    | 8.80   |
| Index Standard Deviation   | 14.81  | 11.81   | 11.54  |
| Tracking Error             | 18.98  | 14.89   | 14.26  |
| Information Ratio          | 0.78   | 0.61    | 0.54   |
| Sharpe Ratio               | 1.38   | 1.82    | 2.04   |
| Index Sharpe Ratio         | -0.26  | 0.45    | 0.90   |
| Sortino Ratio              | 2.36   | 3.44    | 4.55   |
| Treynor Ratio              | -61.11 | -202.38 | 646.62 |
| Jensen's Alpha             | 10.64  | 15.13   | 17.96  |
| Relative Volatility (Beta) | -0.18  | -0.07   | 0.03   |
| R Squared                  | 0.11   | 0.01    | 0.00   |

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

## LGT ROLLING QUARTERS TOTAL FUND GROSS OF FEES

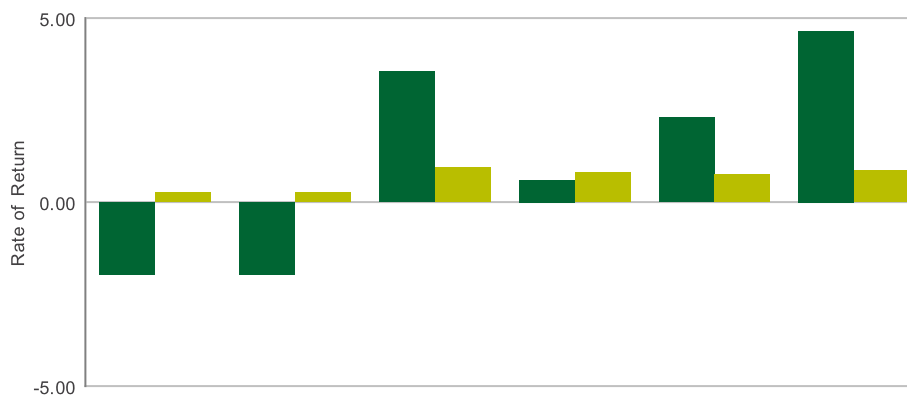


|   | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <span style="color: green;">■</span> 3M R.Excess  | 7.46   | -1.49  | -2.51  | 4.69   | 2.85   | -2.68  | 14.37  | -10.28 | 0.55   | -3.83  | -4.94  | 25.31  |
| <span style="color: yellow;">■</span> 3Y R.Excess | 1.40   | 1.47   | 1.67   | 5.63   | 4.60   | -0.60  | 5.30   | -0.19  | 0.16   | -0.12  | -0.80  | 8.53   |

Index: LGT PE Bmark

# Executive Summary

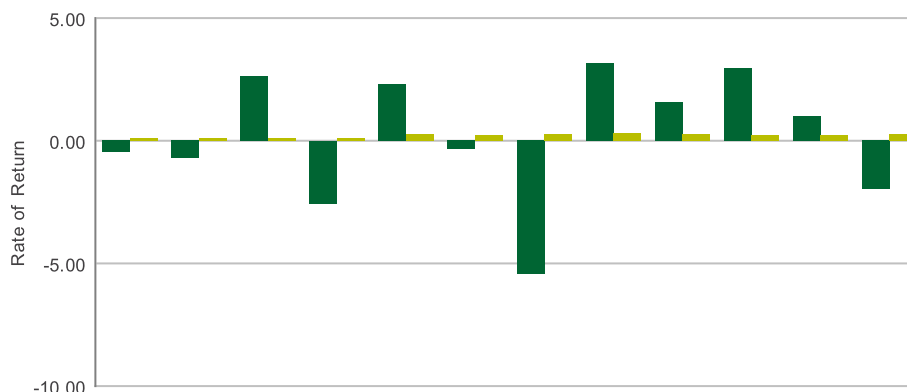
## LONDON CIV RUFFER TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | -1.96        | -1.96        | 3.55     | 0.60        | 2.31       | 4.65 |
| Index | 0.26         | 0.26         | 0.95     | 0.80        | 0.75       | 0.85 |

Index: LBH11003 Ruffer BM Libor

## LONDON CIV RUFFER ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | -0.45  | -0.71  | 2.65   | -2.55  | 2.30   | -0.33  | -5.44  | 3.15   | 1.59   | 2.94   | 0.99   | -1.96  |
| Index | 0.11   | 0.09   | 0.09   | 0.12   | 0.26   | 0.22   | 0.26   | 0.30   | 0.25   | 0.22   | 0.22   | 0.26   |

Index: LBH11003 Ruffer BM Libor

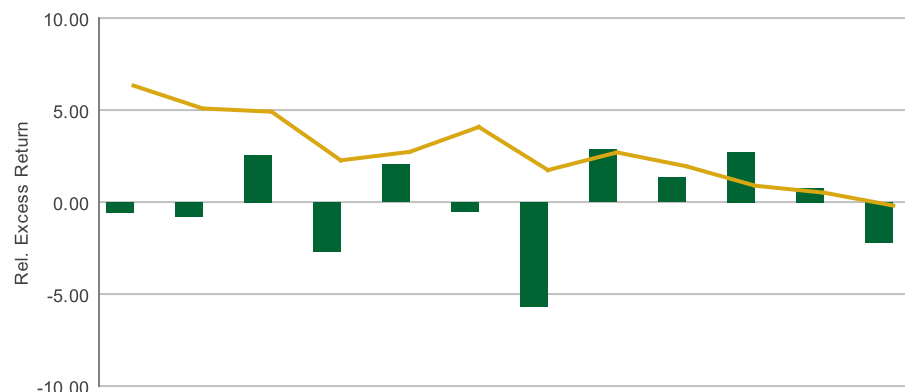
## RISK STATISTICS

|                             | 1 Yr    | 3 Yrs   | 5 Yrs   |
|-----------------------------|---------|---------|---------|
| Return                      | 3.55    | 0.60    | 2.31    |
| Index Return                | 0.95    | 0.80    | 0.75    |
| Excess Return               | 2.60    | -0.20   | 1.56    |
| Standard Deviation          | 5.75    | 5.01    | 5.20    |
| Index Standard Deviation    | 0.03    | 0.09    | 0.08    |
| Tracking Error              | 5.75    | 5.00    | 5.19    |
| Information Ratio           | 0.45    | -0.04   | 0.30    |
| Sharpe Ratio                | 0.45    | -0.04   | 0.30    |
| Index Sharpe Ratio          | 0.22    | 0.07    | 0.09    |
| Jensen's Alpha              | 4.14    | 0.18    | 1.59    |
| Relative Volatility (Beta)  | -234.83 | -37.82  | 14.65   |
| R Squared                   | 0.33    | 0.01    | 0.00    |
| Beginning MV (in 000s)      | 102,708 | 104,443 | 94,597  |
| Net Contributions (in 000s) | -49,105 | -49,105 | -49,105 |
| Income (in 000s)            | 1,185   | 3,242   | 3,242   |
| Appreciation (in 000s)      | 790     | -3,214  | -3,214  |
| Ending MV (in 000s)         | 55,578  | 55,578  | 55,578  |

Index: LBH11003 Ruffer BM Libor. Risk Free Index: JP Morgan 3 month Cash (GBP)

Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## LONDON CIV RUFFER ROLLING QUARTERS TOTAL FUND GROSS OF FEES

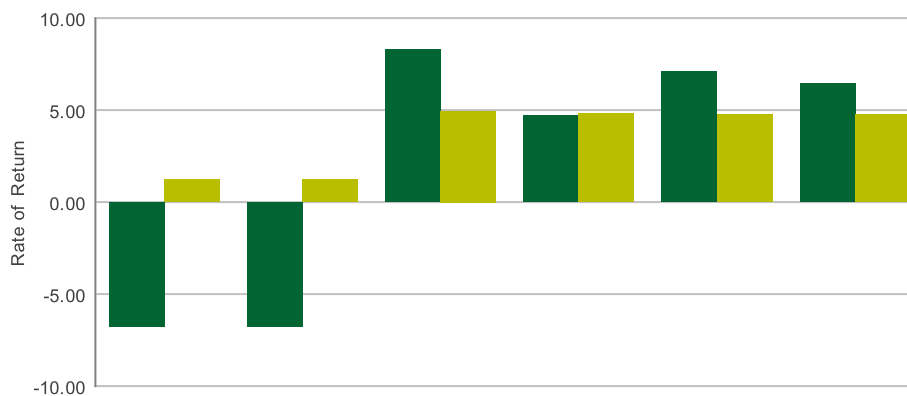


|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | -0.56  | -0.80  | 2.56   | -2.67  | 2.03   | -0.54  | -5.69  | 2.84   | 1.34   | 2.72   | 0.77   | -2.21  |
| 3Y R.Excess | 6.33   | 5.09   | 4.91   | 2.27   | 2.73   | 4.08   | 1.74   | 2.70   | 1.95   | 0.89   | 0.51   | -0.19  |

Index: LBH11003 Ruffer BM Libor

# Executive Summary

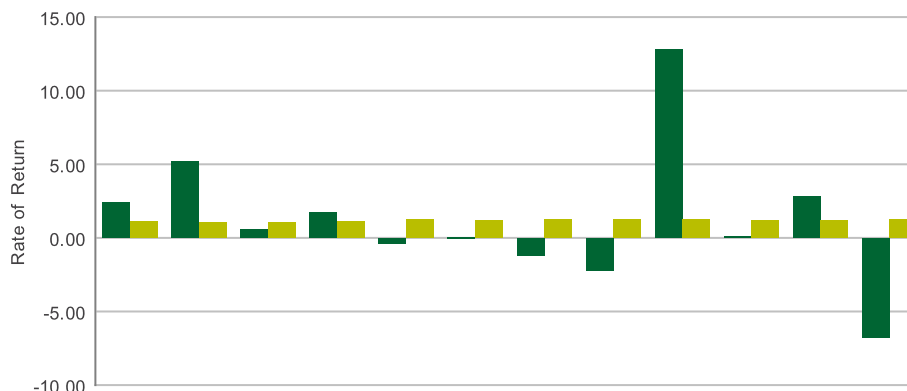
## M&G INVESTMENTS TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | -6.78        | -6.78        | 8.28     | 4.70        | 7.10       | 6.43 |
| Index | 1.24         | 1.24         | 4.95     | 4.80        | 4.75       | 4.74 |

Index: LBH10 3 Month LIBOR +4%pa

## M&G INVESTMENTS ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 2.42   | 5.18   | 0.61   | 1.71   | -0.38  | -0.07  | -1.19  | -2.24  | 12.83  | 0.09   | 2.85   | -6.78  |
| Index | 1.09   | 1.07   | 1.07   | 1.11   | 1.25   | 1.20   | 1.23   | 1.29   | 1.23   | 1.19   | 1.19   | 1.24   |

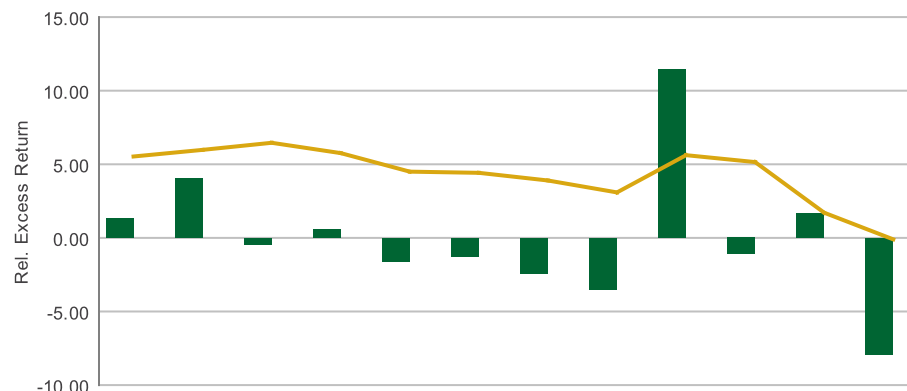
Index: LBH10 3 Month LIBOR +4%pa

## RISK STATISTICS

|                            | 1 Yr    | 3 Yrs  | 5 Yrs  |
|----------------------------|---------|--------|--------|
| Return                     | 8.28    | 4.70   | 7.10   |
| Index Return               | 4.95    | 4.80   | 4.75   |
| Relative Excess Return     | 3.18    | -0.10  | 2.24   |
| Standard Deviation         | 17.96   | 11.09  | 10.08  |
| Index Standard Deviation   | 0.03    | 0.09   | 0.07   |
| Tracking Error             | 17.97   | 11.10  | 10.09  |
| Information Ratio          | 0.19    | -0.01  | 0.23   |
| Sharpe Ratio               | 0.41    | 0.35   | 0.63   |
| Index Sharpe Ratio         | 128.87  | 44.16  | 53.77  |
| Sortino Ratio              | 0.95    | 0.77   | 1.48   |
| Treynor Ratio              | -0.08   | -0.09  | -0.18  |
| Jensen's Alpha             | 2079.09 | 394.86 | 281.74 |
| Relative Volatility (Beta) | -87.90  | -42.65 | -34.56 |
| R Squared                  | 0.01    | 0.00   | 0.00   |

Index: LBH10 3 Month LIBOR +4%pa. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## M&G INVESTMENTS ROLLING QUARTERS TOTAL FUND GROSS OF FEES

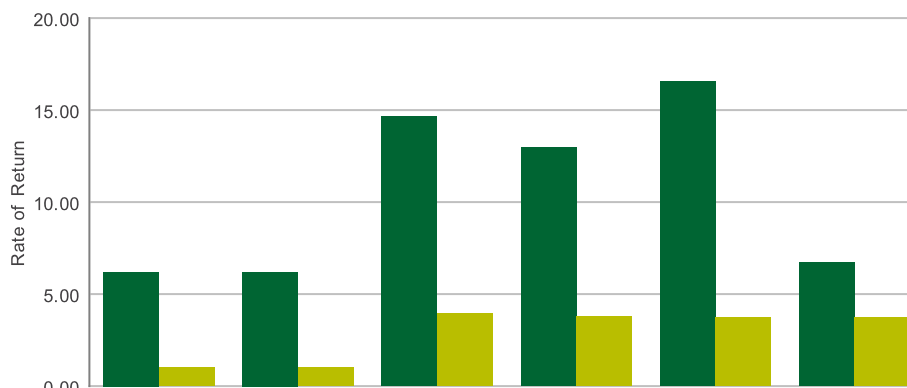


|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | 1.31   | 4.07   | -0.45  | 0.59   | -1.60  | -1.25  | -2.40  | -3.48  | 11.46  | -1.09  | 1.64   | -7.92  |
| 3Y R.Excess | 5.53   | 5.98   | 6.46   | 5.76   | 4.50   | 4.42   | 3.90   | 3.09   | 5.62   | 5.15   | 1.71   | -0.10  |

Index: LBH10 3 Month LIBOR +4%pa

# Executive Summary

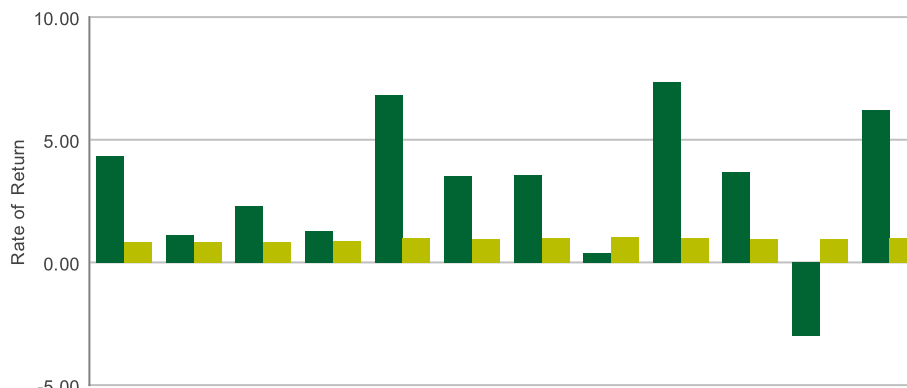
## MACQUARIE TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | 6.20         | 6.20         | 14.67    | 12.96       | 16.56      | 6.72 |
| Index | 1.00         | 1.00         | 3.95     | 3.80        | 3.75       | 3.73 |

Index: LBH14 Macquarie LIBOR +3%pa

## MACQUARIE ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 4.34   | 1.11   | 2.30   | 1.29   | 6.81   | 3.53   | 3.56   | 0.40   | 7.34   | 3.70   | -3.00  | 6.20   |
| Index | 0.85   | 0.82   | 0.83   | 0.87   | 1.00   | 0.95   | 0.99   | 1.04   | 0.99   | 0.95   | 0.95   | 1.00   |

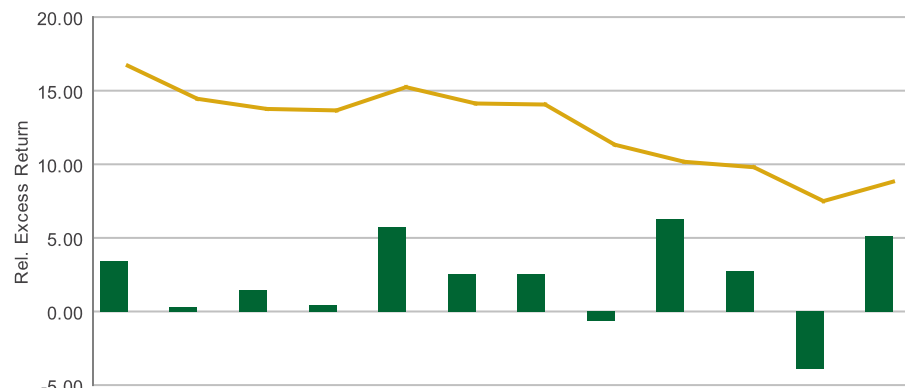
Index: LBH14 Macquarie LIBOR +3%pa

## RISK STATISTICS

|                            | 1 Yr   | 3 Yrs  | 5 Yrs  |
|----------------------------|--------|--------|--------|
| Return                     | 14.67  | 12.96  | 16.56  |
| Index Return               | 3.95   | 3.80   | 3.75   |
| Relative Excess Return     | 10.31  | 8.82   | 12.35  |
| Standard Deviation         | 8.71   | 8.78   | 9.23   |
| Index Standard Deviation   | 0.03   | 0.09   | 0.07   |
| Tracking Error             | 8.70   | 8.77   | 9.23   |
| Information Ratio          | 1.23   | 1.04   | 1.39   |
| Sharpe Ratio               | 1.57   | 1.39   | 1.71   |
| Index Sharpe Ratio         | 100.26 | 33.04  | 40.23  |
| Sortino Ratio              | 3.29   | 2.65   | 3.73   |
| Treynor Ratio              | 0.12   | 0.24   | 0.75   |
| Jensen's Alpha             | -97.93 | -76.11 | -38.34 |
| Relative Volatility (Beta) | 117.26 | 49.84  | 21.21  |
| R Squared                  | 0.04   | 0.01   | 0.00   |

Index: LBH14 Macquarie LIBOR +3%pa. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## MACQUARIE ROLLING QUARTERS TOTAL FUND GROSS OF FEES



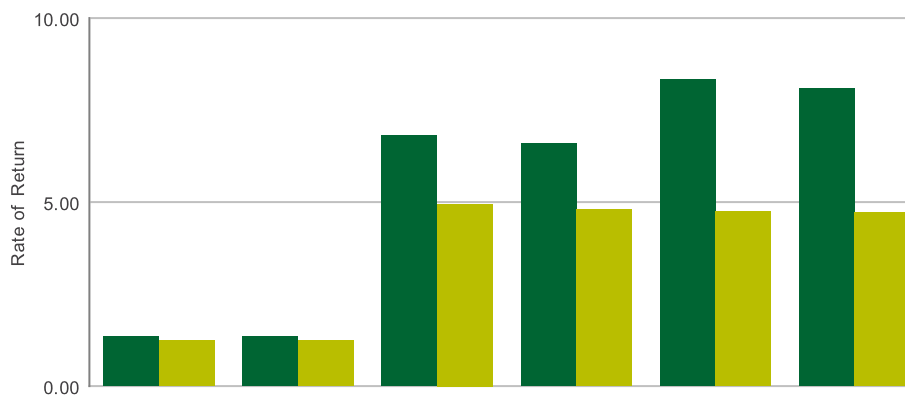
|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | 3.46   | 0.29   | 1.46   | 0.42   | 5.75   | 2.55   | 2.55   | -0.63  | 6.29   | 2.72   | -3.91  | 5.15   |
| 3Y R.Excess | 16.70  | 14.45  | 13.76  | 13.66  | 15.24  | 14.13  | 14.06  | 11.33  | 10.17  | 9.80   | 7.50   | 8.82   |

Index: LBH14 Macquarie LIBOR +3%pa



# Executive Summary

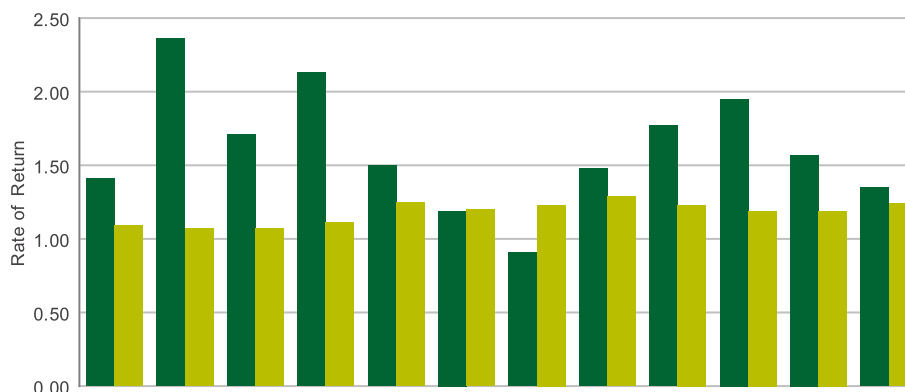
## PREMIRA CREDIT TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | 1.35         | 1.35         | 6.81     | 6.60        | 8.33       | 8.08 |
| Index | 1.24         | 1.24         | 4.95     | 4.80        | 4.75       | 4.72 |

Index: LBH24 Premira LIBOR +4%pa

## PREMIRA CREDIT ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 1.41   | 2.36   | 1.71   | 2.13   | 1.50   | 1.19   | 0.91   | 1.48   | 1.77   | 1.95   | 1.57   | 1.35   |
| Index | 1.09   | 1.07   | 1.07   | 1.11   | 1.25   | 1.20   | 1.23   | 1.29   | 1.23   | 1.19   | 1.19   | 1.24   |

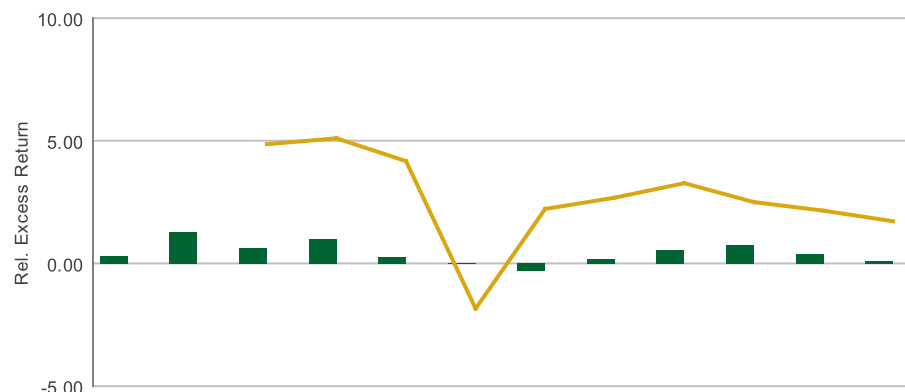
Index: LBH24 Premira LIBOR +4%pa

## RISK STATISTICS

|                            | 1 Yr   | 3 Yrs  | 5 Yrs  |
|----------------------------|--------|--------|--------|
| Return                     | 6.81   | 6.60   | 8.33   |
| Index Return               | 4.95   | 4.80   | 4.75   |
| Relative Excess Return     | 1.77   | 1.72   | 3.42   |
| Standard Deviation         | 2.75   | 2.51   | 10.85  |
| Index Standard Deviation   | 0.03   | 0.09   | 0.07   |
| Tracking Error             | 2.74   | 2.52   | 10.85  |
| Information Ratio          | 0.68   | 0.71   | 0.33   |
| Sharpe Ratio               | 2.13   | 2.31   | 0.70   |
| Index Sharpe Ratio         | 128.87 | 44.16  | 53.77  |
| Sortino Ratio              | 26.31  | 28.92  | 1.57   |
| Treynor Ratio              | 0.08   | 0.08   | 0.05   |
| Jensen's Alpha             | -96.77 | -95.05 | -99.93 |
| Relative Volatility (Beta) | 78.02  | 69.50  | 142.42 |
| R Squared                  | 0.20   | 0.17   | 0.03   |

Index: LBH24 Premira LIBOR +4%pa. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## PREMIRA CREDIT ROLLING QUARTERS TOTAL FUND GROSS OF FEES

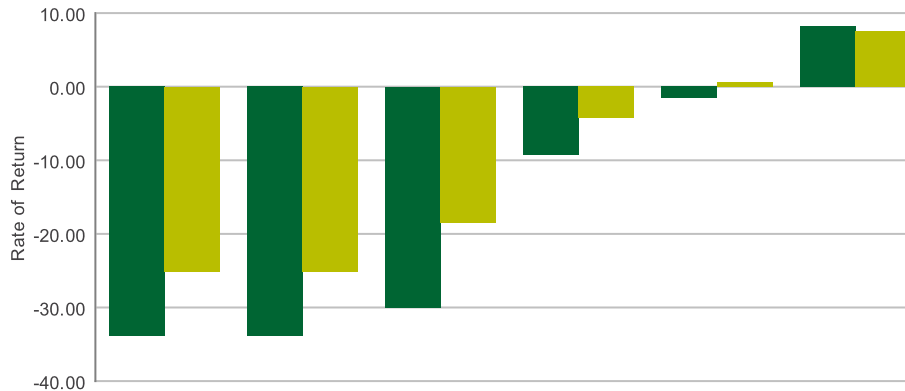


|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | 0.31   | 1.28   | 0.63   | 1.01   | 0.25   | -0.01  | -0.32  | 0.19   | 0.54   | 0.75   | 0.37   | 0.10   |
| 3Y R.Excess | -      | -      | 4.86   | 5.10   | 4.17   | -1.84  | 2.22   | 2.68   | 3.27   | 2.50   | 2.15   | 1.72   |

Index: LBH24 Premira LIBOR +4%pa

# Executive Summary

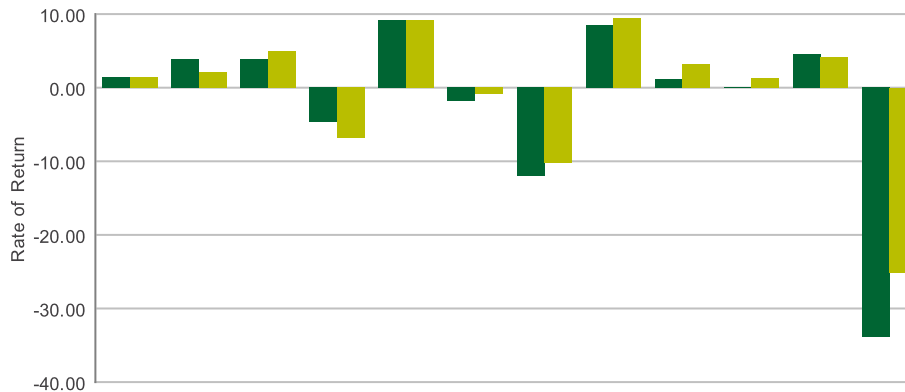
## UBS TOTAL FUND GROSS OF FEES



|              | Three Months  | Year to Date  | One Year      | Three Years  | Five Years   | ITD  |
|--------------|---------------|---------------|---------------|--------------|--------------|------|
| <b>Fund</b>  | <b>-33.88</b> | <b>-33.88</b> | <b>-30.01</b> | <b>-9.27</b> | <b>-1.51</b> | 8.26 |
| <b>Index</b> | <b>-25.13</b> | <b>-25.13</b> | <b>-18.45</b> | <b>-4.24</b> | 0.57         | 7.60 |

Index: LBH04 UBS Benchmark

## UBS ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|              | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18       | Q2 '18 | Q3 '18       | Q4 '18        | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20        |
|--------------|--------|--------|--------|--------------|--------|--------------|---------------|--------|--------|--------|--------|---------------|
| <b>Fund</b>  | 1.44   | 3.82   | 3.90   | <b>-4.68</b> | 9.15   | <b>-1.80</b> | <b>-12.03</b> | 8.50   | 1.12   | 0.08   | 4.60   | <b>-33.88</b> |
| <b>Index</b> | 1.42   | 2.14   | 4.96   | <b>-6.87</b> | 9.20   | <b>-0.82</b> | <b>-10.25</b> | 9.41   | 3.26   | 1.27   | 4.16   | <b>-25.13</b> |

Index: LBH04 UBS Benchmark

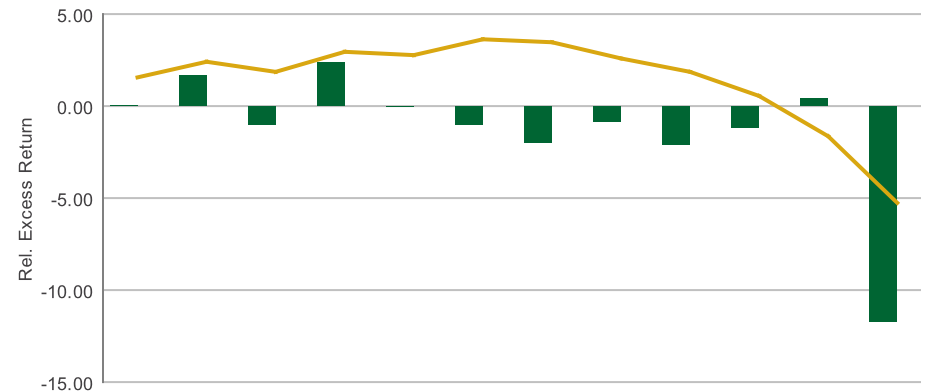
## RISK STATISTICS

|                            | 1 Yr          | 3 Yrs        | 5 Yrs        |
|----------------------------|---------------|--------------|--------------|
| Return                     | <b>-30.01</b> | <b>-9.27</b> | <b>-1.51</b> |
| Index Return               | <b>-18.45</b> | <b>-4.24</b> | 0.57         |
| Relative Excess Return     | <b>-14.17</b> | <b>-5.26</b> | <b>-2.07</b> |
| Standard Deviation         | 24.70         | 17.45        | 15.45        |
| Index Standard Deviation   | 19.02         | 14.08        | 12.59        |
| Tracking Error             | 6.78          | 5.08         | 5.16         |
| Information Ratio          | <b>-1.70</b>  | <b>-0.99</b> | <b>-0.40</b> |
| Sharpe Ratio               | <b>-1.25</b>  | <b>-0.58</b> | <b>-0.15</b> |
| Index Sharpe Ratio         | <b>-1.02</b>  | <b>-0.36</b> | <b>-0.01</b> |
| Sortino Ratio              | <b>-1.22</b>  | <b>-0.65</b> | <b>-0.17</b> |
| Treynor Ratio              | <b>-24.19</b> | <b>-8.37</b> | <b>-1.93</b> |
| Jensen's Alpha             | <b>-7.84</b>  | <b>-3.87</b> | <b>-1.74</b> |
| Relative Volatility (Beta) | 1.28          | 1.20         | 1.17         |
| R Squared                  | 0.97          | 0.94         | 0.91         |

Index: LBH04 UBS Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)

Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## UBS ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|                    | Q2 '17 | Q3 '17 | Q4 '17       | Q1 '18 | Q2 '18       | Q3 '18       | Q4 '18       | Q1 '19       | Q2 '19       | Q3 '19       | Q4 '19       | Q1 '20        |
|--------------------|--------|--------|--------------|--------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| <b>3M R.Excess</b> | 0.03   | 1.65   | <b>-1.01</b> | 2.36   | <b>-0.05</b> | <b>-0.99</b> | <b>-1.99</b> | <b>-0.83</b> | <b>-2.07</b> | <b>-1.18</b> | 0.42         | <b>-11.69</b> |
| <b>3Y R.Excess</b> | 1.56   | 2.41   | 1.86         | 2.95   | 2.77         | 3.63         | 3.47         | 2.59         | 1.86         | 0.55         | <b>-1.64</b> | <b>-5.26</b>  |

Index: LBH04 UBS Benchmark

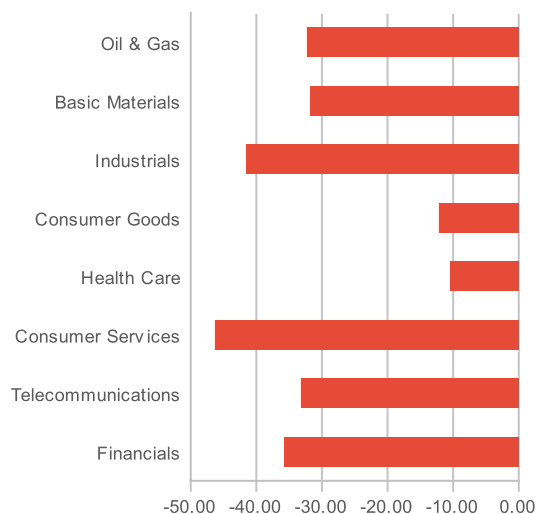
## Sector Performance

| Account/Group                 | Ending<br>Market value<br>GBP - GOF | Port<br>Weight | Target<br>Weight | Three<br>Months | Year<br>to Date | One<br>Year   | Three<br>Years | Five<br>Years | Inception<br>to Date |
|-------------------------------|-------------------------------------|----------------|------------------|-----------------|-----------------|---------------|----------------|---------------|----------------------|
| <b>Total Fund</b>             | <b>87,351,992</b>                   | <b>100.00</b>  | <b>100.00</b>    | <b>-33.88</b>   | <b>-33.88</b>   | <b>-30.01</b> | <b>-9.27</b>   | <b>-1.51</b>  | <b>8.26</b>          |
| <i>LBH04 UBS Benchmark</i>    |                                     |                |                  | <i>-25.13</i>   | <i>-25.13</i>   | <i>-18.45</i> | <i>-4.24</i>   | <i>0.57</i>   | <i>7.60</i>          |
| <i>Relative Excess Return</i> |                                     |                |                  | <i>-11.69</i>   | <i>-11.69</i>   | <i>-14.17</i> | <i>-5.26</i>   | <i>-2.07</i>  | <i>0.62</i>          |
| <b>Equity</b>                 | <b>84,896,260</b>                   | <b>97.19</b>   | <b>0.00</b>      | <b>-34.52</b>   | <b>-34.52</b>   | <b>-30.61</b> | <b>-9.42</b>   | <b>-1.48</b>  | <b>-</b>             |
| <b>Oil &amp; Gas</b>          | <b>14,814,917</b>                   | <b>16.96</b>   | <b>0.00</b>      | <b>-32.26</b>   | <b>-32.26</b>   | <b>-38.55</b> | <b>-6.95</b>   | <b>-0.53</b>  | <b>-</b>             |
| <b>Basic Materials</b>        | <b>10,007,055</b>                   | <b>11.46</b>   | <b>0.00</b>      | <b>-31.76</b>   | <b>-31.76</b>   | <b>-34.33</b> | <b>-2.13</b>   | <b>8.53</b>   | <b>-</b>             |
| <b>Industrials</b>            | <b>11,245,161</b>                   | <b>12.87</b>   | <b>0.00</b>      | <b>-41.58</b>   | <b>-41.58</b>   | <b>-27.14</b> | <b>-12.71</b>  | <b>-3.55</b>  | <b>-</b>             |
| <b>Consumer Goods</b>         | <b>2,216,058</b>                    | <b>2.54</b>    | <b>0.00</b>      | <b>-12.13</b>   | <b>-12.13</b>   | <b>-10.26</b> | <b>8.23</b>    | <b>11.74</b>  | <b>-</b>             |
| <b>Health Care</b>            | <b>8,197,930</b>                    | <b>9.38</b>    | <b>0.00</b>      | <b>-10.51</b>   | <b>-10.51</b>   | <b>5.75</b>   | <b>6.86</b>    | <b>7.93</b>   | <b>-</b>             |
| <b>Consumer Services</b>      | <b>9,509,985</b>                    | <b>10.89</b>   | <b>0.00</b>      | <b>-46.22</b>   | <b>-46.22</b>   | <b>-37.31</b> | <b>-17.02</b>  | <b>-9.22</b>  | <b>-</b>             |
| <b>Telecommunications</b>     | <b>3,908,029</b>                    | <b>4.47</b>    | <b>0.00</b>      | <b>-33.15</b>   | <b>-33.15</b>   | <b>-32.78</b> | <b>-16.81</b>  | <b>-10.18</b> | <b>-</b>             |
| <b>Financials</b>             | <b>24,997,125</b>                   | <b>28.62</b>   | <b>0.00</b>      | <b>-35.81</b>   | <b>-35.81</b>   | <b>-31.19</b> | <b>-12.45</b>  | <b>-5.00</b>  | <b>-</b>             |
| <b>Cash</b>                   | <b>2,414,412</b>                    | <b>2.76</b>    | <b>0.00</b>      | <b>0.38</b>     | <b>0.38</b>     | <b>0.55</b>   | <b>0.42</b>    | <b>0.43</b>   | <b>-</b>             |

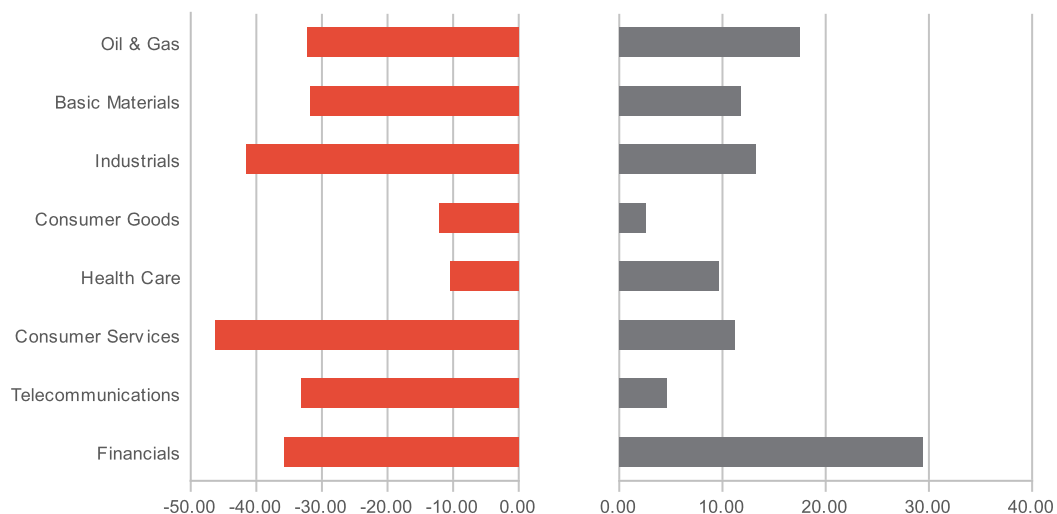
\* Excess is calculated using relative methodology

## Sector Detail

THREE MONTHS PORTFOLIO PERFORMANCE



ENDING EXCESS WEIGHT



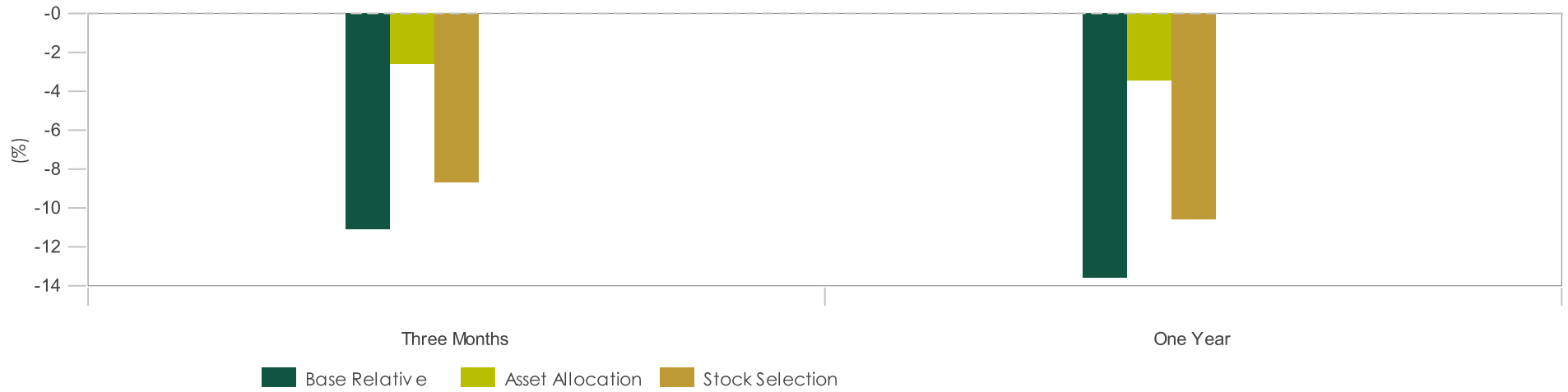
Page 128

Portfolio

| Sectors            | Ending Market Value | Ending Weight | Three Months  | Year to Date  | One Year      |
|--------------------|---------------------|---------------|---------------|---------------|---------------|
| Oil & Gas          | 14,814,917          | 17.45         | -32.26        | -32.26        | -38.55        |
| Basic Materials    | 10,007,055          | 11.79         | -31.76        | -31.76        | -34.33        |
| Industrials        | 11,245,161          | 13.25         | -41.58        | -41.58        | -27.14        |
| Consumer Goods     | 2,216,058           | 2.61          | -12.13        | -12.13        | -10.26        |
| Health Care        | 8,197,930           | 9.66          | -10.51        | -10.51        | 5.75          |
| Consumer Services  | 9,509,985           | 11.20         | -46.22        | -46.22        | -37.31        |
| Telecommunications | 3,908,029           | 4.60          | -33.15        | -33.15        | -32.78        |
| Financials         | 24,997,125          | 29.44         | -35.81        | -35.81        | -31.19        |
| <b>Equity</b>      | <b>84,896,260</b>   | <b>100.00</b> | <b>-34.52</b> | <b>-34.52</b> | <b>-30.61</b> |

\*Excess is calculated using Relative methodology.

## Sector Attribution Overview ex Currency Effect

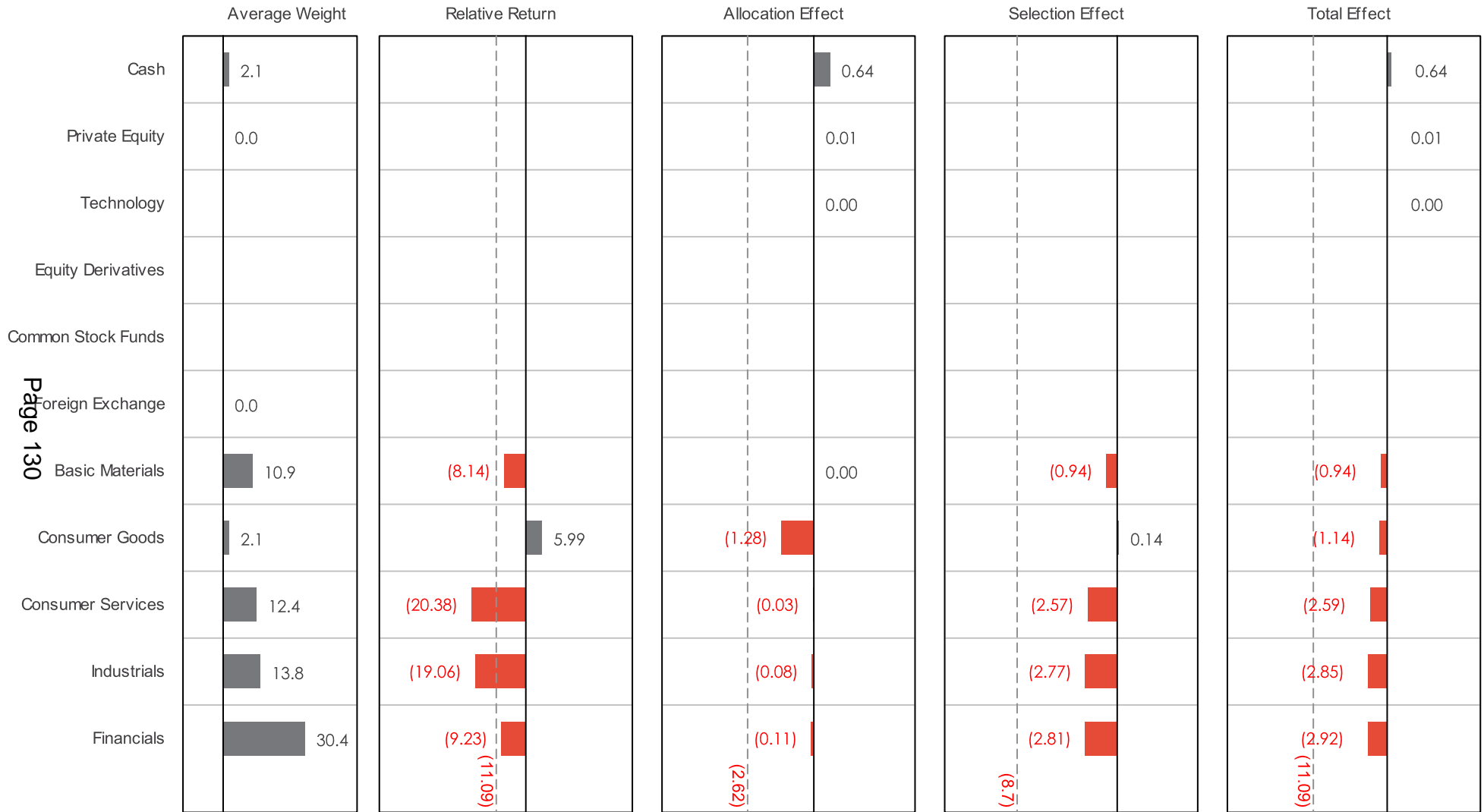


Page 129

| Time Period  | Base Returns |        |          | Relative Asset Allocation | Relative Stock Selection | Residual |
|--------------|--------------|--------|----------|---------------------------|--------------------------|----------|
|              | Account      | Index  | Relative |                           |                          |          |
| Three Months | -33.43       | -25.13 | -11.09   | -2.62                     | -8.70                    | 0.00     |
| One Year     | -29.54       | -18.45 | -13.59   | -3.45                     | -10.57                   | 0.07     |

The above Attribution Model is based on the Geometric methodology.

## Sector Attribution Detail ex Currency Effect - Three Months



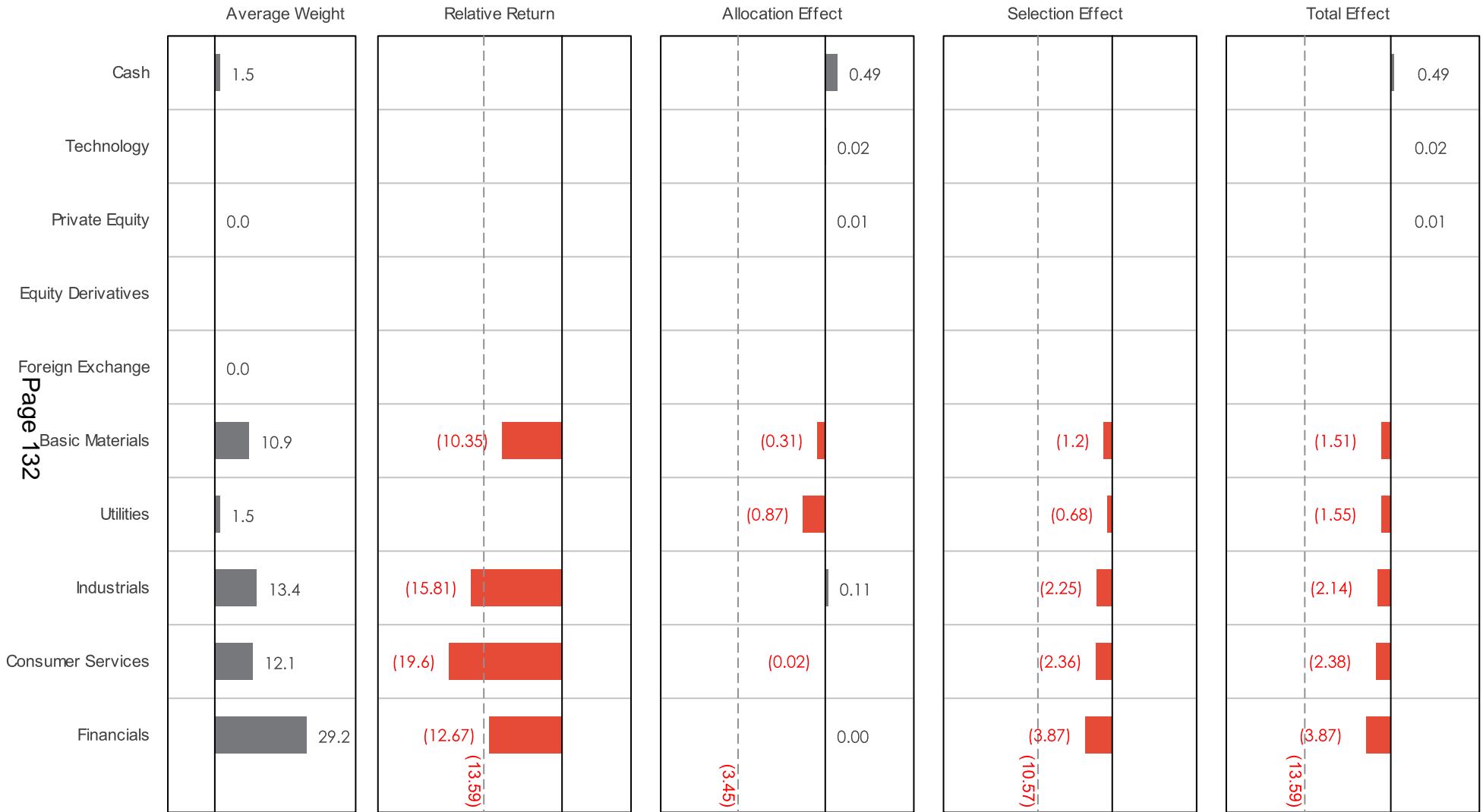
Above Attribution model is based on Geometric methodology. The charts depict the Top & Bottom 5 regions or sectors based on Total Management Effect. The vertical dotted line in each chart represents the portfolio level attribution effect.

## Sector Attribution Detail ex Currency Effect - Three Months

| Sector                           | Average Weights | Index Average Weights | Average Excess Weight | Base Returns  |               |                        | Relative Asset Allocation | Relative Stock Selection | Residual    | Total Effect  |
|----------------------------------|-----------------|-----------------------|-----------------------|---------------|---------------|------------------------|---------------------------|--------------------------|-------------|---------------|
|                                  |                 |                       |                       | Account       | Index         | Relative Excess Return |                           |                          |             |               |
| <b>UBS</b>                       | <b>100.00</b>   | <b>100.00</b>         | <b>0.00</b>           | <b>-33.43</b> | <b>-25.13</b> | <b>-11.09</b>          | <b>-2.62</b>              | <b>-8.70</b>             | <b>0.00</b> | <b>-11.09</b> |
| <i>LBH04 UBS Benchmark</i>       |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Equity</b>                    | <b>97.91</b>    | <b>100.00</b>         | <b>-2.09</b>          | <b>-34.07</b> | <b>-25.13</b> | <b>-11.94</b>          | <b>-3.25</b>              | <b>-8.70</b>             |             | <b>-11.67</b> |
| <i>FTSE All Share</i>            |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Basic Materials</b>           | <b>10.88</b>    | <b>7.25</b>           | <b>3.63</b>           | <b>-31.76</b> | <b>-25.72</b> | <b>-8.14</b>           | <b>0.00</b>               | <b>-0.94</b>             |             | <b>-0.94</b>  |
| <i>FT AS: Basic Materials</i>    |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Consumer Goods</b>            | <b>2.15</b>     | <b>14.55</b>          | <b>-12.40</b>         | <b>-12.13</b> | <b>-17.09</b> | <b>5.99</b>            | <b>-1.28</b>              | <b>0.14</b>              |             | <b>-1.14</b>  |
| <i>FT AS: Consumer Goods</i>     |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Consumer Services</b>         | <b>12.41</b>    | <b>11.92</b>          | <b>0.49</b>           | <b>-46.22</b> | <b>-32.45</b> | <b>-20.38</b>          | <b>-0.03</b>              | <b>-2.57</b>             |             | <b>-2.59</b>  |
| <i>FT AS: Consumer Services</i>  |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Financials</b>                | <b>30.45</b>    | <b>27.09</b>          | <b>3.36</b>           | <b>-34.44</b> | <b>-27.78</b> | <b>-9.23</b>           | <b>-0.11</b>              | <b>-2.81</b>             |             | <b>-2.92</b>  |
| <i>FT AS: Financials</i>         |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Health Care</b>               | <b>7.43</b>     | <b>9.47</b>           | <b>-2.04</b>          | <b>-10.51</b> | <b>-10.11</b> | <b>-0.44</b>           | <b>-0.39</b>              | <b>-0.03</b>             |             | <b>-0.42</b>  |
| <i>FT AS: Health Care</i>        |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Industrials</b>               | <b>13.80</b>    | <b>11.76</b>          | <b>2.04</b>           | <b>-41.56</b> | <b>-27.80</b> | <b>-19.06</b>          | <b>-0.08</b>              | <b>-2.77</b>             |             | <b>-2.85</b>  |
| <i>FT AS: Industrials</i>        |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Oil &amp; Gas</b>             | <b>16.44</b>    | <b>11.15</b>          | <b>5.28</b>           | <b>-32.19</b> | <b>-33.86</b> | <b>2.52</b>            | <b>-0.62</b>              | <b>0.40</b>              |             | <b>-0.23</b>  |
| <i>FT AS: Oil &amp; Gas</i>      |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Technology</b>                | <b>0.00</b>     | <b>1.09</b>           | <b>-1.09</b>          | <b>-</b>      | <b>-25.33</b> | <b>-</b>               | <b>0.00</b>               | <b>0.00</b>              |             | <b>0.00</b>   |
| <i>FT AS: Technology</i>         |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Telecommunications</b>        | <b>4.37</b>     | <b>2.47</b>           | <b>1.90</b>           | <b>-32.45</b> | <b>-27.67</b> | <b>-6.61</b>           | <b>-0.06</b>              | <b>-0.30</b>             |             | <b>-0.36</b>  |
| <i>FT AS: Telecommunications</i> |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Utilities</b>                 | <b>0.00</b>     | <b>3.25</b>           | <b>-3.25</b>          | <b>-</b>      | <b>-7.48</b>  | <b>-</b>               | <b>-0.71</b>              | <b>0.00</b>              |             | <b>-0.71</b>  |
| <i>FT AS: Utilities</i>          |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Common Stock Funds</b>        | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>0.00</b>               | <b>0.00</b>              |             | <b>0.00</b>   |
| <b>Equity Derivatives</b>        | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>0.00</b>               | <b>0.00</b>              |             | <b>0.00</b>   |
| <b>Private Equity</b>            | <b>0.03</b>     | <b>0.00</b>           | <b>0.03</b>           | <b>0.00</b>   | <b>-</b>      | <b>-</b>               | <b>0.01</b>               | <b>0.00</b>              |             | <b>0.01</b>   |
| <b>Cash</b>                      | <b>2.06</b>     | <b>0.00</b>           | <b>2.06</b>           | <b>0.38</b>   | <b>-</b>      | <b>-</b>               | <b>0.64</b>               | <b>0.00</b>              |             | <b>0.64</b>   |
| <b>Foreign Exchange</b>          | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>-</b>                  | <b>-</b>                 |             | <b>-</b>      |

The above Attribution Model is based on the Geometric methodology.

### Sector Attribution Detail ex Currency Effect - One Year



Above Attribution model is based on Geometric methodology. The charts depict the Top & Bottom 5 regions or sectors based on Total Management Effect. The vertical dotted line in each chart represents the portfolio level attribution effect.



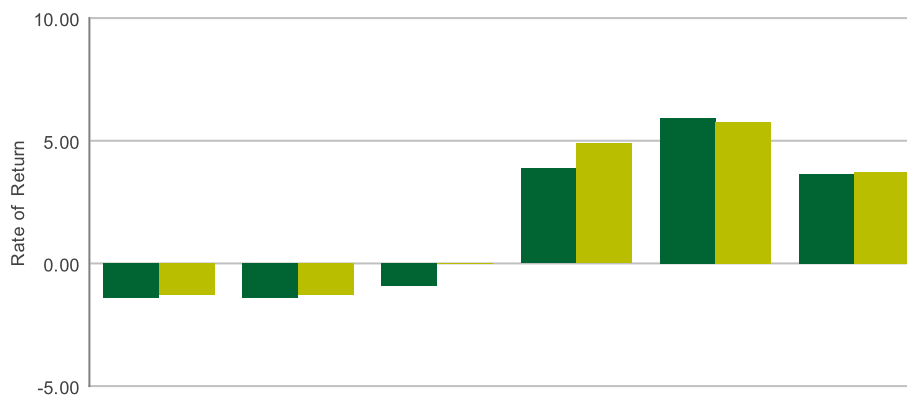
## Sector Attribution Detail ex Currency Effect - One Year

| Sector                           | Average Weights | Index Average Weights | Average Excess Weight | Base Returns  |               |                        | Relative Asset Allocation | Relative Stock Selection | Residual    | Total Effect  |
|----------------------------------|-----------------|-----------------------|-----------------------|---------------|---------------|------------------------|---------------------------|--------------------------|-------------|---------------|
|                                  |                 |                       |                       | Account       | Index         | Relative Excess Return |                           |                          |             |               |
| <b>UBS</b>                       | <b>100.00</b>   | <b>100.00</b>         | <b>0.00</b>           | <b>-29.54</b> | <b>-18.45</b> | <b>-13.59</b>          | <b>-3.45</b>              | <b>-10.57</b>            | <b>0.07</b> | <b>-13.59</b> |
| <i>LBH04 UBS Benchmark</i>       |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Equity</b>                    | <b>98.44</b>    | <b>100.00</b>         | <b>-1.56</b>          | <b>-30.13</b> | <b>-18.45</b> | <b>-14.32</b>          | <b>-3.93</b>              | <b>-10.57</b>            |             | <b>-14.08</b> |
| <i>FTSE All Share</i>            |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Basic Materials</b>           | <b>10.87</b>    | <b>7.57</b>           | <b>3.30</b>           | <b>-34.33</b> | <b>-26.75</b> | <b>-10.35</b>          | <b>-0.31</b>              | <b>-1.20</b>             |             | <b>-1.51</b>  |
| <i>FT AS: Basic Materials</i>    |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Consumer Goods</b>            | <b>2.27</b>     | <b>14.32</b>          | <b>-12.05</b>         | <b>-10.26</b> | <b>-13.25</b> | <b>3.44</b>            | <b>-0.81</b>              | <b>0.10</b>              |             | <b>-0.71</b>  |
| <i>FT AS: Consumer Goods</i>     |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Consumer Services</b>         | <b>12.07</b>    | <b>11.78</b>          | <b>0.29</b>           | <b>-37.31</b> | <b>-22.03</b> | <b>-19.60</b>          | <b>-0.02</b>              | <b>-2.36</b>             |             | <b>-2.38</b>  |
| <i>FT AS: Consumer Services</i>  |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Financials</b>                | <b>29.25</b>    | <b>26.21</b>          | <b>3.04</b>           | <b>-29.73</b> | <b>-19.53</b> | <b>-12.67</b>          | <b>0.00</b>               | <b>-3.87</b>             |             | <b>-3.87</b>  |
| <i>FT AS: Financials</i>         |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Health Care</b>               | <b>6.97</b>     | <b>9.06</b>           | <b>-2.09</b>          | <b>5.75</b>   | <b>7.90</b>   | <b>-1.99</b>           | <b>-0.59</b>              | <b>-0.13</b>             |             | <b>-0.72</b>  |
| <i>FT AS: Health Care</i>        |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Industrials</b>               | <b>13.38</b>    | <b>11.60</b>          | <b>1.77</b>           | <b>-27.11</b> | <b>-13.42</b> | <b>-15.81</b>          | <b>0.11</b>               | <b>-2.25</b>             |             | <b>-2.14</b>  |
| <i>FT AS: Industrials</i>        |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Oil &amp; Gas</b>             | <b>17.79</b>    | <b>12.94</b>          | <b>4.84</b>           | <b>-38.49</b> | <b>-38.56</b> | <b>0.11</b>            | <b>-1.37</b>              | <b>-0.02</b>             |             | <b>-1.39</b>  |
| <i>FT AS: Oil &amp; Gas</i>      |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Technology</b>                | <b>0.00</b>     | <b>1.09</b>           | <b>-1.09</b>          | <b>-</b>      | <b>-19.84</b> | <b>-</b>               | <b>0.02</b>               | <b>0.00</b>              |             | <b>0.02</b>   |
| <i>FT AS: Technology</i>         |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Telecommunications</b>        | <b>4.32</b>     | <b>2.59</b>           | <b>1.73</b>           | <b>-32.08</b> | <b>-23.55</b> | <b>-11.16</b>          | <b>-0.10</b>              | <b>-0.49</b>             |             | <b>-0.58</b>  |
| <i>FT AS: Telecommunications</i> |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Utilities</b>                 | <b>1.52</b>     | <b>2.84</b>           | <b>-1.31</b>          | <b>-</b>      | <b>9.89</b>   | <b>-</b>               | <b>-0.87</b>              | <b>-0.68</b>             |             | <b>-1.55</b>  |
| <i>FT AS: Utilities</i>          |                 |                       |                       |               |               |                        |                           |                          |             |               |
| <b>Common Stock Funds</b>        | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>-0.00</b>              | <b>0.00</b>              |             | <b>-0.00</b>  |
| <b>Equity Derivatives</b>        | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>0.00</b>               | <b>0.00</b>              |             | <b>0.00</b>   |
| <b>Private Equity</b>            | <b>0.03</b>     | <b>0.00</b>           | <b>0.03</b>           | <b>0.00</b>   | <b>-</b>      | <b>-</b>               | <b>0.01</b>               | <b>0.00</b>              |             | <b>0.01</b>   |
| <b>Cash</b>                      | <b>1.53</b>     | <b>0.00</b>           | <b>1.53</b>           | <b>0.54</b>   | <b>-</b>      | <b>-</b>               | <b>0.49</b>               | <b>0.00</b>              |             | <b>0.49</b>   |
| <b>Foreign Exchange</b>          | <b>0.00</b>     | <b>0.00</b>           | <b>0.00</b>           | <b>-</b>      | <b>-</b>      | <b>-</b>               | <b>-</b>                  | <b>-</b>                 |             | <b>-</b>      |

The above Attribution Model is based on the Geometric methodology.

# Executive Summary

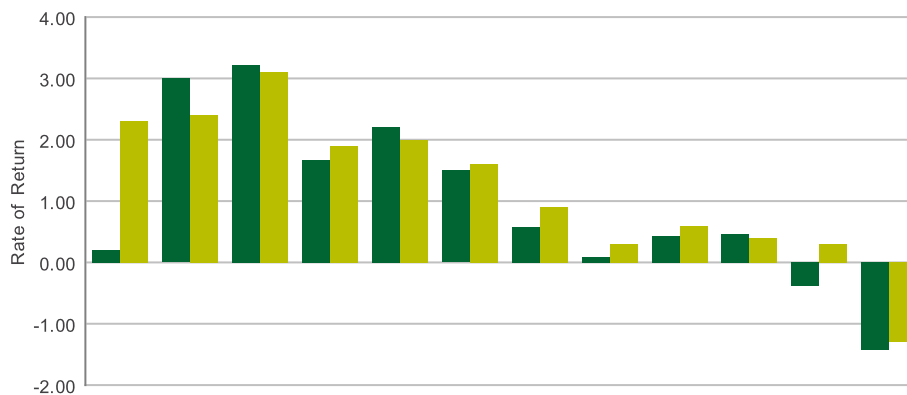
## UBS PROPERTY TOTAL FUND GROSS OF FEES



|       | Three Months | Year to Date | One Year | Three Years | Five Years | ITD  |
|-------|--------------|--------------|----------|-------------|------------|------|
| Fund  | -1.42        | -1.42        | -0.92    | 3.87        | 5.93       | 3.66 |
| Index | -1.30        | -1.30        | -0.01    | 4.89        | 5.76       | 3.72 |

Index: LBH06 UBS Property Benchmark

## UBS PROPERTY ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|       | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Fund  | 0.20   | 3.00   | 3.22   | 1.67   | 2.21   | 1.50   | 0.58   | 0.09   | 0.43   | 0.47   | -0.38  | -1.42  |
| Index | 2.30   | 2.40   | 3.10   | 1.90   | 2.00   | 1.60   | 0.90   | 0.30   | 0.60   | 0.40   | 0.30   | -1.30  |

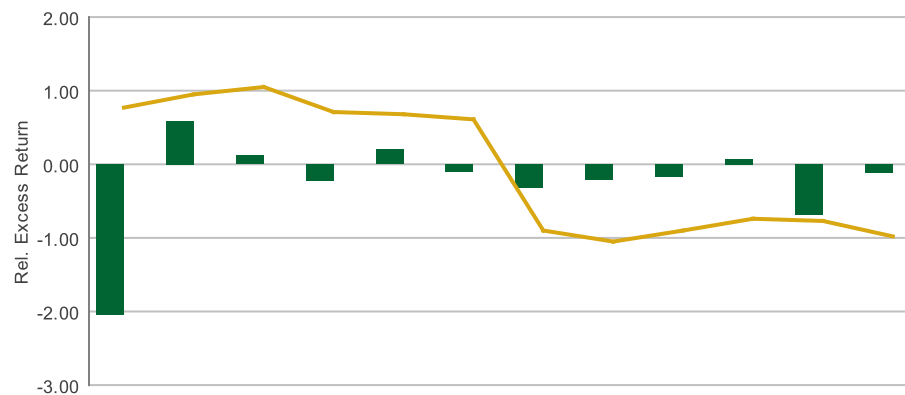
Index: LBH06 UBS Property Benchmark

## RISK STATISTICS

|                            | 1 Yr  | 3 Yrs | 5 Yrs |
|----------------------------|-------|-------|-------|
| Return                     | -0.92 | 3.87  | 5.93  |
| Index Return               | -0.01 | 4.89  | 5.76  |
| Relative Excess Return     | -0.91 | -0.98 | 0.16  |
| Standard Deviation         | 2.15  | 2.12  | 3.07  |
| Index Standard Deviation   | 1.97  | 1.71  | 2.24  |
| Tracking Error             | 0.73  | 1.18  | 2.60  |
| Information Ratio          | -1.26 | -0.87 | 0.06  |
| Sharpe Ratio               | -0.87 | 1.45  | 1.69  |
| Index Sharpe Ratio         | -0.48 | 2.40  | 2.24  |
| Sortino Ratio              | -0.88 | 2.24  | 4.39  |
| Treynor Ratio              | -1.82 | 3.00  | 6.70  |
| Jensen's Alpha             | -0.89 | -1.07 | 1.29  |
| Relative Volatility (Beta) | 1.02  | 1.02  | 0.77  |
| R Squared                  | 0.89  | 0.70  | 0.32  |

Index: LBH06 UBS Property Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)  
 Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

## UBS PROPERTY ROLLING QUARTERS TOTAL FUND GROSS OF FEES



|             | Q2 '17 | Q3 '17 | Q4 '17 | Q1 '18 | Q2 '18 | Q3 '18 | Q4 '18 | Q1 '19 | Q2 '19 | Q3 '19 | Q4 '19 | Q1 '20 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3M R.Excess | -2.05  | 0.59   | 0.12   | -0.23  | 0.20   | -0.10  | -0.32  | -0.21  | -0.17  | 0.07   | -0.68  | -0.12  |
| 3Y R.Excess | 0.77   | 0.95   | 1.05   | 0.71   | 0.68   | 0.61   | -0.90  | -1.05  | -0.90  | -0.74  | -0.77  | -0.98  |

Index: LBH06 UBS Property Benchmark

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|---|---------------|
| <b>INVESTMENT STRATEGY STATEMENT REVIEW</b> | <b>ITEM 8</b> |
|---|---------------|

|                         |   |
|-------------------------|---|
| <i>Contact Officers</i> | Yvonne Thompson-Hoyte, Finance<br>James Lake, Finance |
|-------------------------|---|

|                                |                                     |
|--------------------------------|-------------------------------------|
| <i>Papers with this report</i> | Draft Investment Strategy Statement |
|--------------------------------|-------------------------------------|

## HEADLINES

Following each valuation it is timely to undertake a review of the investment strategy of the Fund and update the investment strategy statement. The revised investment strategy was agreed by the Pensions Committee in January 2020. Subsequent to this the formal valuation results and the funding strategy statement was agreed via delegated authority in April 2020. The investment strategy document has now been updated to reflect the strategy agreed in January 2020 and to support the valuation and funding strategy.

Since the approval in January, the COVID-19 pandemic has triggered volatility in global stock markets. The Fund Advisors ISIO have carried out an in depth review of the strategy to ensure that it remains fit for purpose. The findings have been included in the Investment Strategy Statement.

Following the Supreme Court judgement in the Palestine Solidarity Campaign case and subsequent information provided by the SAB, the ISS has been amended to incorporate the ruling and guidance. The ISS now states that the Fund will '*have regard to*', rather than '*adherence to*', UK foreign and defence policies. In addition to ensure alignment across policies the Responsible Investment will also be amended to reflect this change.

## RECOMMENDATIONS

**It is recommended that Pensions Committee:**

- 1. Approve, subject to any agreed amendment, the draft Investment Strategy Statement, along with the COVID-19 review**
- 2. Approval to amend reference to UK foreign and defence polices in all Fund documentation including the Responsible Investment policy.**

## FINANCIAL IMPLICATIONS

The financial implications are included in the report

## LEGAL IMPLICATIONS

The legal implications are included in the report

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**London Borough of Hillingdon Pension Fund**

# **Investment Strategy Statement**

**April 2020**



**HILLINGDON**  
LONDON

[www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)

## 1. Introduction

This is the Investment Strategy Statement (ISS) of the Hillingdon Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).

The Hillingdon Pension Fund is administered by Hillingdon Council as the Administering Authority. The authority to administer the Fund on behalf of the Council is delegated to the Pensions Committee.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this ISS from time to time, and at least every three years. In the event of any significant change affecting any matter contained within this ISS, changes will be published within three months of the change occurring.

This ISS has been prepared by the Pensions Committee after taking advice from the Fund's investment advisor ISIO (formerly KPMG) and Clare Scott the independent advisor to the Fund, in accordance with the Regulations.

The Investment Strategy Statement required by Regulation 7 must include:

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money, that it will invest in particular investments or classes of investment.

Consistent with the 2019 triennial revaluation of the Fund, the agreed investment aim is to generate, over time, a rate of return that is at least 4.0% p.a. and to achieve this, the Fund will invest in a wide variety of investments to reduce portfolio risk and reduce volatility.



## **2. The suitability of particular investments and types of investments;**

### **2.1 Investment Objectives**

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this objective the Fund will aim to:-

- Maximise the returns on its investments
- Manage risk within acceptable levels
- Maintain liquidity to meet obligations as they fall due
- Contribute towards 100% Funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets
- Take proper advice
- Consider Environmental Social and Governance (ESG) factors when making all investment decisions.

The Committee has translated these objectives after taking proper advice, into suitable strategic asset allocation benchmarks for the Fund. These benchmarks are consistent with the Committee's views on the appropriate balance between maximising returns on investment and maintaining an appropriate level of risk over the long term as set out in the risk management policy of the fund.

## **3. Investment of money in a wide variety of investments**

### **3.1 Asset allocation**

Asset allocation of the Fund is determined by the administering authority acting on professional advice in the best long term interest of scheme beneficiaries, while looking to maintain overall target return. The Pensions Committee review asset allocation and performance against achieving the target return regularly at quarterly meetings. A full formal review will be undertaken every three years following publication of the triennial revaluation results.

The Fund will only invest in asset classes that are deemed to be suitable investments and so must meet the following criteria:

- investments that are well understood by the Committee;
- investments which are consistent with the Fund's risk and return objectives;
- investments which make a significant contribution to the portfolio by improving overall return and risk characteristics; and
- a wide range of assets will be selected to increase diversification.

The Fund's current asset allocation includes seven asset classes that combine to form the policy portfolio. Each asset class is selected to have different exposures to economic factors (GDP growth and inflation); to combine different geographies; and

span different currencies. In assessing suitability, the Pension Committee considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund’s liabilities and managing risk.

These seven asset classes are the building blocks used to create the policy portfolio. The Pension Committee determined benchmark weights to each asset class which it believes to be best suited to meeting the long term objectives of the Fund. Committee also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The agreed benchmark weight and tolerances are shown in the table below. The weights will be maintained within the ranges if the scheme can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities, investments will not be “forced” and the fund will be under or over allocated to any asset class.

| <b>Asset Class</b> | <b>Target Allocation*</b> | <b>Range</b> |
|--------------------|---------------------------|--------------|
| Equities           | 45.00%                    | 35%-60%      |
| Private Equity     | 1.00%                     | 0%-3%        |
| Government Bonds   | 12.00%                    | 0%-20%       |
| Private Credit     | 5.00%                     | 0%-15%       |
| Property           | 17.00%                    | 0%-25%       |
| Infrastructure     | 8.00%                     | 0%-15%       |
| Diversified Credit | 12.00%                    | 0%-25%       |

\* Target allocation reflects agreed changes to asset allocation at Pensions Committee of January 2020

Each asset class has its own specific investment objective and within each asset class there are further diversification controls. The mandates are managed by various Fund managers and the London Collective Investment Vehicle (LCIV), to whom the Fund has delegated investment management and implementation duties in line with LGPS asset pooling.

### **Equities: Global**

The Fund invests in Equities through both active and passive management. For active Global Equities the Funds objective is seek which offer a balance between growth and income whilst exhibiting defensive qualities; the aim is to outperform the MSCI All Country World benchmark. Net dividends will continue to be reinvested until the funds cash flow changes. Passive Equities are held to keep investment manager fees low and to contribute to the return objective by tracking the relevant benchmarks. All equity investments can be made via segregated or pooled fund mandates and where appropriate investments will be held within the London CIV.

## **Bonds**

The Fund invests in inflation-linked government and corporate bonds to improve the resilience of the portfolio. Exposure includes index linked securities issued by the UK Government, given their similarities within the Scheme's liabilities. To enhance yield, the Fund may place investments in credit securities issued by UK and global companies. This asset class is managed through both passive and active mandates. When active management is selected the manager will aim to maximise risk adjusted returns across a full market cycle.

## **Private Equity**

The Fund is invested in Private Equity with the objective to outperform the MSCI World benchmark. Private Equity is an illiquid asset class; harvesting illiquidity premia is an attractive means of enhancing aggregate returns. The Fund aims to hold Private Equity until maturity.

## **Infrastructure**

The Fund has committed to investing in infrastructure as the duration of this class of assets matches the long-term nature of the Funds liabilities. The Funds existing holding in Infrastructure looks to gain cost-effective, diversified exposure to global infrastructure assets. The aim is to generate predictable, index-linked cash flows; this reduces the inflation risk of the portfolio and adds diversification

## **Private Credit**

The Fund invests in Private credit to seek income and benefit from the long term nature of the Fund. The existing allocation seeks to generate value from direct lending via the secondary market and also exploit specific opportunistic investments. This allocation is directly invested in pooled Funds and provides a contractual income to the fund.

## **Property**

The Fund holds an allocation in UK Property to support the overall aim to generate a return in excess of the IPD benchmark while earning predicable cash flows. The class also includes an allocation long-lease property to deliver reliable income streams with inflation protection.

## **4. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;**

The Fund is committed to pooling of assets and the London Borough of Hillingdon as Administering Authority of the London Borough of Hillingdon Pension Fund formally agreed to join the London Collective Investment Vehicle (LCIV) on 25 February 2016 and were on-boarded on 1 March 2016. Through the LCIV the Fund will benefit from economies of scale, by pooling assets with other Funds, enabling the LCIV to negotiate lower investment and implementation fees across the board on various asset classes.

### **4.1 London CIV**

The London CIV was formed as a voluntary collaborative venture by the 33 London

Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015 and launched its first sub Fund in December 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund. The London CIV was created in line with the government directive aimed at reducing investment costs across the board for all LGPS Funds pooling assets of 89 administering authorities into 6 "wealth Funds".

Since its initial launch, the London CIV has opened a diversified range of funds and continues to increase the available suite to provide a various asset classes and styles. The London CIV structure and associated business plan is consistent with the criteria contained within the November 2015 Investment Reform and Criteria guidance.

The Fund's aim is for the London CIV to ultimately be responsible for managing all the Fund's assets. The Fund has transitioned a portion of its assets into the London CIV. In addition to the funds held directly on the London CIV platform the Fund has an allocation to passive funds retained outside of the London CIV operating model, which for the time being is in accordance with government guidance on the retention of life funds outside pools, although the London CIV will monitor the passive funds as part of the broader pool. The Fund benefits in this regard from work carried out by the London CIV to reduce fees through economies of scale. The Fund will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund's investment strategy and governance requirements.

The Fund currently holds a considerable portion of illiquid assets. The cost of exiting these strategies early would have a negative financial impact on the Fund as the costs of transitioning outweigh any potential gains. These will be held as legacy assets until they mature and proceeds will be re-invested through the Pool, if it has appropriate strategies available, or until the Fund changes asset allocation and decides to disinvest. The Fund's illiquid assets currently held include Private Equity, Private Credit, Infrastructure and Property.

## 4.2 Pool Governance

The legal ownership of assets held within the LCIV is with the depository which is currently Northern Trust, with the beneficial ownership of the assets remaining with the Fund; the LCIV is the Fund manager.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Sectoral Joint Committee, comprising nominated Member representatives from each investing Fund within the pool; including the Chairman of the London Borough of Hillingdon Pensions Committee, Councillor Goddard. In addition there is an Investment Advisory Committee ("IAC") formed of nominated officers from the investing Boroughs. The London Borough of Hillingdon Fund is currently represented on the IAC.

At a company level for London CIV the Board of Directors is responsible for decision making, which includes the decisions to appoint and remove investment managers. The share structure of London CIV involves each member body being shareholders who all retain equal shares in the ownership and voting making the company accountable to its shareholders. In addition the Company has a highly respected Non-Executive Board, meeting the requirements for strong governance arrangements to be in place.

The Fund continues to work with the London CIV to improve the robustness of their governance framework and to ensure it meets the Fund's needs.

### **4.3 Investment implementation**

The implementation of all investments is delegated to the Corporate Director of Finance, supported by a team of officers. The officers are assisted in the implementation of the investment strategies by the Fund's appointed investment advisors. Although investment decisions will firstly look to implementation into a sub Fund held within the London CIV, the Fund will ultimately ensure it meets its fiduciary duties.

### **4.4 Investment Governance**

The Pensions Committee sets the objectives, risk tolerances and sets the required rate of return in conjunction with the scheme's actuary. Once the parameters are established, the Committee determine the strategic asset allocation that it believes has the highest probability of succeeding, taking into account proper advice from the Fund's investment advisors.

The Pensions Committee meet quarterly to discuss investment decisions and review Fund performance, in addition to receiving a training discussion item at each meeting to ensure effective governance of the Fund investments.

In April 2015, a Local Pensions Board was created to ensure further governance over the administration of the Fund and decision making processes. The Local Pensions Board reviews compliance and Pensions Committee decisions to ensure the Fund complies with the code of practice on the governance and administration as issued by the Pension Regulator.

### **4.5 Performance Measurement**

The Pension Committee reviews the performance of the investment managers and assets on a quarterly basis discussing performance, market conditions and asset allocation and making appropriate decisions where necessary. They review the report from Northern Trust, the Fund's custodian who provides an independent monitoring service and reports from officers and advisors on performance review meetings with Fund Managers. In addition, the performance of the pooling

arrangements is monitored via regular reporting and updates from the London CIV.

## **6. The authority's approach to risk, including the ways in which risks are to be measured and managed;**

The Fund has a Risk Management Policy which can be found on the Council's website at <https://archive.hillingdon.gov.uk/article/6492/Pension-fund>

The Risk Management Policy details the risk management strategy for the Fund, which explains:

- 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; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Fund 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 at a strategic and operational level.

The Fund 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. 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 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 on behalf of the Fund 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; and
- 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.

Risk Management is a sound management technique that is an essential part of 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.

The Pensions Committee analyse the level of risk and the drivers of risk and monitor and review the investment strategy and investment performance on an ongoing

basis and take mitigating action where required. This may include rebalancing the allocation of assets when set benchmark weighting of asset classes exceeds tolerance thresholds

The Committee has established a strategic asset allocation benchmark for the Fund. They assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities, monitoring the delivery of benchmark returns relative to liabilities on a regular basis.

The Pensions Committee provides a practical constraint on the Funds investments deviating greatly from the intended approach by adopting a specific asset allocation benchmark and by monitoring the underlying asset class weights relative to this benchmark on a regular basis.

The investment strategy is suitable diversified, with the balance of different asset classes and investment managers mitigating the impact at an aggregate level of underperformance of an individual manager. Diversification is a very important risk management tool. The scheme seeks to maintain a diversified exposure via a wide range of asset classes, geographies, and currencies.

## **7. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers.

The Fund expects its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

The Fund will give consideration to UK foreign policy or UK defence policy when making investment decisions.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The Fund has prepared a Responsible Investment policy which outlines its approach ESG and can be found at <https://archive.hillingdon.gov.uk/article/6492/Pension-fund>

## **8. The authority's policy on the exercise of rights (including voting rights) attaching to investments.**

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. The Fund's investments through the London CIV are covered by the voting policy as agreed by the Pensions Sectoral Joint Committee advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

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

Going forwards, the Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council's website. The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the principles is also published on the website.

## **9. COVID-19 Review of Investment Strategy**

As a result of the COVID-19 pandemic and resulting market stress displayed during February and March the Fund commissioned an in depth review of the Investment Strategy Statement (ISS) and strategy amendments agreed in January 2020 to ascertain whether revised strategy remained appropriate in the current investment climate and still met the needs of the Fund over the longer term. Furthermore the review highlighted potential opportunities which the Fund might consider.

The assessment concluded that the existing strategic asset allocation provided defensive qualities and sheltered the Fund from the more severe outcomes during this stress period. Particularly the lower equity exposure compared with other LGPS, the allocation to asset classes with a contractual and more certain return profile and the strong overall asset class diversification.

It was also confirmed that no adjustments were required to the ISS revisions agreed in January 2020 and still remain relevant and should be implemented.



Opportunities were also highlighted and the Fund is appropriately structured to execute these where applicable.

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| <b>ADMINISTRATION REPORT</b> | <b>ITEM 9</b> |
|------------------------------|---------------|

|                         |   |
|-------------------------|---|
| Committee               | Pensions Committee  |
| Officer Reporting       | Yvonne Thompson-Hoyte, Finance<br>James Lake  |
| Papers with this report | <ol style="list-style-type: none"> <li>1. Surrey KPI Report</li> <li>2. COVID-19 Critical Tasks Report</li> <li>3. Deferred Address Tracing Report</li> </ol> |

## HEADLINES

The day-to-day administration of the Hillingdon Local Government Pension Fund (LGPS) is delegated to Surrey County Council (SCC) under a Section 101 agreement. This agreement runs from 1 November 2016 to 31 October 2021 and is currently being reviewed by Officers prior to the notification period of 12 months before the contact end date.

The Section 101 agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards. However over the last quarter the effects of the global COVID-19 pandemic has impacted the day to day operations of the workforce as staff were relocated to work from home as part of government measures to control the virus.

The Pensions Regulator (TPR) has issued new guidance to public service pension schemes outlining the critical tasks that schemes should focus on during this period. The KPI reporting will focus on the recommendations of TPR

## RECOMMENDATIONS

- 1. That the Pensions Committee note this report.**
- 2. That the Committee agree the proposal to increase the threshold for writing off overpayment of pensions.**

## SURREY ADMINISTRATION UPDATE

### Member Self Service Registration

There are currently 5,735 members signed up to the Membership Self Service (MSS) portal. This is an increase of 667 on the quarter to March 2020. The largest percentage uptake is in the active member category where 38% of active members are signed up to MSS. The total registered represents 21% of the total membership. The fund will continue to promote the advantages of registering for MSS.

| Membership Category | Total membership numbers | Registered for online self service | % uptake   |
|---------------------|--------------------------|------------------------------------|------------|
| Active              | 8,682                    | 3,320                              | 38%        |
| Deferred            | 11,682                   | 1,542                              | 13%        |
| Pensioners          | 6,921                    | 875                                | 13%        |
| <b>Total</b>        | <b>27,285</b>            | <b>5,735</b>                       | <b>21%</b> |

\*Figures are to the end of May 2020

## Summary of SLA monitoring

The table below provides a summary of the cases that were received along with the percentage of cases that were processed within the agreed service level agreement targets.

There continues to be areas of decline in meeting targets in the areas of deferred benefit notification, transfers out quotes and payments of lump sums over the period February 2020 to May 2020. There has also been a marked decline in meeting targets on retirement notifications. There were also 3 complaints during the period. Further information is included in the schedule attached at appendix 1.

| Activity  | Measure         | Impact | Feb-20 |       | Mar-20 |       |        | Apr-20 |       |        | May-20 |       |        |
|---|-----------------|--------|--------|-------|--------|-------|--------|--------|-------|--------|--------|-------|--------|
|   |                 |        | Volume | Score | Volume | Score | Missed | Volume | Score | Missed | Volume | Score | Missed |
| Death notification acknowledged, recorded and documentation sent      | 5 working days  | M      | 10     | 100%  | 6      | 100%  | 0      | 17     | 94%   | 1      | 17     | 76%   | 4      |
| Payment of death grant made   | 10 working days | H      | 15     | 100%  | 19     | 89%   | 2      | 13     | 85%   | 2      | 13     | 77%   | 3      |
| Retirement notification acknowledged, recorded and documentation sent | 10 working days | M      | 38     | 97%   | 34     | 91%   | 3      | 24     | 75%   | 6      | 42     | 76%   | 10     |
| Payment of lump sum made  | 10 working days | H      | 27     | 100%  | 28     | 89%   | 3      | 25     | 80%   | 5      | 30     | 80%   | 6      |
| Calculation of spouses benefits                                       | 10 working days | M      | 5      | 100%  | 3      | 100%  | 0      | 5      | 80%   | 1      | 2      | 50%   | 1      |
| Transfers In - Quotes   | 20 working days | L      | 21     | 100%  | 26     | 85%   | 4      | 11     | 100%  | 0      | 4      | 75%   | 1      |
| Transfers In - Payments   | 20 working days | L      | 28     | 96%   | 15     | 100%  | 0      | 5      | 100%  | 0      | 9      | 100%  | 0      |
| Transfers Out - Quote   | 20 working days | L      | 32     | 91%   | 29     | 97%   | 1      | 8      | 75%   | 2      | 12     | 67%   | 4      |
| Transfers Out - Payments  | 20 working days | L      | 22     | 91%   | 10     | 90%   | 1      | 9      | 89%   | 1      | 12     | 100%  | 0      |
| Employer estimates provided   | 10 working days | M      | 13     | 100%  | 12     | 92%   | 1      | 1      | 100%  | 0      | 2      | 100%  | 0      |
| Employee projections  | 10 working days | L      | 7      | 86%   | 10     | 100%  | 0      | 0      | N/A   | 0      | 2      | 100%  | 0      |
| Refunds   | 20 working days | L      | 68     | 100%  | 46     | 96%   | 2      | 22     | 95%   | 1      | 20     | 95%   | 1      |
| Deferred benefit notifications  | 20 working days | L      | 153    | 49%   | 66     | 74%   | 17     | 42     | 50%   | 21     | 17     | 41%   | 10     |

## COVID-19 Priority Reporting

The focus over the last quarter was to ensure the delivery of critical processes as outlined by the Pensions Regulator below:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate (eg investing contributions for defined contribution schemes)

The critical activities as outlined by the TPR have been kept up to date with collaborative working between ORBIS and Hillingdon. There has been delays in non-critical transactions transfers. The helpline service has also been reduced as a result of the pandemic and a few

instances of the helpdesk lines being down. These usually have been resolved within the day.

Contributions have been paid up to date as at the end of June 2020.

Both the Pensions Regulator and the Ombudsman have recognised the disruption that the current pandemic may cause to pension schemes and have indicated that these will be taken into account in the event of missed deadlines or complaints.

Officers continue to monitor and work with Surrey to keep critical services up to date and to phase back in other services.

A report to the end of June is attached at Appendix 2

### **Staffing and Resources**

It was reported in the March papers that Mr Nick Weaver had been appointed as interim Head of Pensions at Surrey. It is now with regret that we inform the Committee that Mr Weaver has resigned effective the end of June. This is of concern to the fund as Mr Weaver had a clear focus to drive through the necessary improvements to the administration service. The role of Head is currently being shared between two managers while arrangements are made to find a replacement.

Due to the 'lockdown' imposed by the government and social distancing rules, the majority of the pension's workforce, at Surrey and Hillingdon have been working from home. There were teething issues in cases where technological transfers were required. These challenges were resolved and to a point where remote working is the norm. Hillingdon have begun a phased return to work and there is now a presence in the office 5 days a week.

### **DATA IMPROVEMENT PROJECT**

#### **Deferred Member Address Tracing Project**

In October 2019 ITM was commissioned to do an address tracing exercise to locate 2155 deferred members for whom the current address was not held on the administration. The exercise was completed at the end of April 2020 and a full report submitted. Positive addresses were located for 1980 deferred members (92%) which was quite a significant result. The administration system has been updated with the information. A full report is attached at Appendix 3 which recommends that this should be done as an annual exercise to prevent the recurrence of a backlog.

#### **Pension Overpayments**

There is an ongoing list of overpaid pensions that the fund has tried to recover going back several years. These have occurred mainly because of the time gap between when a death is notified to the Fund and additional pensions being paid out subsequent to death.

The Fund has had better success at recovering overpayments where there is an estate, however where an estate does not exist information is sought from the next of kin. This is less likely to bring a positive result.

In many cases the sums are quite negligible and the cost to pursue them outweighs the benefit even if the amount was to be recovered.

The current agreement in place is to write off overpayments of £100 or less where attempts to recover have proven futile.

It is recommended that the Pensions Committee increase this amount to £200.00

Appropriate systems will be put in place to ensure that reasonable attempts are made to recover overpayments and that a list goes to the Corporate Director of Finance for sign-off.

### **FINANCIAL IMPLICATIONS**

Financial implications have been included in the body of the report

### **LEGAL IMPLICATIONS**

Legal implications have been included in the body of the report.

| Activity  | Measure                       | Impact | Target        | Dec-19          | Jan-20          | Feb-20          | Mar-20   | Apr-20      | May-20   | Commentary      |        |       |        |        |       |                 |      |    |  |
|---|-------------------------------|--------|---------------|-----------------|-----------------|-----------------|----------|-------------|----------|-----------------|--------|-------|--------|--------|-------|-----------------|------|----|--|
| Scheme members  | Pensioners, Active & Deferred |        |               | 23,495          | 23,576          | 23,623          | 23,640   | 23,690      | 23,771   |                 |        |       |        |        |       |                 |      |    |  |
| New starters set up/welcome letters                                   |                               |        |               | 46              | 70              | 40              | 78       | 85          | 171      |                 |        |       |        |        |       |                 |      |    |  |
| ABS sent - Councilors   | Statutory deadline            |        | Due by 31 Aug | Achieved        | Achieved        | Achieved        | Achieved | Achieved    | Achieved |                 |        |       |        |        |       |                 |      |    |  |
| ABS sent - Active   | Statutory deadline            |        |               | Achieved        | Achieved        | Achieved        | Achieved | Achieved    | Achieved |                 |        |       |        |        |       |                 |      |    |  |
| ABS sent - Deferred   | Statutory deadline            |        |               | Achieved        | Achieved        | Achieved        | Achieved | Achieved    | Achieved |                 |        |       |        |        |       |                 |      |    |  |
|   |                               |        |               | Volume          | Score           | Volume          | Score    | Volume      | Score    | Missed          | Volume | Score | Missed | Volume | Score | Missed          |      |    |  |
| Death notification acknowledged, recorded and documentation sent      | 5 working days                | M      | 100%          | 18              | 100%            | 20              | 100%     | 10          | 100%     | 6               | 100%   | 0     | 17     | 94%    | 1     | 17              | 76%  | 4  | There have been an increase in death cases received (across all funds) as highlighted in weekly KPI reports. Resources have been moved of other case types to support with the processing of death cases   |
| Payment of death grant made   | 10 working days               | H      | 100%          | 2               | 100%            | 9               | 100%     | 15          | 100%     | 19              | 89%    | 2     | 13     | 85%    | 2     | 13              | 77%  | 3  |  |
| Retirement notification acknowledged, recorded and documentation sent | 10 working days               | M      | 100%          | 38              | 92%             | 38              | 89%      | 38          | 97%      | 34              | 91%    | 3     | 24     | 75%    | 6     | 42              | 76%  | 10 | 6 cases missed were deferred members into retirement, the other 4 were active members into retirement. 8 out of the 10 cases were missed by 10 days or under. And within these 8, 3 cases were missed related to one member who had 3 positions. |
| Payment of lump sum made  | 10 working days               | H      | 100%          | 24              | 88%             | 30              | 100%     | 27          | 100%     | 28              | 89%    | 3     | 25     | 80%    | 5     | 30              | 80%  | 6  |  |
| Calculation of spouses benefits                                       | 10 working days               | M      | 100%          | 3               | 100%            | 7               | 100%     | 5           | 100%     | 3               | 100%   | 0     | 5      | 80%    | 1     | 2               | 50%  | 1  | Case missed was overdue by one day   |
| Transfers In - Quotes   | 20 working days               | L      | 100%          | 27              | 81%             | 15              | 100%     | 21          | 100%     | 26              | 85%    | 4     | 11     | 100%   | 0     | 4               | 75%  | 1  |  |
| Transfers In - Payments   | 20 working days               | L      | 100%          | 8               | 88%             | 10              | 90%      | 28          | 96%      | 15              | 100%   | 0     | 5      | 100%   | 0     | 9               | 100% | 0  |  |
| Transfers Out - Quote   | 20 working days               | L      | 100%          | 14              | 71%             | 26              | 81%      | 32          | 91%      | 29              | 97%    | 1     | 8      | 75%    | 2     | 12              | 67%  | 4  |  |
| Transfers Out - Payments  | 20 working days               | L      | 100%          | 16              | 88%             | 10              | 100%     | 22          | 91%      | 10              | 90%    | 1     | 9      | 89%    | 1     | 12              | 100% | 0  |  |
| Employer estimates provided   | 10 working days               | M      | 100%          | 7               | 100%            | 11              | 100%     | 13          | 100%     | 12              | 92%    | 1     | 1      | 100%   | 0     | 2               | 100% | 0  |  |
| Employee projections provided   | 10 working days               | L      | 100%          | 5               | 100%            | 7               | 100%     | 7           | 86%      | 10              | 100%   | 0     | 0      | N/A    | 0     | 2               | 100% | 0  |  |
| Refunds   | 20 working days               | L      | 100%          | 31              | 97%             | 40              | 98%      | 68          | 100%     | 46              | 96%    | 2     | 22     | 95%    | 1     | 20              | 95%  | 1  |  |
| Deferred benefit notifications  | 20 working days               | L      | 100%          | 50              | 40%             | 143             | 49%      | 153         | 49%      | 66              | 74%    | 17    | 42     | 50%    | 21    | 17              | 41%  | 10 |  |
| Complaints received - Admin   |                               |        |               | 2               | TBC             |                 | 2        |             |          |                 |        |       | 1      |        |       |                 |      |    |  |
| Complaints received - Regulatory                                      |                               |        |               | 0               |                 |                 | 0        |             |          |                 |        |       |        |        |       |                 |      |    |  |
| Compliments received  |                               |        |               | 0               |                 |                 | 0        |             |          |                 |        |       |        |        |       |                 |      |    |  |
| Queries Handled by Helpdesk   |                               |        |               | 375 (FPF = 83%) | 569 (FPF = 92%) | 620 (FPF = 93%) |          | (FPF = 70%) |          | 430 (FPF = 90%) |        |       |        |        |       | 329 (FPF = 91%) |      |    |  |

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# Address Tracing: Summary Report

## Background and information

Over recent years, The Pensions Regulator (TPR) has outlined and increased the importance of accurate member data and regular data maintenance in order to effectively administer the pension scheme. Holding accurate addresses on an ongoing basis is an essential data item to ensure the efficient running of the Scheme and for communicating with members.

TPR code of conduct outlines, 'schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data is up-to-date.'

In order to ensure member addresses are accurate on the administration system, ITM were appointed to carry out a member tracing exercise on members who have an entitlement to a deferred benefit, but for whom a current address is not held on the Altair administration database. The results of which will provide an increase in data quality which will allow for more efficient member communications and pension administration.

The ITM tracing was split into two phases:

1. **Mortality Screening and Electronic Trace** - Members with a last known address are checked against financial and credit data. This is a non-intrusive process with no contact being made with the member. Any members identified as deceased in the mortality screening do not go forward in the electronic tracing.
2. **Full Trace** - Where an address has not been able to be validated during the Electronic Trace or no previous UK address is available, these members have a full trace carried out using data sources such as GRO indexes, credit databases and historic electoral rolls. This is priced per category of result from the electronic trace, regardless of successful result in the exercise.

## Data

The Hillingdon Pension Fund had a total of 2,155 deferred members which were in scope for the member tracing exercise.

Where a member does not have a last known address listed on the administration system, these automatically are required to undergo the full trace. Members with an address that is not within the United Kingdom are not eligible to be traced.

The below table breaks down the data for the electronic trace.

| Category                    | Number of cases |
|-----------------------------|-----------------|
| Member with address history | 1,590           |
| No address held             | 565             |
| Total                       | <b>2,155</b>    |

ITM were securely transferred data from Altair on the 1,590 members of which had address data on their record. These cases then went forward for the mortality screening and electronic trace phase.

## Mortality Screening

The mortality screening process identifies members who have died within the last 11 years. The data for the in scope population were compared to the Disclosure of Death Registration Information (“DDRI”) data from the General Registry Office (“GRO”) to identify any recent deaths. The results are summarised below:

There is a standard cost of £0.20 per member for the mortality screening.

| Category        | Number of Cases |
|-----------------|-----------------|
| Excellent Match | 1               |
| Good Match      | 6               |

An excellent match is a case where all admin and DDRI data items match, leaving ITM in no doubt that the member is deceased. A good match will be generated where all data items match except the postcode or all data items match with the exception of the address but ITM have confirmation that the individual was living in the same area.

All 7 cases identified in the mortality screening process were sent onto the pension administration team to ensure scheme member data is correct and any action required is carried out. These cases were then excluded from the electronic tracing exercise.

### Electronic Trace

Excluding the 7 cases identified in the mortality screening, 1,583 members were then eligible for the electronic trace. However initial data analysis performed by ITM on the member data supplied highlighted that:

- There were 33 members with overseas address
- There were 50 members which did not have address history on Altair, for example the address listed was that of County Hall and not the members address.
- 

These 83 members were therefore ineligible for the electronic trace.

1,500 members were then taken forward to the electronic trace. This is a multi-stage process made up of:

- Comparing known addresses against the Royal Mail’s Postcode Address File (“PAF”) in order to pick up any missing postcodes and to correct addresses where possible.
- Then the data undergoes an automated comparison against the Electoral Roll to obtain additional forenames and verify continued residence.
- Where continued residence is not obtained, ITM perform a check on financial and credit data to locate the member. This is a non-intrusive process with no contact being made with the member.

The results of the electronic trace are summarised below:

| Trace Result          | Number of cases | Next steps                            |
|-----------------------|-----------------|---------------------------------------|
| Traced Same <3 Months | 122             | No further action                     |
| Traced New <3 Months  | 938             | Update member address on admin system |
| Traced Same >3 Months | 3               | Full trace required to verify address |
| Traced New >3 Months  | 152             | Full trace required to verify address |
| Person Matches        | 178             | Full trace required                   |
| No Matches            | 107             | Full trace required                   |
|                       | <b>1,500</b>    |                                       |

There is a cost of £1.25 if ITM were successful in tracing a member to a new address within the last three months. There is no further cost if the member cannot be traced to a new address or is verified at the same address during the electronic trace.

The cost to the Hillingdon Pension Fund for the mortality screening and electronic address tracing work is:

|  | Cost per case | Cases   | Total Cost       |
|--|---------------|---------|------------------|
| Mortality and Electronic Trace                 | £0.20         | 1,590   | £318.00          |
| Traced to new address within the last 3 months | £1.25         | 938     | £1,172.50        |
|  |               |         | £1,490.50        |
|  |               | VAT 20% | £298.10          |
|  |               |         | <b>£1,788.60</b> |

Of the 1,500 members included in the electronic trace, ITM successfully located 1,060 of these members to either the same address held on the administration system or a new address. This is a 70.67% successful trace rate on the electronic trace exercise. All newly identified addresses were then updated on the pension administration database, as agreed by the Fund.

### Full Trace

Where an address has not been able to be validated during the Electronic Trace or no previous address is available, ITM carried out an in depth full trace using various data sources such as GRO indexes, credit databases and historic electoral rolls. The data sources are interrogated by skilled analysts to identify a possible address which is then identified via direct communication with the member.

There were two categories that made up the full trace:

1. Members with no address history on Altair. These cases could not be included in the electronic trace.
2. Members who were unsuccessfully traced in the electronic trace, either due to the address being unverified outside of the last 3 months or no matches on the data results.

The pricing for the full trace is based on the member category.

| Full trace category                             | Price per case |
|---|----------------|
| New address verification ( outside of 3 months) | £5.25          |
| No matches from the Electronic Trace            | £7.00          |
| No last known address                           | £7.50          |

The below summary of results outlines the quantity of members per category and the number of positive trace results.

| Full trace category                            | Cases in category | Positive trace result | Result percentage |
|--|-------------------|-----------------------|-------------------|
| New address verification (outside of 3 months) | 155               | 133                   | 85.81%            |
| No matches from the Electronic Trace           | 285               | 234                   | 82.11%            |
| No last known address and Abroad address       | 615               | 553                   | 89.92%            |
| Totals   | <b>1,055</b>      | <b>920</b>            | <b>87.20%</b>     |

All newly identified addresses were then updated on the pension administration database.

The cost to the Hillingdon Pension Fund for the full trace is:

|  | Cost per case | Cases   | Total cost       |
|--|---------------|---------|------------------|
| New address verification (outside of 3 months) | £5.25         | 155     | £813.75          |
| No matches from the Electronic Trace           | £7.00         | 285     | £1,995.00        |
| No last known address and Abroad address       | £7.50         | 615     | £4,612.50        |
|  |               |         | £7,421.25        |
|  |               | VAT 20% | £1,484.25        |
|  |               |         | <b>£8,905.50</b> |

### Summary of project

In total ITM carried out a trace on 2,155 members and were able to identify addresses for 1,980 of these members. Based on these figures, the success rate of this exercise is 91.88%.

The project was delivered in accordance with defined timescales and agreed budget.

Overall the project to trace deferred members addresses can be seen as a success due to the number of successful trace results. Furthermore the exercise has been completed in line with TPR code of conduct, ensuring the scheme are compliant with regular data maintenance and holding accurate common data. By carrying out this exercise data quality and accuracy has been improved and will provide benefits in the efficient running of the Scheme and communicating with members.

Where a new address was identified by ITM, the 'gone away' indicator was removed for these members on Altair at the point the address was updated on the system. Furthermore an indicator has been included on the members Altair record for audit purposes, confirming the address was updated as part of the ITM address tracing exercise.

### Future work

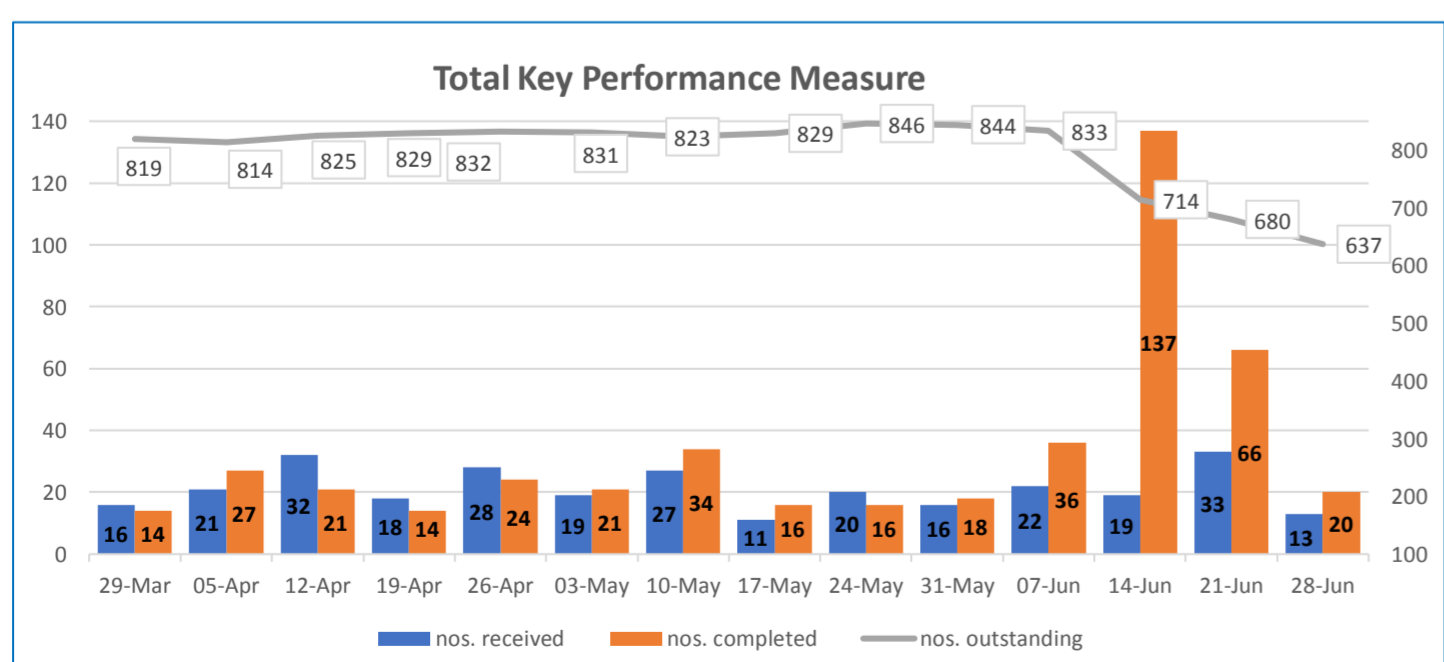
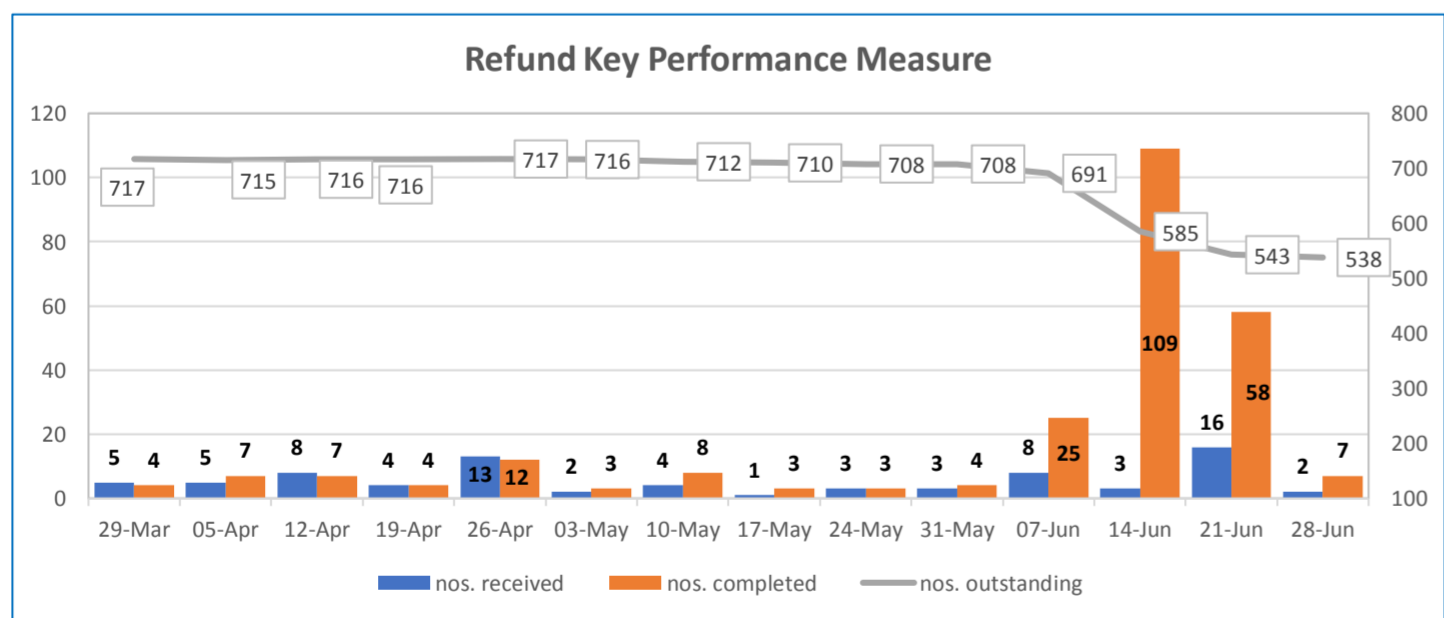
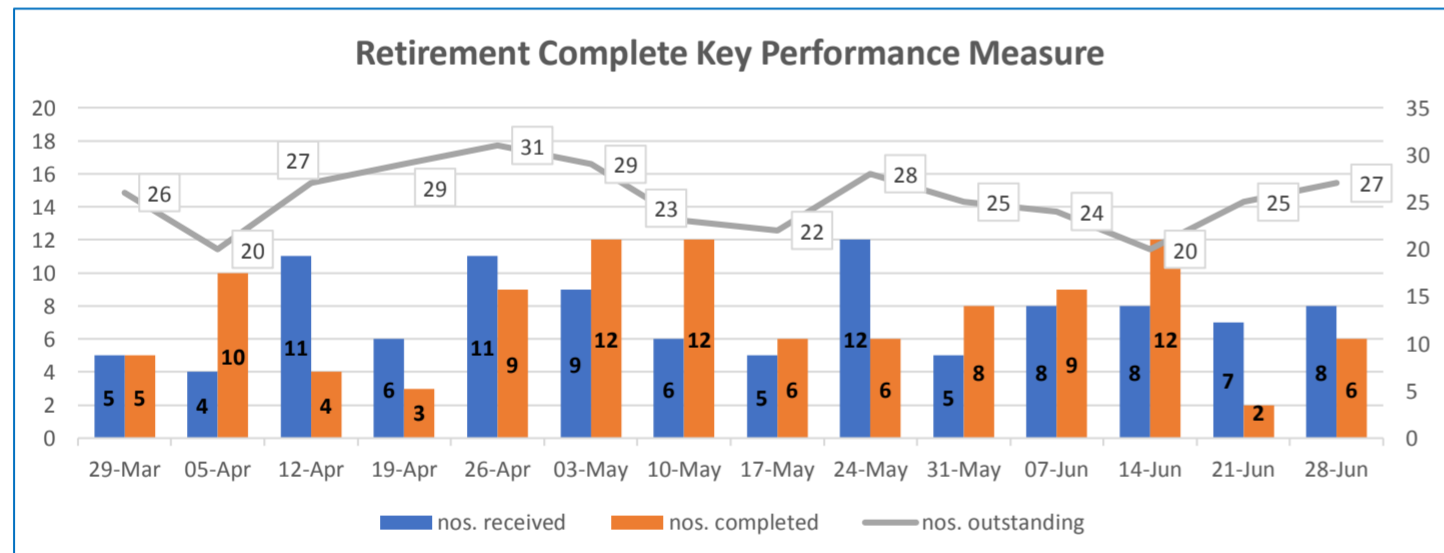
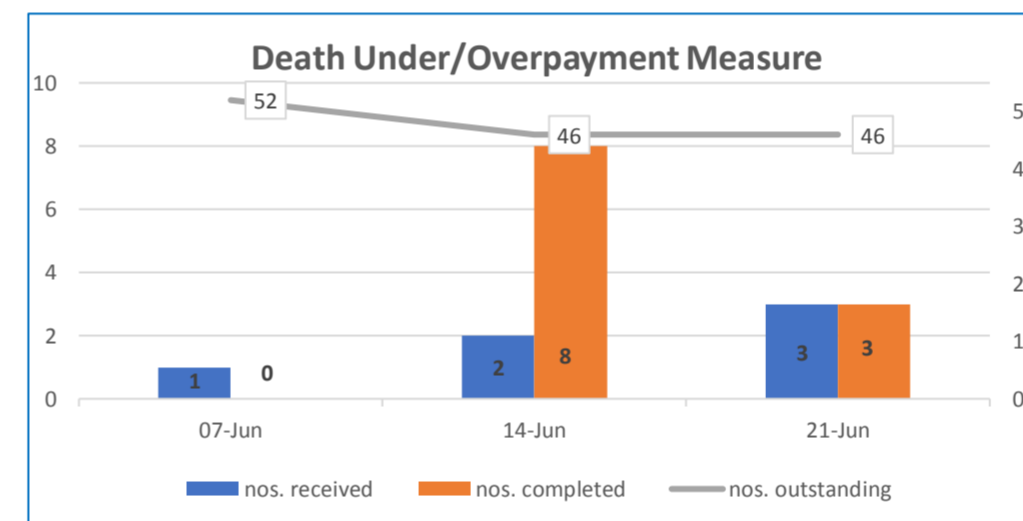
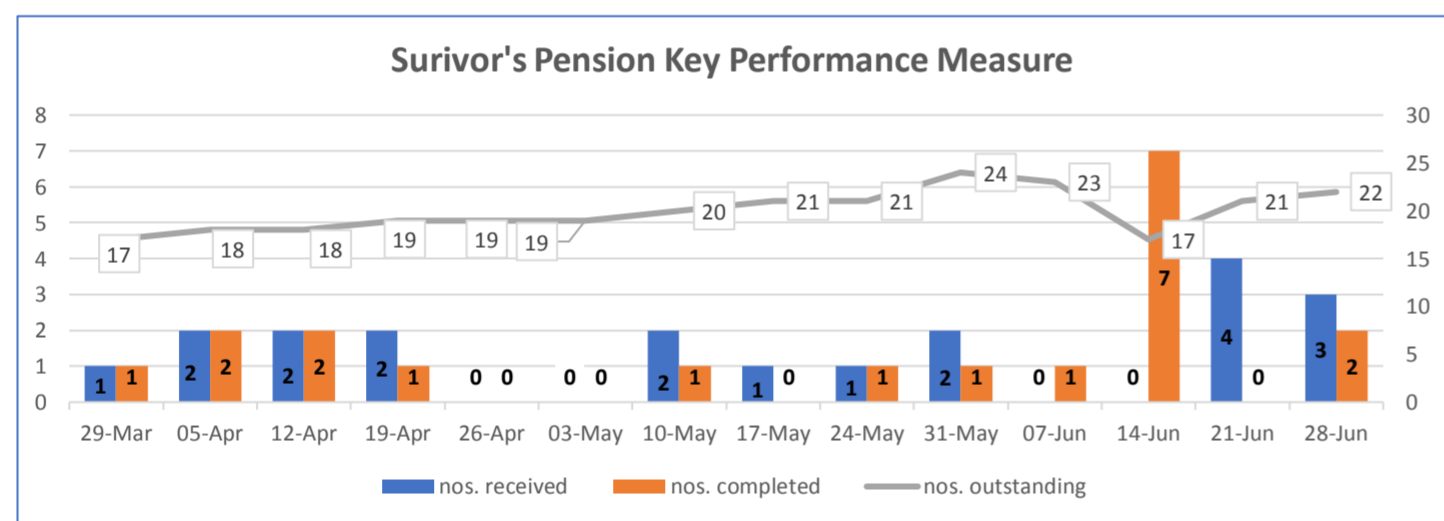
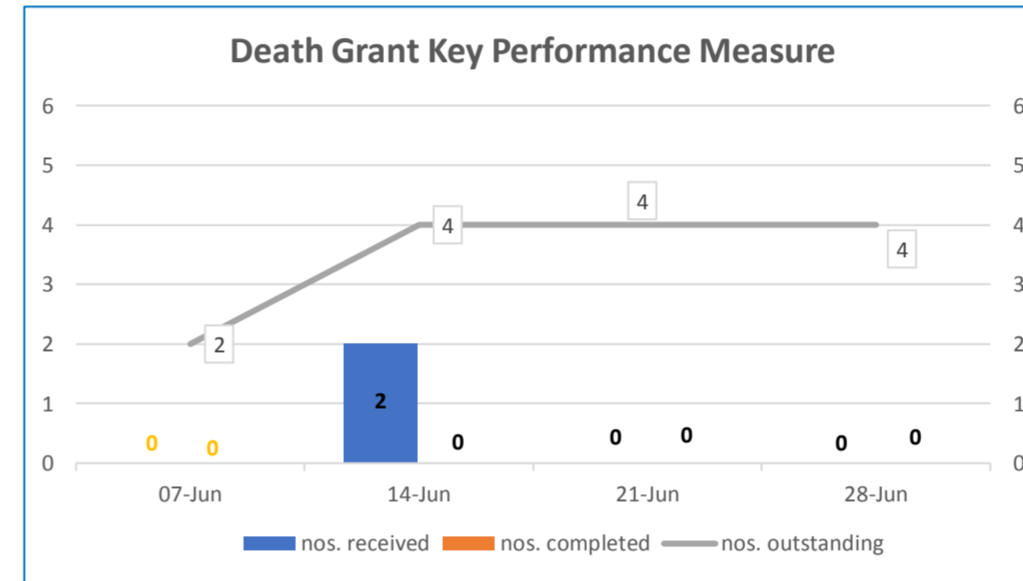
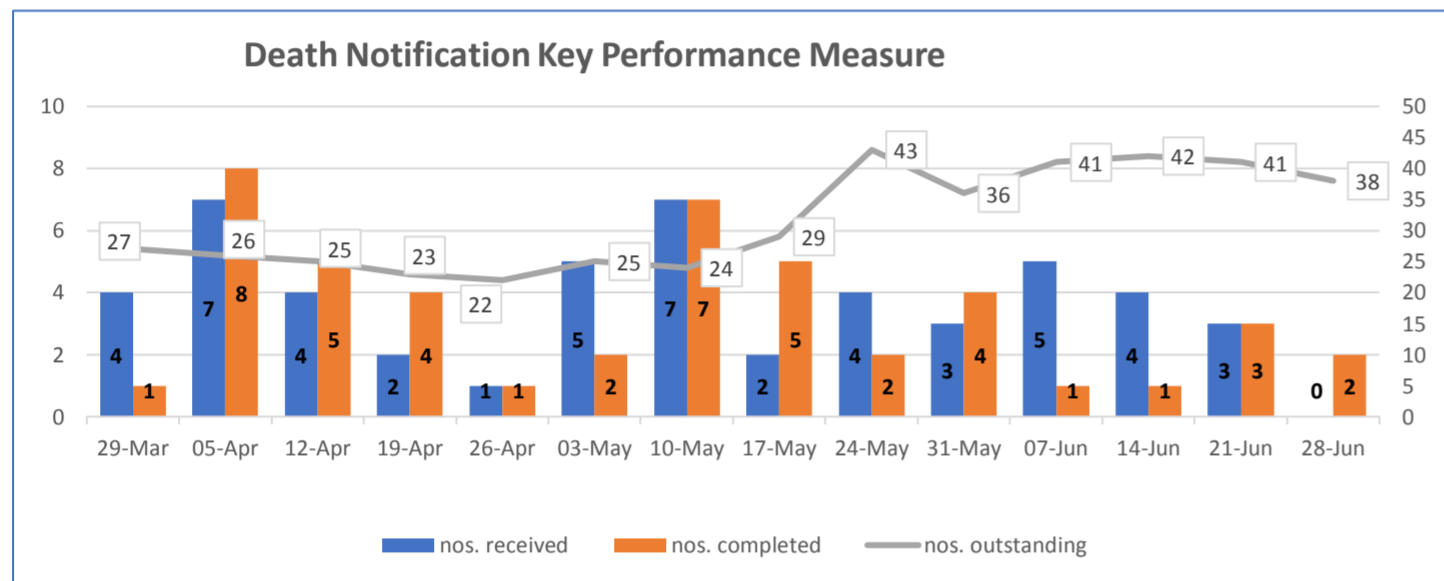
It is the recommendation of the Orbis pension service that this work is added to the annual events calendar and contract be put in place with ITM to carry this work out annually. The service also recommend adding status 9 members to the scope of this annual exercise, to ensure these cases can be processed. This will keep the Hillingdon Pension Fund in line with TPR code of conduct and act as a common data quality exercise on a regular basis.

HILLINGDON LGPS FUND Period: 22 - 28 June 2020

| Key Performance Measure | Current Period<br>22-28 June |                |                 |                            | Progress |
|-------------------------|------------------------------|----------------|-----------------|----------------------------|----------|
|                         | Cases outstanding 22/06/20   | Cases received | Cases completed | Cases outstanding 28/06/20 |          |
| DEATH INITIAL STAGE     | 40                           | 0              | 2               | 38                         | ↑        |
| SURVIVOR'S PENSION      | 21                           | 3              | 2               | 22                         | ↓        |
| DEATH GRANT PAYMENT     | 4                            | 0              | 0               | 4                          | ↔        |
| DEATH UNDER/OVERPAYMENT | 47                           | 0              | 3               | 44                         | ↑        |
| RETIREMENT              | 25                           | 8              | 6               | 27                         | ↓        |
| REFUNDS                 | 543                          | 2              | 7               | 538                        | ↑        |
| <b>TOTAL</b>            | <b>680</b>                   | <b>13</b>      | <b>20</b>       | <b>673</b>                 | ↑        |

|                                |   |
|--------------------------------|---|
| <b>Death Initial Stage</b>     | Cease pension, send condolences letter, request details of any dependants / beneficiaries and send claim forms for any balance / overpayment / Death Grant.                       |
| <b>Survivor's pensions</b>     | Upon receipt of all relevant certificates, forms and supporting evidence set up all survivor's pensions on the payroll and send each beneficiary a pension statement.             |
| <b>Death grant payment</b>     | Upon receipt of all the certificates, claim forms and details of potential beneficiaries pay the Death Grant.   |
| <b>Death Under/overpayment</b> | Any balance of pension should be paid and the return of any overpayment requested. The Pension Section should notify the relevant parties of any payments / decisions in writing. |
| <b>Retirement</b>              | Upon receipt of all the forms and pay the retirement grant, update Altair, set up the pension on the payroll and send a benefit statement to the member.                          |
| <b>Refund</b>                  | Check the record, calculate the refund due and make payment   |





## Conflicts of Interest Policy

Item 10

|                           |  |
|---------------------------|--|
| <b>Committee</b>          | Pension Fund Committee                 |
| <b>Officer Reporting</b>  | Yvonne Thompson-Hoyte, Finance         |
| <b>Papers with report</b> | 1 - Draft Conflicts of Interest Policy |

### PURPOSE

This report introduces the draft Conflicts of Interest policy that provides the framework for Local Pension Board members to fulfil their legal obligations under the Public Service Pensions Act 2013 to identify, monitor and manage potential, actual or perceived conflicts of interest.

### RECOMMENDATION

The Committee is asked to approve the Conflicts of Interest Policy for implementation.

### BACKGROUND

At the Pensions Board meeting of 10 September 2019 a review of the Council's compliance with the Pensions Regulator Code of Practice 14 (TPR CoP) was agreed. Aon the Governance Advisors to the Fund were commissioned to conduct the review and report back to the Board in February 2020. One of the recommendations of the review was that there should be a Pension Fund specific Conflicts of Interest Policy in keeping with best practice as outlined in the Pensions Regulator Code of Practice 14.

The policy was introduced to the Board at the meeting of February 2020 for discussion.

### FINANCIAL IMPLICATIONS

There are no financial implications in this report.

### LEGAL IMPLICATIONS

There are no legal implications in the report.

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# **London Borough of Hillingdon Pension Fund**

## **Conflicts of Interest Policy**



HILLINGDON  
LONDON

DRAFT

## **1. Introduction**

- 1.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”
- 1.2 This policy should be considered in the context that the Local Pension Board assists the administering authority in complying with regulations and is not a decision making body. It is not therefore anticipated that any significant conflict of interest will arise. This policy has been established as the agreed framework for Hillingdon Council, as the Scheme Manager of the Hillingdon Pension Fund to effectively apply the three step approach of identifying, monitoring and managing conflicts of interest.
- 1.3 Paragraph 76 of the Pension Regulators Code of Practice 14 (Governance and administration of public service pension schemes), (CoP 14) requires schemes to have an agreed documented conflict of interest policy that includes; identifying, monitoring and managing potential conflicts of interest. CoP 14 also requires the policy to contain examples of what may give rise to conflicts of interest, how a conflict might arise specifically in relation to a Pension Board member and the process that Pension Board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflicts of interest.
- 1.4 Scheme regulations require that the scheme manager must be satisfied that for a person to be appointed as a member of the Pension Board, they do not have a conflict of interest and must from time to time, confirm that none of the members of the Pension Board has a conflict of interest.
- 1.5 This policy will be regularly reviewed in accordance with the requirements of CoP14. Pension Board Members will also be required to declare any conflicts of interest at each Pension Board meeting. Any potential conflict will be recorded and it will remain a standing agenda item.
- 1.6 The Scheme will adopt the three stage approach to Identify, monitor and manage potential conflicts of interest as recommended in Cop14.

## **2 Identifying Conflicts of Interest**

- 2.1 A conflict of interest is a financial or other interest which is likely to prejudice a person’s exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established.
- 2.2 Pension Board members, and people who are proposed to be appointed to the Pension Board, must provide the administering authority with information

that they reasonably require to be satisfied that Pension Board members and proposed members do not have a conflict of interest.

- 2.4 There is a regulatory duty on the Administering Authority to satisfy itself that those appointed to its Pension Board do not have an actual conflict of interest prior to appointment and 'from time to time'.
- 2.3 In order to meet this duty, Pension Board Members are required to complete a 'Declaration of Interest' before appointment to their role.

### **3 Monitoring and Reporting Conflicts of Interest**

- 3.1 Declaration of conflicts of interest will be included as an opening agenda item at each board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.
- 3.2 As part of their risk assessment process, Pension Board members should be able to identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. The Scheme will evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.
- 3.3 A register of interests will be maintained, monitoring dual interests and responsibilities. Decisions about how to manage potential conflicts of interest will be recorded in the register of interests. The register of interests and other relevant documents will be circulated to the Pension Board for ongoing review and be published on the pension fund website

### **4. Managing conflicts of Interest**

- 4.1 Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.
- 4.2 The Pension Board is required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to the conduct of the Pension Board. The 'Conflicts Register' can be provided to assist.
- 4.3 The Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.
- 4.4 Pension Board members are required to report to the Pension Fund Manager

- 4.4 Individual members of the Pension Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the Administering Authority in respect of such conflicts of interest.
- 4.5 Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Pension Board prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.
- 4.6 Options for managing an actual conflict of interest, should one arise, include:
- A member withdrawing from the discussion and any decision-making process;
  - The Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
  - A member resigning from the Board if the conflict is so fundamental that it cannot be managed in any other way.

## **5 Examples of Conflicts of Interest**

- 5.1 For example, where an employer representative on the Board only acts in the interests of the Administering Authority, rather than in the interests of all participating employers.
- 5.2 For example an employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in the light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.
- 5.3 For example where a member representative (who is also a trade union representative) on the Board, only acts in the interests of their union rather than in the interest of all scheme members.

## Communication Strategy Update

Item 11

*Reporting Officer*

Yvonne Thompson-Hoyte, Finance  
James Lake, Finance

*Papers with this report*

Draft Communication Strategy

### SUMMARY

Attached to the report is a draft Communication Strategy for approval by Pensions Committee. This strategy was revised by officers, taking into account any changes that have taken place since the last strategy was approved in June 2017.

### RECOMMENDATION

**That pension Committee approves the Communication Strategy for the London Borough of Hillingdon Pension Fund.**

### BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:

- members
- representatives of members
- prospective members and
- Scheme employers

The regulations further require that the communication statement must set out its policy on—

- the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers
- the format, frequency and method of distributing such information or publicity and
- the promotion of the Scheme to prospective members and their employers

The regulations also require the Communication Strategy to be kept under review.

The draft strategy is attached as appendix A to this report.

### FINANCIAL IMPLICATIONS

There are no financial implications this report.

### LEGAL IMPLICATIONS

There are no legal implications within this report.



**London Borough of Hillingdon**

**Administering Authority for the  
London Borough of Hillingdon Pension Fund**

**COMMUNICATION STRATEGY**

**August 2020**

# COMMUNICATION STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the London Borough of Hillingdon Pension Fund (“the Fund”) and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

London Borough of Hillingdon (the “administering authority”) is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). Operationally, the administration of the Fund is undertaken by Surrey County Council under a delegation agreement and the team at Surrey and Hillingdon Council staff work together to provide a seamless service to scheme employers and members, and as such effective communication *between* the two organisations is vitally important. This policy focuses on effective communication between the Fund (i.e. the Council and Surrey County Council as administrator) and its external stakeholders.

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored.

## Implementation

This Strategy outlines the type of communications the administering authority would like to provide to scheme members and employers. It includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

This Strategy will be effective from 1 August 2020 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

### Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —



- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

- (2) In particular the statement must set out its policy on —
- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
  - (b) the format, frequency and method of distributing such information or publicity; and
  - (c) the promotion of the Scheme to prospective members and their employers.

- (3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

## **Our Aims and Objectives**

### *Mission Statement*

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent stakeholder focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### *Communication Aims and Objectives*

This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information to educate members to help them to make informed decisions about their benefits.
- Communicate in a clear, concise manner.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders.

- Look for efficiencies in delivering communications, including through greater use of technology and partnership working, with the view that digital communications is the preferred long term communications solution.
- Annually evaluate the effectiveness of communications and shape future communications appropriately.

Ultimately, achieving these objectives should result in fewer member and employer queries, which will help all stakeholders whilst maintaining and improving the efficient running of the Scheme.

### **Delivery of Communications**

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration the thoughts of the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the communications of the Fund are undertaken partially by Surrey and partly 'in-house' within London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

### **How we Communicate**

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and London Borough of Hillingdon recognises that communicating in a clear informative style is vital in achieving this aim.

### **Who we Communicate with**

London Borough of Hillingdon recognises that there are several distinct stakeholder groups, such as:

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the next section.

### *Diversity of Communication*

The London Borough of Hillingdon Pension Fund's information is also available in alternative formats for example, Braille or large print on request. The London Borough of Hillingdon Pension Fund always aims to use the most appropriate communication medium(s) for the audience receiving the information. However, the London Borough of Hillingdon acknowledges that digital communications is the preferred long term communications solution.

## **Methods of Communication**

### **a) With Scheme Members and Prospective Scheme Members**

Effective communication reminds, or alerts, employees to the value of the LGPS which negates misleading media information and aids recruitment, retention and the motivation of the workforce.

### *Website*

All members have access to the Fund's website <https://archive.hillingdon.gov.uk/pensions> which contains information about the Fund and the LGPS, and members are able to download scheme literature and forms. The website also links to the Surrey website <https://mypension.surreycc.gov.uk/> which provides a self-service facility for them to update their personal details online (including their expression of wish for any death grant that may become payable), calculate their own pension projections and check their membership history.

### *Annual Benefit Statements*

These statements are distributed annually to all active and deferred scheme members and are currently distributed to home addresses. From 2018 these will be made available online rather than posted to home addresses

### *Newsletters*

The Fund issues a periodic newsletter to contributing members, bringing to their attention information such as changes to scheme rules. The Fund also sends an annual newsletter to its pensioners. This is sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits. The newsletter to contributing members is distributed electronically and the pensioner's notification is sent to home addresses

### *Telephone and email*

All members have the opportunity to telephone, fax or email the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as appropriate) for information in addition to the other lines of communication open to them.

### *Literature*

The London Borough of Hillingdon Fund makes pension-related literature available to scheme members, including:

- A New Joiner Option Form which is the responsibility of employers to issue to all new members upon joining the London Borough of Hillingdon Pension Fund.
- A retirement pack sent to all members about to retire from the London Borough of Hillingdon Pension Fund.
- A welcome letter which is sent to all members joining the scheme to confirm their membership and provide information about the option to transfer in benefits and pay additional contributions if they wish.

### *Pensions Taxation Correspondence*

Where appropriate, letters are distributed to all members who are affected by the Annual Allowance or the Lifetime Allowance, explaining changes to taxation rules and how this may affect their pension savings.

### *Annual Report*

The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment strategy, funding strategy, and governance. It is available on the Fund's website.

## **b) With Employers**

Effective communication between an administering authority and its Fund employers reduces errors, improves efficiency and leads to good working relationships. The main means of communication with employers are outlined below.

### *Employer key contact officers and meetings*

We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the administering authority aware of the contact details for that person.

The Fund, where appropriate, will contact, and where relevant, meet with the employer key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the administering authority. Meetings will be arranged if necessary (particularly if specific issues around the performance of the employer arise).

### *Individual Employer Meetings*

Employers have the opportunity to meet with members of staff from the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as appropriate) to discuss any issues with regard to the Local Government Pension Scheme. These meetings take place as and when they are required.

### *Administration Strategy*

Introduced in April 2016, the administration strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It is available on the Fund's website.

### *Website*

The London Borough of Hillingdon Pension Fund website <https://archive.hillingdon.gov.uk/pensions> includes a range of information relating to the scheme benefits and also management of the London Borough of Hillingdon Pension Fund. Employers are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated. The London Borough of Hillingdon Pension Fund can also update employers via the website on urgent LGPS issues. Greater self-service functionality was introduced for employers on the website during 2017/18 including the ability for employers to set up new joiner records online and calculate early retirement projections in respect of their employees.

### *Email Updates*

We will often communicate with employers using an email distribution list of all employers. This is how we highlight general updates about the LGPS. This email distribution list is also used to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions.

### *Employer specific events*

The Pension Administration Section will also be happy to attend any employer specific events to assist employers understand their responsibilities.

### **c) With Pension Committee and Pension Board members:**

Effective communication ensures that Pension Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members:

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the intranet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Committee together with the meeting minutes, are available on the Democratic Service pages of the Council's website. The Pension Board members and reports to the Board can be found at this website address:

<https://archive.hillingdon.gov.uk/article/29807/Local-Pensions-Board>

### **d) With Fund Staff:**

Effective communication ensures that both Hillingdon and Surrey staff are confident and prepared to undertake their role, as follows:

#### *Pension Manager*

The London Borough of Hillingdon and Surrey County Council Pension Managers maintain open-door policies and are available to staff both within and outside the Pensions Teams. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.

### *Team Meetings*

Office and/or Team meetings are held on a monthly basis to discuss operational issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. Any items arising from such meetings are escalated to the relevant Pension Manager and raised at Senior Management Team Meetings if required.

### *Intranet*

Each member of staff has access to the relevant Fund's intranet so that it can be used as an information resource.

### *E-mail*

All staff have access to the e-mail facility.

### *Internet*

All staff have authority to access the internet to assist them in their role within Pension Services.

### *Induction and training*

All new members of staff undergo an induction procedure to acquaint them with the operational running of the Pension Fund. Subsequently, all pension staff also receive both in-house and external training to enable them to administer the scheme effectively, answer member queries, and offer a good customer service and also to assist in their personal development.

### *Appraisal and Assessment*

Staff at all levels in the Pension Team have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

## **e) Communicating with other bodies:**

There are a number of other interested parties with whom we communicate as required, including:

### *The Ministry of Housing Communities and Local Government (MHCLG)*

We have regular contact with MHCLG as Responsible Authority of the LGPS, participating and responding to consultations as required.

### *Scheme Advisory Board*

The national Scheme Advisory Board was established following the Public Services Pensions Act 2013 to provide advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the Scheme Advisory Board as appropriate.

### *The Pensions Regulator*

The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. We therefore liaise with the Regulator as required, and ensure that the London Borough of Hillingdon Fund is compliant with the Pensions Regulator's Code of Practice.

### *Trade Unions*

We work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions.

### *Employer Representatives*

We work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Board.

### *Pension Fund Investment Managers, Advisers and Actuaries*

We have regular meetings with;

- the Fund Managers who invest funds on behalf of the Fund
- Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
- the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

### *Pension Fund Custodian*

The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.

### *AVC Provider*

Additional Voluntary Contributions (AVC) are a way for members to top up their pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Fund's preferred AVC provider is Prudential.

### *Pensions and Lifetime Savings Association (PLSA)*

The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

### *Regional Forums*

The London Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

### *Requests for Information (FOI)*

Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

### **Consultations**

There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hillingdon Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

### **Key Risks**

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Corporate Pension Manager will work together with the Lead Pensions Manager at Surrey and with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

### **Preparation and Review**

This Strategy Statement was approved in July 2020 by the London Borough of Hillingdon Pension Committee. It is effective from 1 August 2020

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: <http://www.hillingdon.gov.uk/pensions>.



## Further Information

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy should be sent to:

James Lake, Chief Accountant  
London Borough of Hillingdon  
Civic Centre  
High Street  
Uxbridge  
UB8 1UW

E-mail - [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
Telephone - 01895 277562

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|                                   |   |
|-----------------------------------|---|
| <b>Pension Fund Risk Register</b> | <b>Item 12</b>                            |
| Committee                         | Pension Committee                         |
| Officer Reporting                 | James Lake, Yvonne Thompson-Hoyte 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 is one risks which is 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 14 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.

A new risk Pen 14 relating to business continuity preparedness for COVID-19 has been added to the register.

Pen 01 (Failure of fund assets to deliver returns) has been upgraded to reflect market volatility and price risk caused by COVID-19.

Pen 04 (Pay & Price inflation) has been upgraded to reflect a higher risk of inflationary pressures due to Government and BoE COVID-19 interventions.

Pen 7 (Poor performance of outsourced administrator) Additional information has been added relating to the loss of key staff at ORBIS and software procurement.

Pen 13 (Management buy-out of KPMG's pensions advisory service) has been updated with the latest developments.

## **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report

## **LEGAL IMPLICATIONS**

The legal implications are mentioned within the report.

**Pension Fund Risk Register 2019/20**

| Description   | Actions in Place  | Progress Comment  | Risk Category / Rating / DOT  | Lead Officer / Committee Member |
|---|---|---|---|---------------------------------|
| <b>PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</b> | <ol style="list-style-type: none"> <li>1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target.</li> <li>2. Analyse progress at three yearly valuations for all employers.</li> <li>3. Undertake Inter-valuation monitoring.</li> </ol>  | <p>With the assistance of Hymans Quarterly funding report the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level</p> <p>The impact of COVID-19 on the fund value continues to be monitored to ensure that the asset allocation is still appropriate. At the end of June 2020 the fund regained £71m of the value lost at the end of March 2020. The value at the end of June was £1,061 which is still £20m short of the pre COVID-19 of £1,081m</p> <p>An in depth COVID-19 review of the investment strategy was commissioned which concluded that no adjustments were required to the ISS agreed In January 2020. Officers continue to monitor the fund and take appropriate advice as necessary.</p> <p>The current position should be viewed with caution as the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term Officers are closely monitoring developments and liaising with fund managers and advisors.</p> | <p>Strategic risk<br/>Likelihood = Significant<br/>Impact = Large<br/><b>Rating = C2 (Upgraded)</b></p> | James Lake / Cllr M Goddard     |
| <b>PEN 02 - Inappropriate long-term investment strategy</b>   | <ol style="list-style-type: none"> <li>1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data.</li> <li>2. Keep risk and expected reward from strategic asset allocation under review.</li> <li>3. Review asset allocation formally on an annual basis.</li> <li>4. Asset allocation reported quarterly to committee</li> <li>5. Officer and Advisers actively monitors this risk.</li> </ol>  | <p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>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.</p>  | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Large<br/><b>Rating = E2 (Static)</b></p>           | James Lake / Cllr M Goddard     |
| <b>PEN 03 - Active investment manager under-performance relative to benchmark</b>   | <ol style="list-style-type: none"> <li>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</li> <li>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</li> <li>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.</li> <li>4. Investment managers would be changed following persistent or severe under-performance.</li> </ol> | <p>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.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation, however transparency and reporting is less controlled by the fund. Improvements in communication from the pool have been requested over performance transparency of the managers to inform swift action.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p>   | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Small<br/><b>Rating = E4 (Static)</b></p>           | James Lake / Cllr M Goddard     |

| Description  | Actions in Place   | Progress Comment  | Risk Category / Rating / DOT   | Lead Officer / Committee Member |
|--|--|---|--|---------------------------------|
| <b>PEN 04 - Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions</b>        | <ol style="list-style-type: none"> <li>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.</li> <li>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</li> <li>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.</li> <li>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</li> </ol> | <p>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.</p> <p>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.</p> <p>In response to the COVID-19 the government continues to provide stimulus packages to help support the economy. Furthermore the BoE has increased its QE programme and reduced interest rates. These interventions could have the effect of increasing inflation.</p>   | Strategic risk<br>Likelihood = Low<br>Impact = Medium<br><b>Rating = D3 (Upgraded)</b> | James Lake / Cllr M Goddard     |
| <b>PEN 05 - Inflation significantly more than anticipated</b>  | <ol style="list-style-type: none"> <li>1. Inter-valuation monitoring gives early warning.</li> <li>2. Investment in index-linked bonds helps to mitigate this risk.</li> <li>3. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.</li> <li>4. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</li> </ol>   | The impact of inflation is reviewed through all strategic investment decision making.   | Strategic risk<br>Likelihood = Medium<br>Impact = Large<br><b>Rating = D2 (Static)</b> | James Lake / Cllr M Goddard     |
| <b>PEN 06 - Pensioners living longer.</b>  | <ol style="list-style-type: none"> <li>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.</li> <li>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</li> </ol>  | The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.   | Strategic risk<br>Likelihood = Low<br>Impact = Small<br><b>Rating = E4 (Static)</b>    | James Lake / Cllr M Goddard     |
| <b>PEN 07 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b> | <ol style="list-style-type: none"> <li>1. Quarterly review meetings held</li> <li>2. Weekly update calls with officers</li> <li>3. Quarterly KPI reports are provided to track and monitor performance</li> <li>4. Critical errors cleared prior to transfer of valuation data to actuary</li> <li>5. Data Improvement plan in place to improve the quality of member data</li> <li>6. Ongoing dialogue with Surrey Administration to implement audit recommendations</li> <li>7. Monitoring of progress and management goodwill to implement audit findings.</li> </ol>   | <p>The interim Head of Pensions Administration, that was appointed in February has left at the end of June. This is viewed as a major setback to the improvement plans as he was focused on resolving the long standing issues and driving through improvements. ORBIS are in the process of recruiting a new Head of a restructured service. The role is being covered jointly by in the interim.</p> <p>The Pensions regulator has specified the priority items that funds should focus on during the pandemic. Weekly monitoring of these items have been ongoing and the fund is satisfied that the priority items are being satisfactorily processed.</p> <p>The process of interfacing payments between the administration and the finance system have commenced to address risks raised by the internal audit report. Senior management have also set out a proposal to complete the process. Officers continue to monitor implementation of the audit recommendations</p> <p>The current contract for administration software provision expires shortly. Initial attempts by Surrey to procure a new contract fell through in June. They are now embarking on a new tender through the Norfolk framework.</p> <p>Maintaining a reliable software system is critical to the fund as it holds all the individual member data and history.</p> | Strategic risk<br>Likelihood = Medium<br>Impact = Large<br><b>Rating = D2 (Static)</b> | James Lake / Cllr M Goddard     |

| Description   | Actions in Place  | Progress Comment   | Risk Category / Rating / DOT   | Lead Officer / Committee Member |
|---|---|--|--|---------------------------------|
| <b>PEN 08 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 2018</b>                     | <ol style="list-style-type: none"> <li>Applications have been made to sustain "Professional Status" of the pension fund to enable continuation of the existing investment strategy.</li> <li>All current application's have successfully been resolved confirming professional status</li> </ol>  | <p>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.</p>  | <p>Strategic risk<br/>Likelihood = Very Low<br/>Impact = Large<br/><b>Rating = F2 (Static)</b></p> | James Lake / Cllr M Goddard     |
| <b>PEN 09 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals</b> | <ol style="list-style-type: none"> <li>Council wide policies and processes in place around:<br/>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</li> <li>Risk is on the Corporate risk register with risk mitigation in place.</li> <li>All member and transactional data flowing from SCC and Hillingdon is sent via encryption software</li> <li>Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal</li> <li>Systems at Hillingdon and SCC are protected against viruses and other system threats</li> <li>SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.</li> </ol> | <p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>Certificates on SCC accreditation received</p> <p>SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund.</p> <p>Data Mapping has been carried out to understand the data transfers and risks in this area including potential for treat through other employers.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan in place in teh case of a breach within the fund.</p>      | <p>Strategic risk<br/>Likelihood = Medium<br/>Impact = Large<br/><b>Rating = D2 (Static)</b></p>   | James Lake / Cllr M Goddard     |
| <b>PEN 10 - Climate Change - Risk of financial lose through Climate change impacts</b>  | <ol style="list-style-type: none"> <li>The fund have an ESG policy in place as part of the ISS.</li> <li>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.</li> <li>Manger selections take into account ESG policy</li> <li>Mangers are expected to be signed up to the stewardship Code</li> <li>Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</li> <li>ESG Issues are discussed with managers at review meetings</li> </ol>  | <p>The investment strategy will be updated with a statement on climate change risk on next revision.</p> <p>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.</p> <p>Pensions Committee are currently in the process of creating a stand alone RI policy which will support principles and implimentation.</p>   | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Large<br/><b>Rating = E2 (Static)</b></p>      | James Lake / Cllr M Goddard     |
| <b>PEN 11 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls</b>  | <ol style="list-style-type: none"> <li>The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</li> <li>Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls</li> <li>Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales</li> <li>The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.</li> </ol>   | <p>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 liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The fund is still boarderline cashflow positive / breakeven on member dealings and should remain so in 2019/20 with increased contribution rate for the majority of employers in year and increased active members from autoenrolment in year.</p> | <p>Strategic risk<br/>Likelihood = Very Low<br/>Impact = Large<br/><b>Rating = F2 (Static)</b></p> | James Lake / Cllr M Goddard     |

| Description   | Actions in Place  | Progress Comment  | Risk Category / Rating / DOT   | Lead Officer / Committee Member |
|---|---|---|--|---------------------------------|
| <b>PEN 12 - Failure of the pool in mangement of funds / access to funds</b>                   | <ol style="list-style-type: none"> <li>Quarterly review meetings held with the pool</li> <li>Regular reporting out of the pool informing the fund of manager performance</li> <li>Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</li> <li>Independent adviser carried out a review of governance for manager selction and manager monitoring to add assurance and discussion points with the pool</li> <li>Active Shareholder representation at General meeting and AGM.</li> <li>Pool to attend Committee meetings where required, to provide assurance over progress and activity.</li> </ol>  | <p>Concerns over staff turnover in senior posts and withdrawal of an imminent fund have raised the level of this risk to enter the register.</p> <p>Work will need to be carried out with the pool to address governace concerns arrising from Independent Adviser review.</p> <p>Keen interest in recruitment to vacant positions and support given to those staff still in post while recruitment takes place to ensure retention.</p>  | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Medium<br/><b>Rating = D2 (Static)</b></p> | James Lake / Cllr M Goddard     |
| <b>PEN 13 - Change in ownership/business model of KPMG - Investment Advisors to the Fund.</b> | <ol style="list-style-type: none"> <li>Conversations are ongoing with the LGPS Framework and KPMG regarding the progress and status</li> <li>Advice to be sought from in-house procurement and legal as necessary to determine the status of the existing contract after the change</li> <li>Monitoring of the developements will be ongoing</li> </ol>   | <p>The Legal due diligence has been done and the new company Isio was launched at the beginning of March. The National Framework has informed us of the novation of contract from KPMG to Isio . This remains on the risk register as Officers feel that there remains a measure of risk as Isio is a new company, funded by private equity and are still reliant on KPMG for systems, office use and are still operating under KPMG's FCA registration.</p> <p>There has been no impact on the service provided to date but officers continue to monitor until the Isio is fully established and stable There will be a transition period where the existing staff and equipment will remain in there present location at the parent company while the set up and relevant regulatory authorisations are put in place. This will be a new company funded by a private equity fund. This transition/change gives rise to some degree of uncertainty regarding the impact on the existing contract and the continuity of the services provided in the event that transitions arrangement do not go to plan or regulatory authorisations are not granted</p> <p>To date (July 2020) there there has been no impact on service delivery.</p> | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Medium<br/><b>Rating = C3 (Static)</b></p> | James Lake / Cllr M Goddard     |
| <b>PEN 14 - Threat of COVID 19 to Business Continuity</b>                                     | <ol style="list-style-type: none"> <li>The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resouces required to carry them out.</li> <li>Communication to key 3rd party providers Surrey Administration to co-ordinate business continuity plans</li> <li>Active monitoring of developements, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required.</li> <li>Non-essential external meetings have been cancelled to reduce contact</li> <li>Checks bening done to ensure staff have facilities to work from home</li> <li>Vulnerable staff are bing kept out of the office as much as possible</li> </ol> | <p>The business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services. Vulnerable staff have been identified and equipped to work remotely. The departmental policy to postpone non-essential meetings is in force.</p> <p>Business continuity plans have been obtained from the Surrey to ensure continuity of essential member services. Pensions team management is actively mobilising staff and organised a dry run to ensure readiness in the event that staff are not able to attend the office</p>   | <p>Strategic risk<br/>Likelihood = High<br/>Impact = Large<br/><b>Rating = D2 (New)</b></p>    | James Lake / Cllr M Goddard     |



| <b>Attributes:</b> |                         | Risk rating            | Score                              | Risk rating                  | Score   | Risk rating  | Score     | Risk rating           | Score     |    |
|--------------------|-------------------------|------------------------|------------------------------------|------------------------------|---|--|-----------|-----------------------|-----------|----|
| Greater than 90%   | This week               | <b>Very High (A)</b>   | <b>A4</b>                          | 6                            | <b>A3</b>   | 12   | <b>A2</b> | 18                    | <b>A1</b> | 24 |
| 70% to 90%         | Next week / this month  | <b>High (B)</b>        | <b>B4</b>                          | 5                            | <b>B3</b>   | 10   | <b>B2</b> | 15                    | <b>B1</b> | 20 |
| 50% to 70%         | This year               | <b>Significant (C)</b> | <b>C4</b>                          | 2                            | <b>C3</b>   | 4  | <b>C2</b> | 6                     | <b>C1</b> | 8  |
| 30% to 50%         | Next year               | <b>Medium (D)</b>      | <b>D4</b>                          | 1                            | <b>D3</b>   | 2  | <b>D2</b> | 3                     | <b>D1</b> | 4  |
| 10% to 30%         | Next year to five years | <b>Low (E)</b>         | <b>E4</b>                          | 0                            | <b>E3</b>   | 0  | <b>E2</b> | 0                     | <b>E1</b> | 0  |
| Less than 10%      | Next ten years          | <b>Very Low (F)</b>    | <b>F4</b>                          | 0                            | <b>F3</b>   | 0  | <b>F2</b> | 0                     | <b>F1</b> | 0  |
|                    |                         | <b>Small (4)</b>       |                                    | <b>Medium (3)</b>            |   | <b>Large (2)</b>   |           | <b>Very Large (1)</b> |           |    |
|                    |                         | <b>IMPACT</b>          |                                    |                              |   |  |           |                       |           |    |
| <b>THREATS:</b>    |                         | <b>Attributes:</b>     |                                    |                              |   |  |           |                       |           |    |
|                    |                         | 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 2020/2021

## ITEM 13

|                    |                                |
|--------------------|--------------------------------|
| Committee          | Pensions Committee             |
| Officer Reporting  | Yvonne Thompson-Hoyte, 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. Notes the dates for Pensions Committee meetings; and**
- 2. Makes suggestions for future agenda items, working practices and / or reviews.**

### SUPPORTING INFORMATION

| Meeting Date    | Item  |
|-----------------|---|
| 28 July 2020    | <ul style="list-style-type: none"> <li>Audit of Accounts</li> <li>Ratification of Delegated Decisions</li> <li>Investment Strategy Statement (inc COVID-19 Review)</li> <li>Investment update and manager review</li> <li>Administration Report</li> <li>Communication Policy Revised</li> <li>Risk Register</li> <li>Conflicts of Interest Policy</li> <li>Stewardship Code 2020</li> <li>ESG Voting and Engagement</li> </ul> |
| 29 October 2020 | <ul style="list-style-type: none"> <li>Training Public sector procurement, specifically procurement within the LGPS</li> <li>Pension Fund Annual Report 2019/20</li> <li>Investment update and manager review</li> <li>Administration Report</li> <li>Stewardship Code 2020 Draft Report</li> <li>Risk Register</li> </ul>  |

|                 |   |
|-----------------|---|
|                 | <ul style="list-style-type: none"> <li>• Voluntary Scheme Pays Policy</li> <li>• Discretions Policy</li> <li>• RI Policy update.</li> <li>• ESG and Voting Engagement</li> <li>• CIV Governance Update</li> </ul>                     |
| 26 January 2021 | <ul style="list-style-type: none"> <li>• Training TBC</li> <li>• Investment update and manager review</li> <li>• Administration Report</li> <li>• Stewardship Report</li> <li>• Annual Audit Plan</li> <li>• Risk Register</li> </ul> |
| 24 March 2021   | <ul style="list-style-type: none"> <li>• Training TBC</li> <li>• Investment update and manager review</li> <li>• Administration Report</li> <li>• Conflict of interest Policy</li> <li>• Risk Register</li> </ul>                     |

## **FINANCIAL IMPLICATIONS**

There are no financial implications in the report

## **LEGAL IMPLICATIONS**

There are no legal implications in the report

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# Agenda Item 14

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# Agenda Item 16

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