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Pensions Committee

Date: **WEDNESDAY, 28 SEPTEMBER 2022**

Time: **5.00 PM**

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

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

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To Members of the Committee:

Councillor Stuart Mathers (Chairman)
Councillor Tony Burles (Vice-Chairman)
Councillor Kaushik Banerjee
Councillor Martin Goddard
Councillor Mohammed Islam

Published: Tuesday, 20 September 2022

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Lloyd White
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Agenda

CHAIRMAN'S ANNOUNCEMENTS

1	Apologies for Absence	
2	Declarations of Interest in matters coming before this meeting	
3	Minutes of the meeting dated 09 June 2022	1 - 6
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	External Pension Fund Audit update 2021/22 & Pension Fund Annual Report	7 - 166
6	Administration Report	167 - 182
7	2022 Initial Valuation Results	183 - 186
8	Investment Strategy and Fund Manager Performance - Part I	187 - 192
9	Responsible Investment	193 - 240
10	Risk Register Report	241 - 248
11	Draft Work Programme and Training	249 - 252

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That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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.

12	Investment Part II - Strategy review and Manager Updates	253 - 266
13	2022/23 Budget Update	267 - 272
14	TCFD Reporting	273 - 296
15	2022 Initial Valuation Results	297 - 332

Part I Minutes

PENSIONS COMMITTEE

09 June 2022

Meeting held in Committee Room 5 - Civic Centre High Street, Uxbridge

	Committee Members Present: Councillor Stuart Mathers (Chairman) Councillor Tony Burles (Vice-Chairman) Councillor Kaushik Banerjee Councillor Martin Goddard Councillor Mohammed Islam **LBH Officers Present:** Andy Evans, Corporate Director of Finance James Lake, Head of Pensions, Treasury & Statutory Accounts Tunde Adekoya, Pension Fund Accountant Steve Clarke, Democratic Services Officer **Also Present:** Shane Woodhatch, Pension Board Member Andrew Singh, Isio Clare Scott, Independent Adviser Larisa Midoni, Ernst & Young
3.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
4.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* There were no declarations of interest.
5.	**MINUTES OF THE MEETINGS DATED 01 DECEMBER 2021** *(Agenda Item 3)* It was highlighted that within paragraph two on page three of the minutes, the word “residents” should be replaced with the term “stakeholders” so as to reflect the purpose of the Pensions Committee in representing stakeholders rather than simply resident of the Borough. **RESOLVED: That the minutes of the meetings dated 30 March and 12 May 2022 be agreed as an accurate record subject to the amendment discussed.**
6.	**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 1 - 11 were marked Part I and would be considered in public and item 12 was marked Part II and would be considered in private.
7.	**EXTERNAL AUDIT PLAN 2021/22** *(Agenda Item 5)* James Lake, Head of Pensions, Treasury & Statutory Accounts, outlined the report and introduced Larisa Midoni from Ernst & Young, the external auditors, to give an overview of the plan. Members were informed that an extension to the statutory deadline for the completion of the pension fund audit was in consultation and was expected to move from September to November 2022; the external auditors hoped that they could still meet the original end of September deadline. The proposed audit plan was presented to the Committee with the risk assessments, materiality, the audit timetable and fees summarised. The only change regarding risks from previous years' audits pertained to 'Disclosures on going concern', this had been downgraded from an inherent risk to an area of focus due to evolving economic environment following the Covid-19 pandemic. Although Members were encouraged by the proposed plan, they sought clarification on any tangible changes the shift in risk identification around going concern might bring to the external audit activities. The external auditors confirmed that there were no changes expected in terms of the scope of work to be carried out and that the change in risk was to ensure adequate disclosures on going concern. It was also highlighted that the audit plan was being brought to the Pensions Committee only for noting and comment as the ultimate responsibility for governance of such activities lay with the Audit Committee. **RESOLVED: That the Pensions Committee noted the contents of the report.**
8.	**ADMINISTRATION REPORT** *(Agenda Item 6)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the item clarifying that the provision of administration services had moved from Surrey County Council to Hampshire County Council (HCC) in September 2021 following consistent underperformance and non-compliance with key performance indicators. It was highlighted that since joining HCC, performance had been consistent at 100% across all performance indicators. On the matter of the work being undertaken by HCC to clear the historic backlog of unprocessed case work from Surrey County Council, Members queried whether this could cause issues going forward. It was highlighted that HCC had set up a small dedicated team to process the backlog of case work, this work was expected to take up to two years to complete; however, the Committee were assured that it was unlikely that any issues regarding this work would come back to Hillingdon as the specific work being processed was of a low priority and not concerning those who were actively in receipt of their pensions. The Committee were also notified of a separate exercise undertaken by HCC to test cyber security in the pensions administration system and along with Hampshire's normal penetration testing, this found positive results in that there were no urgent, critical or high-level weaknesses identified for external, internal and application penetration testing. There were instances of low and medium level weaknesses which were being addressed by HCC and Civica; additionally, HCC's internal vulnerability assessment scoring system showed none of the issues identified warranted adding to their vulnerability management register. The Committee asked whether HCC had considered the prospect of purchasing

	cyber insurance; it was confirmed that officers had asked HCC whether they had specific cyber insurance and it was noted that they had not taken up such a policy although as part of their annual general insurance assessment, they looked at the feasibility of acquiring cyber insurance. It was noted that, should HCC deem it necessary to acquire cyber insurance, they would need agreement from all of their pension administration partners. The Committee were also informed that independently of HCC, Hillingdon officers had looked at the cyber insurance market and noted the difficulties in obtaining cyber insurance as excesses were often close to or equivalent to the level of insurance cover. Members recognised that the current market for such insurance was not ideal and highlighted that there may be merit in contacting HCC and their other administration partners to establish whether there was an appetite for this type of insurance. The Committee were also updated on two administration policies regarding nominated individuals: the Internal Disputes Resolution Policy (IDRP) and Death Grant Signatories. The stage 1 IDRP officer was currently James Lake, Head of Pensions, Treasury & Statutory Accounts, it was highlighted that the role required independence from the pension fund and it was therefore proposed that the role be attributed to the Head of Counter Fraud. With regard to the Death Grant Signatories, this had been updated to pertain to the four most senior officers in the Finance Directorate. It was also requested that a delegation be granted to allow for prospective post and job title changes although it was confirmed that the seniority level would be maintained. **RESOLVED: That the Pensions Committee:** **1) Noted the administration report;** **2) Agreed the updated Internal Disputes Resolution Policy and Death Grant signatories list;** **3) Delegated authority to officers to maintain and update the Internal Disputes Resolution Policy and Death Grant signatories; and** **4) Requested officers contact HCC and other administration partners regarding the prospect of exploring the merits of acquiring cyber insurance.**
9.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE – PART I** *(Agenda Item 7)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that no interim funding level had been provided as the formal triennial valuation was already underway and any interim funding level would have been misleading when compared to the final valuation result. Members were informed that an accurate picture would be provided for the following meeting. On the day of the meeting, the fund value was showing as £1.207b; Members were informed that quarter one had been extremely volatile due to continued inflation and growth concerns along with the conflict in Ukraine. Further to this however officers noted how Hillingdon's resilient investment strategy would help during periods of concern. The long-term picture was more positive showing annualised returns for three years at 7.97% and five years at 6.72%, both of which exceeded the required 4% in the Funding Strategy Statement. The Committee heard that asset allocation was broadly in line with the strategic benchmark with a slight underweighting on Infrastructure which was due to be funded through the overweight Absolute Return position. The Committee discussed the value of having an inflation briefing for Members considering the rising levels of inflation, any potential concerns around short-term

	cashflows and also taking into account recent changes to the Committee's membership. It was agreed that a session would be organised, outside of a formal Committee meeting, in the late summer or early autumn. Advisors also reassured Members by noting that the longer-term funding picture was of less concern than the immediate issues brought about by rising inflation levels. **RESOLVED That the Pensions Committee:** **1) Noted the funding and performance update; and** **2) Requested that officer's organise an inflation briefing for Members.**
10.	**RESPONSIBLE INVESTMENTS UPDATE** *(Agenda Item 8)* James Lake, Head of Pensions, Treasury & Statutory Accounts, presented the Responsible Investments Update report highlighting that, after a one-year project, the Fund had submitted its UK Stewardship code report to the Financial Conduct Authority. It would now be assessed, and the results delivered over the next few months. The Committee thanked all who were involved with the submission of the UK Stewardship code report. The Committee discussed the fact that LCIV had recently refreshed their statement of investment beliefs and queried whether there could be any conflict between theirs and Hillingdon's, particularly with regard to Environmental, Social and Governance (ESG) matters. Members sought to bring a comparison of the two statements to the next Committee meeting. **RESOLVED That the Pensions Committee:** **1) Noted the submission of the UK Stewardship Code Report;** **2) Noted the fund managers' ESG activities and compliance efforts; and** **3) Requested that a report on the differences between Hillingdon's and LCIV's Statements of Investment Beliefs was brought to the following Committee meeting.**
11.	**RISK REGISTER REPORT** *(Agenda Item 9)* James Lake, Head of Pensions, Treasury & Statutory Accounts, informed Members that one downgrade in risk had been made, this related to Pen 11, regarding the threat of COVID-19 to business continuity. It was noted that COVID-19 had been endemic for over two years and working practices had by now assimilated, as such the likelihood and the overall rating had been reduced from E2 to F2. The Committee were also informed that an assessment had been made with regard to inflation risk with no changes to the risk made as it was deemed that the portfolio had sufficient protection, the fund remained cashflow positive and had capacity to accommodate large pension increases. Employer covenant strength was also considered but due to the strength of employers and guarantees in place no action was required. **RESOLVED That the Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.**

12.	**WORK PROGRAMME AND TRAINING LOG** *(Agenda Item 10)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that the composition of the Committee had changed significantly for the 2022/23 municipal year and stressed the importance on new Members undertaking the required training. As most Members of the Committee were new, it was acknowledged that the Pensions Committee Training Log currently looked quite bare, to that end officers noted a number of training options for Members to undertake or attend. Members noted that the content of the video training may be out of date when compared to the in-person or online training; although the in-person or online training was preferred, it was stated that the basic knowledge and skills covered in the videos would remain fundamentally the same. **RESOLVED That the Pensions Committee:** **1) Noted the dates for Pensions Committee meetings;** **2) Made suggestions for future agenda items, working practices and / or reviews;** **3) Noted the Committee's training update; and** **4) Agreed to commit to undertake the required level of training needed to fulfil their duties.**
13.	**PENSION DISCRETIONS POLICY UPDATE** *(Agenda Item 11)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report aimed at improving the governance of the scheme in terms of discretions. It was highlighted that the Fund currently only had one policy covering mandatory discretions, officers had assessed the policy and updated it to also cover non-mandatory discretions. The Committee were asked to approve the updated policy. **RESOLVED: That the Pension Committee approved the Pension Fund Discretions Policy.**
14.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART II** *(Agenda Item 12)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
	The meeting, which commenced at 5.02 pm, closed at 6.13 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Steve Clarke on 01895 250693. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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EXTERNAL AUDITOR UPDATE ON THE 2021/22 PENSION FUND ACCOUNTS AND ANNUAL REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	EY: Pension Fund Update Pension Fund Accounts 2021/22 Pension Fund Annual Report 2021/22

HEADLINES

The draft Pension Fund Accounts for 2021/22, 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 update details the progress of the external auditor, EY, on the audit of the 2021/22 Pension Fund Accounts against the key risks.

It should be noted that an aspirational target of the 28 September 2022 was proposed to complete the audit of the accounts. This was an ambitious deadline, being two months ahead of the statutory deadline of the 30 November 2022.

At the time of writing this report the audit is materially complete, albeit subject to final reviews. Furthermore, as the Pension Fund forms part of the Council's accounts, which are not complete, a final results report has not been issued.

The draft Pension Fund Annual Report for 2021/22 is attached to this report for Committee approval. As part of the audit process the extremal auditor will also verify the consistency of the Annual Report with the Annual Accounts. Although this is not due until December of each year, we aim to align this piece of work with the annual accounts sign-off.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note EY's update on the audit of the Pension Fund accounts for 2021/22.**
2. **Approve the 2021/22 Fund Annual Report for publication**

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 is also brought to Pension Committee for formal approval. The Audit report on the Pension Fund accounts will be taken to Audit Committee on the next available meeting following completion of the audit.

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.

- Misstatement fraud or error
- Misstatement of investment amounts
- Valuation of unquoted investments
- IAS26 Actuarial present value of promised retirement benefits
- Disclosure on 'Going Concern'

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

FINDINGS

At the time of reporting, there were no corrected material misstatements over the planned materiality threshold of £11.6m. In addition, there and no uncorrected misstatements to report over the planned reporting threshold of £0.6m.

ANNUAL REPORT

The Pension Fund is required to produce an Annual Report and publish by 1 December each year. The annual report includes the Pension Fund annual accounts which are reviewed by Pensions Committee and are to be formally approved at Audit Committee.

In 2019 CIPFA published guidance "preparing the annual report" to assist funds in producing the annual report in line with the current regulatory framework. The guidance has been adopted by MHCLG as statutory guidance.

The report is awaiting an external audit report which is expected to confirm that it is consistent with the audited annual accounts and guidance. The draft report for 2021/22, attached, contains information on the Fund's activities over the last year. The report has

been brought to Committee for consideration and approval to publish prior to the December statutory deadline, subject to audit sign off on consistency.

For the purposes of this report the policies for inclusion in the Annual report which were approved at previous Pensions Committees have been removed. The final version published on the Pension Fund website will include these policies in full. The policies are published individually

FINANCIAL IMPLICATIONS

EY remain in consultation with the PSAA regarding the proposed increase in scale fees. The basic scale fee for the 2021/22 audit is £16,170, Proposed increase in scale fees and variation fees are yet to be agreed.

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

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Hillingdon Pension Fund

Audit progress update

16 September 2022

Building a better working world

London Borough of Hillingdon Pension Fund
Uxbridge
UB8 1UW

16 September 2022

Dear Audit and Pensions Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Audit and Pensions Committees with an overview of the current status of the Pension Fund's 2021/22 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

Status of the 2021/22 audit

2021/22 financial statements

Our Outline Audit Planning Report identified the key areas of focus for our audit of the Pension Fund's 2021/22 financial statements, which have not changed as of the date of this progress report. This page sets out our progress and observations on work to date on these areas. We will provide a further verbal update to the 28 September 2022 Pensions Committee and the 29 September 2022 Audit Committee meetings.

The audit is well progressed, subject to internal reviews. We have the following findings to bring to your attention at the date of this report.

Risk / area of focus	Risk identified	Progress to date
Management Override: Misstatement due to fraud or error	*Fraud*	Subject to internal reviews, we have not identified any indications of management overriding controls through our work undertaken as lined up in the Outline Audit Planning Report.
Misstatement of investment income and investment values through fraudulent journal entries	*Fraud*	Our work in this area is prepared and subject to internal reviews. There are no issues that we wish to draw to your attention at the date of this report.
Risk of incorrect valuation of unquoted (Level 3) investments	*Significant*	Our work in this area is prepared and subject to internal reviews. We noted that five investments valued at a total of £47 million were classified at level 2 fair value hierarchy, however we were not able to obtain clear observable inputs used in their valuation. Thus, we proposed a re-classification to level 3 fair value hierarchy, which management accepted to correct in the accounts. We have no other findings to report at this date.
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	*Inherent*	Our work in this area is prepared and subject to internal reviews. We assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - consulting actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. To meet the requirements set by ISA540, we used the work of our expert EY Pensions to create an auditor's estimate for the pension liability. The liability fell within our expected range. We have no matters to bring to your attention at this date.
Going Concern Disclosure	*Inherent*	The draft financial statements have been prepared on a going concern basis. Management's assessment of going concern will be provided to us closer to the completion of the audit and we will perform our planned procedures then.

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Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2022 £'000	31 March 2021 £'000
Contributions	*4*	50,669	48,681
Transfers In from other pension funds	*5*	4,297	4,803
		54,966	**53,484**
Less: Benefits	*6*	(52,029)	(47,211)
Less: Payments to and on account of leavers	*7*	(5,048)	(3,541)
		(57,077)	**(50,752)**
Net additions/(withdrawals) from dealings with members		**(2,111)**	**2,732**
Less: Management expenses	*8*	(10,832)	(10,749)
Net additions/(withdrawals) including fund management expenses		**(12,943)**	**(8,017)**
Return on investments			
Investment income	*9*	11,858	13,667
Profit and losses on disposal of investments and changes in market value of investments	*10A*	102,033	170,519
Taxes On Income		(35)	(22)
Net return on investments		**113,856**	**184,164**
Net Increase/(Decrease) in the fund		**100,913**	**176,147**
Net Assets at start of year		**1,165,202**	**989,055**
Net Assets at end of year		**1,266,115**	**1,165,202**

NET ASSETS STATEMENT

	Note	31 March 2022 £'000	31 March 2021 £'000
Investment Assets	*10*	1,264,200	1,161,568
Investment Liabilities	*10*	0	0
Total net investments		**1,264,200**	**1,161,568**
Current Assets	*11*	2,939	4,323
Current Liabilities	*12*	(1,024)	(689)
Net assets of the fund available to fund benefits at the end of the reporting period		**1,266,115**	**1,165,202**

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.

Andy Evans
Corporate Director of Finance
8 July 2022

Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

AIP – Uxbridge High school

Braybourne Facilities - Bishop Ramsey Cleaners

CCS Homecare Service

Caterlink - Frays Academy

Caterplus – Genuine Dining

Cucina - Ruislip High School

Cucina - Bishopshalt

Energy Kidz Ltd

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak School
- Ryefield School

Heathrow Travel Care

Herts Catering

Hillingdon & Ealing Citizens Advice

HPS Services FM Limited

NHS - Michael Sobel House

Pabulum - West Drayton Academy

PSD Childcare Limited

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
- Sunshine House School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Field End Junior School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Notes to the Pension Fund Account

Haydon Academy

Heathrow Aviation Engineering

Hermitage Primary School

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
- Skills HUB

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
- Brookside Primary School

Ruislip Academy

Ryefield Primary School

Vyners Academy

Park Academy West London

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2022	31 March 2021
Number of employers with active members	69	61
Number of employees in scheme		
London Borough of Hillingdon	3,562	4,972
Other employers	2,031	2,796
Total	**5,593**	**7,768**
Number of Pensioners		
London Borough of Hillingdon	6,643	6,187
Other employers	759	674
Total	**7,402**	**6,861**
Deferred Pensioners		
London Borough of Hillingdon	8,635	7,566
Other employers	3,364	2,659
Total	**11,999**	**10,225**

c. Funding

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

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 2022. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as of 31 March 2019, this covers the three financial years following 2019/20 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% of pensionable pay, as per the 2019 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 is one direct investment 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 2021-22) and governance is overseen by the Pensions Board (Four meetings in 2021-22). Pensions Committee and Pensions Board consisted of the following members in 2021/22:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Duncan Flynn (Vice-Chairman)
Cllr Carol Melvin - Till Nov 21
Cllr John Morse
Cllr Raju Sansarpuri
Cllr John Hensley – From Dec 2021

Pensions Board

Roger Hackett (Scheme Member Representative)
Tony Noakes (Employee Representative)
Anil Mehta – From November 2021
Hayley Seabrook (Employer Representative)- Till July 2021
Shane Woodhatch (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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 accrual 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 of 31 March 2022.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2022). 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 accrual 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 accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2021/22, no such fees are based on estimates (2020/21: £41k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

e. Administration expenses are paid when invoiced by third party providers through the administering 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. Contribution Income
Normal contributions are accounted for on accrual basis as follows:
- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, that rise according to pensionable pay.
- Employer contributions are set at a percentage rate recommended by the fund actuary for the period which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant body.
Additional employers' contributions in respect of ill-health are accounted for as part of the tri-ennial valuation exercise and employers' contribution rates adjusted accordingly for relevant employers. Early retirement strain costs are accounted for on accrual basis.

Notes to the Pension Fund Account

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 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 is accrued on daily basis.

Critical Judgements and Uncertainties

l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as of 31 March 2022 was £319,965k (£294,037k on 31 March 2021).

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.

Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, 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 £8,545k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2022. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £43,208k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £1,641k. 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 assumptio
Direct Lending - Permira Credit Solutions & LCIV Private Debt	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statem are £65,107k. There is a risk that this investment ma under or overstated in the accounts. There are no op traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptio
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 2022 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19.	The total Pooled property investments in the fina statement is £231,826k. There is a risk the investments be over or under stated in the accounts. These asset clas investments are not openly traded and a lot of unobserv inputs are utilised in the valuation of the assets. Th unobservable valuation assumptions may have a profo effect on the actual pricing at year end thus skew sh valuation the fund accounts.

Item	Uncertainties	Effect if actual results differ from assumptio
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 2022 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 individual assumptions can be measured. For instance increase in the discount rate assumption would result decrease in pension liability. An increase in assu earnings would increase the value of liabilities and increase in assumed life expectancy would increase liability. This would not effect the Fund Account or Net A Statement, but would impact the Council Accounts. B are the details of the sensitivity analysis to the metho assumptions used for year ended 31 March 2022 by fund's actuaries.

Notes to the Pension Fund Account

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

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2022	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.1% p.a increase in the Discount Rate	2%	37
1 year increase in member life expectancy	4%	79
0.1% p.a. increase in the Salary Increase Rate	0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	35

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 2022 £'000	31 March 2021 £'000
Employees	11,015	10,231
Employers Contributions:		
Normal	33,824	32,737
Deficit Funding	5,830	5,713
	50,669	**48,681**

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 2022 £'000	31 March 2021 £'000
LB Hillingdon	35,181	34,759
Scheduled Bodies	14,889	13,528
Admitted Bodies	599	394
	50,669	**48,681**

5. TRANSFERS IN

	31 March 2022 £'000	31 March 2021 £'000
Individual transfers in from other schemes	4,297	4,803
	4,297	**4,803**

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2022 £'000	31 March 2021 £'000
Pensions	(42,557)	(39,955)
Commutations and Lump Sum Retirement Benefits	(8,024)	(6,478)
Lump Sum Death Benefits	(1,448)	(778)
	(52,029)	**(47,211)**

By authority	31 March 2022 £'000	31 March 2021 £'000
LB Hillingdon	(47,038)	(43,708)
Scheduled Bodies	(4,439)	(3,177)
Admitted Bodies	(552)	(326)
	(52,029)	**(47,211)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2022 £'000	31 March 2021 £'000
Refunds to members leaving service	(161)	(82)
Individual transfers out to other schemes	(4,887)	(3,459)
	(5,048)	**(3,541)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2022 as follows:

	31 March 2022 £'000	31 March 2021 £'000
Administrative Costs	(1,385)	(963)
Investment Management Expenses	(9,222)	(9,548)
Oversight and Governance	(225)	(238)
	(10,832)	**(10,749)**

Notes to the Pension Fund Account

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2021/2022	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	0	0	0	0
Pooled Investments	(5,703)	(3,464)	(979)	(1,260)
Pooled Property Investments	(3,361)	(2,449)	(148)	(764)
Private Equity	(98)	(71)	(5)	(22)
	(9,162)	**(5,984)**	**(1,132)**	**(2,046)**
Custody Fees	(60)			
Total	**(9,222)**			

2020/2021	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(94)	(88)	0	(6)
Pooled Investments	(5,971)	(2,827)	(1,242)	(1,902)
Pooled Property Investments	(2,323)	(1,307)	(104)	(912)
Private Equity	(1,099)	(241)	(797)	(61)
	(9,487)	**(4,463)**	**(2,143)**	**(2,881)**
Custody Fees	(61)			
Total	**(9,548)**			

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2022 £'000	31 March 2021 £'000
Equities	0	(6)
Pooled Investments	(1,260)	(1,902)
Pooled Property Investments	(764)	(912)
Private Equity	(22)	(61)
	(2,046)	**(2,881)**

8C. EXTERNAL AUDIT COSTS

	31 March 2022 £'000	31 March 2021 £'000
Payable in Respect of External Audit	(26)	(40)
	(26)	**(40)**

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

Notes to the Pension Fund Account

9. INVESTMENT INCOME

	31 March 2022 £'000	31 March 2021 £'000
Income from Equities	57	1,398
Pooled Property Investments	3,104	2,108
Pooled Investments- Unit trusts and other managed funds	8,546	10,061
Interest on cash deposits	42	18
Other (for example from stock lending or underwriting)	109	82
	11,858	**13,667**

10. INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Investment Assets		
Equities	29	42
Pooled investments	1,011,872	943,976
Pooled property investments	231,826	188,926
Private equity	8,545	13,369
Other Investment balances		
Cash deposits	11,821	15,166
Investment income due	107	89
Total investment assets	**1,264,200**	**1,161,568**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	0	0
Total investment liabilities	**0**	**0**
Net investment assets	**1,264,200**	**1,161,568**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2021/22	Value 1 April 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2022 £'000
Equities	42	0	0	(13)	29
Pooled Investments	943,976	422,330	(414,496)	60,062	1,011,872
Pooled Property Investments	188,926	12,294	(3,060)	33,666	231,826
Private Equity	13,369	122	(5,763)	817	8,545
	1,146,313	**434,746**	**(423,319)**	**94,532**	**1,252,272**
	1,146,313	**434,746**	**(423,319)**	**94,532**	**1,252,272**
Other investment balances					
Cash Deposits	15,166	0	0	0	11,821
Investment Income Due	89	0	0	0	107
Outstanding Sales	0	0	0	0	0
Adjustments to Market Value Changes	0	0	0	7,501	0
Total Investment Assets	**1,161,568**			**102,033**	**1,264,200**

2020/21	Value 1 April 2020 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
Other investment balances					
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
Total Investment Assets	**986,131**			**170,519**	**1,161,568**

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Equities		
UK		
Quoted	29	42
	29	**42**
Pooled funds - additional analysis		
Fixed income unit trust	268,297	261,498
Diversified Growth Funds	54,528	50,833
Infrastructure Funds	43,208	34,327
Global Equity	577,640	537,065
Limited liability partnerships	68,176	60,253
	1,011,849	**943,976**
Other Investments		
Pooled property Investments	231,849	188,926
Private equity	8,545	13,369
	240,394	**202,295**
Cash deposits	11,821	15,166
Investment income due	107	89
Sales Settlements Outstanding	0	0
	11,928	**15,255**
Total investment assets	**1,264,200**	**1,161,568**
Investment liabilities		
Purchase Settlements Outstanding	0	0
Total investment liabilities	0	0
Net investment assets	**1,264,200**	**1,161,568**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2022 £'000	%	Market Value 31 March 2021 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	729,696	58	668,045	58
London CIV Asset Pool	166,219	13	127,945	11
	895,915	71	795,990	69
Investments Managed Outside of London CIV Asset Pool				
Adams Street Partners	5,823	0	10,103	1
AEW UK	82,349	7	60,712	5
JP Morgan Asset Management	115,979	9	116,580	10
LGT Capital Partners	2,722	0	3,266	0
M&G Investments	1,641	0	1,248	0
Macquarie Infrastructure	17,853	1	20,862	2
Permira Credit Solutions	36,624	3	59,005	5
UBS Global Asset Management (Equities)	93	0	119	0
UBS Global Asset Management (Property)	93,954	7	78,990	7
Other*	11,247	1	14,693	1
	368,285	29	365,578	31
Total	**1,264,200**	**100**	**1,161,568**	**100**

* 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

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 £29k (31 March 2021: £29k). 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 £31k (31 March 2021: £30k) 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 2022 £'000	31 March 2021 £'000
Debtors		
Employers' contributions due	374	63
Employees' contributions due	107	16
Other	83	0
Cash balances	2,375	4,244
	2,939	**4,323**

12. CURRENT LIABILITIES

	31 March 2022 £'000	31 March 2021 £'000
Creditors		
Other local authorities (LB Hillingdon)	(244)	(172)
Other entities	(780)	(517)
	(1,024)	**(689)**

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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, £106k was received in additional voluntary contributions by members, in 2021/22 (£154k 2020/21) and AVC Fund value was £4,997k (£5,175k 2020/21). Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

	Market Value 31 March 2022 £'000	Market Value 31 March 2021 £'000
Prudential Assurance Company	4,997	5,175
	4,997	**5,175**

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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held on 31 March 2022.

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).

Sensitivity of assets valued at level 3

	Valuation range (+/-)	Market Value 31 March 2022 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	43,208	47,529	38,887
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	66,537	73,191	59,883
Pooled Property - UBS Property & AEW UREF	10%	48,912	53,803	44,021
Private Equity - d	5%	8,545	8,972	8,118
Venture Capital	5%	41	43	39
Total		**167,243**	**183,538**	**150,948**

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) The assumed movement is based fluctuations in market prices for comparable assets, real estate market Illiquidity and counterparty default.

d) 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.

Values as at 31 March 2022	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss				
Equities	29	0	0	29
Pooled Investments	0	900,423	111,427	1,011,850
Pooled Property Investments	0	182,936	48,912	231,848
Private Equity	0	0	8,545	8,545
	29	**1,083,359**	**168,884**	**1,252,272**
Financial Liabilities at Fair Value through Profit and Loss				
Total	**29**	**1,083,359**	**168,884**	**1,252,272**

Values as at 31 March 2021	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss				
Equities	42	0	0	42
Pooled Investments	0	849,355	94,621	943,976
Pooled Property Investments	0	0	188,926	188,926
Private Equity	0	0	13,369	13,369
	42	**849,355**	**296,916**	**1,146,313**
Financial Liabilities at Fair Value through Profit and Loss				
Total	**42**	**849,355**	**296,916**	**1,146,313**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2021/22.

Notes to the Pension Fund Account

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

Fund Managers & Asset Categories	Value 1 April 2021	Transfers Out of Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,369	0	122	(5,763)	(840)	1,657	8,545
Private Finance - M&G	1,248	0	0	(333)	836	(110)	1,641
Infrastructure - Maquarie & LCIV	34,327	0	9,704	(5,342)	(348)	4,867	43,208
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property & AEW UREF	188,926	(157,426)	9,477	(65)	8,052	(52)	48,912
Direct Lending - Permira & LCIV Private Debt	59,005	0	29,481	(20,563)	(1,448)	62	66,537
Total Level 3 Assets	**296,916**	**(157,426)**	**48,784**	**(32,066)**	**6,252**	**6,424**	**168,884**

There were transfers out of level 3 assets in 2021/22. Property Investments in UBS, AEW & LGIM were reclassified as Level 2 assets due to the removal of uncertainty clauses in the valuation of these assets for the year under consideration.

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

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 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 to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

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

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

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

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

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

Pooled Property: AEW, UBS Property & LGIM LPI
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."

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

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 & LGIM LPI
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. These are:

i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

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 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Financial Assets								
Equities	29	0	0	29	42	0	0	42
Pooled Investments	1,010,420	0	0	1,010,420	943,976	0	0	943,976
Pooled property investments	231,848	0	0	231,848	188,926	0	0	188,926
Private Equity	8,545	0	0	8,545	13,369	0	0	13,369
Cash	0	11,821	0	11,821	0	15,166	0	15,166
Other Investment balances	0	107	0	107	0	89	0	89
	1,250,842	**11,928**	**0**	**1,262,770**	**1,146,313**	**15,255**	**0**	**1,161,568**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,250,842**	**11,928**	**0**	**1,262,770**	**1,146,313**	**15,255**	**0**	**1,161,568**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	31 March 2022 £000's	31 March 2021 £000's
Designated at Fair Value through profit and loss	102,033	170,519
	102,033	**170,519**

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

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

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

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

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 2022 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	632,167	15.00%	726,992	537,342
UK Equity	29	15.00%	33	25
Bonds	268,297	6.60%	286,005	250,589
Alternatives	119,931	3.50%	124,129	115,733
Property	231,848	5.50%	244,600	219,096
Total	**1,252,272**		**1,381,758**	**1,122,786**

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

Asset Type	Value as at 31 March 2021 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	587,857	14.80%	674,860	500,854
UK Equity	42	14.80%	48	36
Bonds	261,498	5.70%	276,403	246,593
Alternatives	107,990	4.20%	112,526	103,454
Property	188,926	5.00%	198,372	179,480
Total	**1,146,313**		**1,262,209**	**1,030,417**

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 of 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis
The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Value as at 31 March 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	11,821	118	11,939	11,703
Bonds - pooled funds	268,297	2,683	270,980	265,614
Total change in assets available	**280,118**	**2,801**	**282,919**	**277,317**

	Value as at 31 March 2021	Potential movement on 1.2% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,166	182	15,348	14,984
Bonds - pooled funds	261,498	3,138	264,636	258,360
Total change in assets available	**276,664**	**3,320**	**279,984**	**273,344**

Notes to the Pension Fund Account

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 of 31 March 2022, 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 of 31 March 2022 and as at the previous period ending 31 March 2021.

Currency exposure by asset type

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 6.60%, based on the data provided by PIRC. A 6.60% 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 6.60% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	**Asset Value 31 March 2022**	**Potential market movement**	**Value on increase**	**Value on decrease**
		5.30%		
	£'000	**£'000**	**£'000**	**£'000**
Pooled Funds	521,174	27,622	548,796	493,552
Private Equity/Infrastructure	51,753	2,743	54,496	49,010
	572,927	**30,365**	**603,292**	**542,562**

Assets exposed to currency risk	**Asset Value 31 March 2021**	**Potential market movement**	**Value on increase**	**Value on decrease**
		6.60%		
	£'000	**£'000**	**£'000**	**£'000**
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	521,073	**34,391**	**555,464**	**486,682**

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, except for 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 NatWest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements on 31 March 2022 was £14,196k (31 March 2021: £19,410k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2022 £'000	Rating S&P	Balances as at 31 March 2021 £'000
Money market funds				
Northern Trust	AAAf S1+	11,821	AAAf S1+	15,366
Bank current accounts				
NatWest	A	2,375	A	4,044
Total		**14,196**		**19,410**

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 NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£2,375k). 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 of 31 March 2022, these assets totalled £900,424k, with a further £11,821k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

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

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as of 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as of 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 taxpayer 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 partially been offset by lower-than-expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term). A new actuarial valuation will be carried out based on assets and liabilities value as of 31 March 2022, with the results expected to be published later in the year.

Notes to the Pension Fund Account

Significant events

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

Contribution rates

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

Primary Rate (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	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 on 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 of 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. The longevity assumptions result in the following typical future life expectancies from age 65. 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
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 years

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 of 31 March 2022 to comply with the accounting standard. The financial markets at the accounting date will have considered 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 2022 % per annum	31 March 2021 % per annum
Inflation /Pensions Increase Rate	3.2%	2.9%
Salary Increase Rate	3.5%	3.2%
Discount Rate	2.7%	2.0%

An IAS 19 valuation was carried out for the Fund as of 31 March 2022 by Hymans Robertson with the following results:

Description	31 March 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	1,965	2,039
Active Members	787	770
Deferred Members	530	572
Pensioners	648	697

**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 on 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as of 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 on 31 March 2022 (and 31 March 2021) 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.

Net Liability

The table below shows the total net liability of the Fund as of 31 March 2022. 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 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	(1,965)	(2,039)
Fair Value of Scheme Assets (bid value)	1,261	1,162
Net Liability	**(704)**	**(877)**

19. 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 2021/22) 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 on 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. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as of 31st March 2022 determined that there was no material risk to the Fund of employers defaulting on their contributions. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

A cash flow forecast covering the period November 2022 to October 2023 has been produced to confirm the solvent position and outlook of the Pension Fund over the period stated above.

20. 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 is a member of the Pension Fund Committee who is a retired member of the Pension Fund, Cllr Tony Eginton (Reserve). Each member is required to declare their interest at each meeting.

Key Management Personnel

Three employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, the Deputy Director, Corporate Finance, and the Head of Statutory Accounts & Pensions. Total remuneration payable to key management personnel is set out below:

	31 March 2022 £'000	31 March 2021 £'000
Short term benefits	94	55
Post employment benefits	155	145
	249	**200**

NB: Increased Post-employment benefits figure for 2020-21 is attributable to reorganisation and addition of Deputy Director, Corporate Finance to the Pension Fund management structure.

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

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

21. BULK TRANSFER

There were no bulk transfers in 2021-22.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as of 31 March 2022 totalled £85,428k (£50,576k on 31 March 2021).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure, Property and Private Credit 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.

23. CONTINGENT ASSETS

Seven 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.

24. POST BALANCE SHEET EVENTS

Events taking place after the 31st of March 2022 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing on 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

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London Borough of Hillingdon Pension Fund Annual Report 2021/22

HILLINGDON
LONDON

www.hillingdon.gov.uk

CONTENTS

Section	Page
Chairman's Foreword	3
Introduction To The Fund	5
A: Overall Fund Management	7
B: Financial Performance	16
C: Investment Policy and Performance Report	19
D. Scheme Administration	31
E. Report Of The Fund Actuary	39
F: Governance	41
G: Fund Account, Net Asset Statement and Notes	52
H. Asset Pools	85
I : External Audit	114
J: Opinion Glossary	115

CHAIRMAN'S FOREWORD

This year has seen the Fund continue its momentum of change and working towards greater Environmental, Social and Governance (ESG) themes and support of the London Collective Investment Vehicle (LCIV). Investment returns performed in line with expectations with the Fund's assets growing by £101m and now total £1,266m overall.

The Committee has kept a keen eye on inflation risk and has undertaken specific analysis to ensure the investment strategy remains fit for purpose. In conjunction with this the Fund is still cashflow positive on member transactions, with member contributions higher than monies paid out in benefits. This will continue to be the case as we move into a double-digit inflationary period, however there is flexibility within the strategy to utilise income yields if required.

The Fund has embarked on a number of major projects and initiatives this year. The first of which to note was the move to our new administration service partner, Hampshire County Council. The project and transition were a year in planning and implementation, and I am pleased to say that it was delivered on budget and on time. Since going live at the end of September 2021, we have seen a vast improvement in service and Hampshire has delivered 100% against the agreed key performance indicators and has worked with the Fund to undertake data cleansing exercises and improve administration governance.

Another major project and commitment were the application to become UK Stewardship Code signatories. Throughout the year the Fund developed its values and beliefs, updated policies, set new objectives and committed to a number of collaborative and engagement initiatives. This was a major endeavour and heightens the Fund's commitment to the ESG agenda.

Although outside this reporting period I can confirm the final application was submitted in April 2022 and I am extremely pleased to announce that in September 2022 we received confirmation that our application was successful, and we met the required criteria. This sets us out at the forefront of ESG within London being only one of two boroughs to receive signatory status.

Furthermore, the Fund signed up to support the Task Force on Climate Related Financial Disclosures (TCFD) and will embark on implementing their recommendations and reporting requirements as relevant regulation follows.

Throughout the year the Fund worked with LCIV, positively engaging on several governance improvements and reporting enhancements. The collaboration has resulted on what we are believe were necessary improvements and allowed us to make further investments with LCIV. These included a £70m commitment to their Private Debt Fund along with £110m transfer of our Multi Asset Credit allocation.

This engagement and these transactions show our commitment and support to LCIV and the pooling agenda. The Fund now has all liquid investments and many new private market allocations with the pool, representing 80% of assets pooled. This is up from 69% in March 2021 and is one of the highest allocations in London.

The Pensions Board continues to support the Committee and Fund and been active on ensuring cyber robustness and delivering compliance with governance issues and the Pensions Regulator Code of Practice. The Board, along with the Committee, were heavily involved in the ongoing monitoring of the administration transfer project to ensure a smooth and informed move the Hampshire. The Board and Committee continue to work well together to ensure governance and oversight are at the highest levels.

Overall, during 2021/22 the Fund made great strides on leading the ESG and pooling agenda and has performed well, both from an operational and investment perspective.

As we move into the triennial valuation year, I believe the Fund is in a strong position to address and deliver on the upcoming challenges and improve the overall funding level.

As Chairman, I would like to again add my personal thanks to Committee and Board members, officers, and advisers for all their hard work throughout this demanding year.

Cllr Martin Goddard

Chairman Pensions Committee 2021/22

INTRODUCTION TO THE FUND

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

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

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

The Pension Scheme during the financial year 2021/22 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

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

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax-free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax-free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining Scheme.

- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

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

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

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

A: OVERALL FUND MANAGEMENT

SCHEME MANAGEMENT AND ADVISERS

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

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

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

James Lake	Head of Statutory Accounts and Pensions
Tunde Adekoya	Pension Fund Accountant
Seby Carvalho	Pensions Technical Officer
Jean Boeg	Pensions Officer

Scheme Administration
Administration of the scheme was contracted out to Hampshire Pension Service (HPS) from 30 September 2021(Surrey County Council (SCC) replaced 30 September 2021) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. HPS maintains pension scheme membership records and calculates benefits.

Email: pensions@hants.gov.uk
Telephone: 01962 845588
Address: Hampshire Pension Services
The Castle
Winchester
Hampshire
SO23 8UB

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

Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly, and annual basis.

Northern Trust
50 Bank Street
Canary Wharf
London
E14 5NT

Fund Actuary
The Fund's actuary is Hymans Robertson
Craig Alexander FFA
Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Fund Managers
Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2019/20, the following managers managed the Fund's investments externally:

Fund Manager	Asset Class
Adam Street Partners	Private Equity
AEW UK	UK Core Property
JP Morgan Asset Management	Multi Asset Credit
Legal & General Investment Management	Listed Equities and Index Linked Bonds - (Passive) – Pooled & Property Pooled
London CIV – Baillie Gifford	Global Equity Income - Pooled
London CIV - Ruffer	Absolute Return Fund - Pooled
London CIV - Stepstone	Infrastructure - Pooled
London CIV – Churchill	Private Debt - Pooled
LGT Capital Partners	Private Equity
M&G Investments (Direct Investment)	Private Debt
Macquarie Investment	Infrastructure
Permira LLP	Private Debt
UBS Global Asset Management	UK Property Fund of Funds

Fund Pool and Pool Operator
The London Borough of Hillingdon is a member of the London CIV Pool. The London CIV Pool is run and managed by the London LGPS CIV Ltd, an FCA authorised and regulated company.

Advisors to the Fund
The Fund's Investment Advisor is Iseran Bidco Ltd trading as Isio, (f*ormally* KPMG) who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

David O'Hara
Partner
Investment Advisory
Tax & Pensions
Iseran Bidco Ltd (Isio)
10 Norwich Street
London EC4A 1BD

In addition, the Fund had an Independent Advisor for 2020/21 – Clare Scott.

AON Hewitt advises and supports the Fund on governance arrangements to the Board.

Aon Hewitt
25 Marsh Street
Bristol
BS1 4AQ

Legal Services
Legal support to the Fund is provided in-house by the Council. The Council's Borough Solicitor is Glen Egan.

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

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Banker
Banking services are provided to the Fund by the Council's banker National Westminster Bank (Natwest).

Natwest Bank Plc
Unit 227-228 Intu Shopping Centre
The Chimes
High Street Uxbridge
UB8 1LA

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

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

RISK MANAGEMENT

Risk Management within the Governance Structure

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

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

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

To whom this Policy Applies

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

Less-senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Finance – Statutory Accounting and Pension Fund.

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

Aims and Objectives

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

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

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

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

Responsibility

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

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

The London Borough of Hillingdon Pension Fund Risk Management Process

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

1. Risk Identification

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

Risks are identified by several means including, but not limited to:

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

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

***2.* Risk Analysis & Evaluation**

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact

if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

		Risk rating	Risk rating	Risk rating	Risk rating
LIKELIHOOD	**Very High (A)** This week	**A4**	**A3**	**A2**	**A1**
	High (B) This month	**B4**	**B3**	**B2**	**B1**
	Significant (C) This year	**C4**	**C3**	**C2**	**C1**
	Medium (D) Next year	**D4**	**D3**	**D2**	**D1**
	Low (E) Next 5 years	**E4**	**E3**	**E2**	**E1**
	Very Low (F) Next 10 years	**F4**	**F3**	**F2**	**F1**
		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
		IMPACT: Financial or Reputation			
		up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
		Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

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

3. Risk Control and Response

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

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

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

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

4. Risk Monitoring & Review

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

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

5. Risk Reporting

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

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

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

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

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

Key risks to the effective delivery of this Policy

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

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

- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

Costs

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

Approval, Review and Consultation

This Risk Policy was approved at the London Borough of Hillingdon Pension Committee meeting on 15June 2016 and last amended on 30 March 2022. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Third Party risk such as late payment of contributions

Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received on 19th of the subsequent month of payment due date as prescribed by the regulations.

In respect of Investment Managers, internal control reports (AAF 01/06 and SSAE16) are received and reviewed regularly for any non-compliance issues. If management response to non-compliant issues is unsatisfactory, the matter is then addressed directly with the fund manager for further assurance.

Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Adams Street Partners	SOC 1	Reasonable Assurance	KPMG LLP
AEW UK Ltd	ISAE 3402	Reasonable Assurance	BDO LLP
JP Morgan Asset management	Non-Provided	N/A	N/A
Legal & General Investments Management	AAF 01/20/ ISAE 3402	Reasonable Assurance	KPMG LLP
LCIV	Third Party Controls Oversight	Reasonable Assurance	N/A
M&G	SOC 1 (IFDS Transfer Agency)	Reasonable Assurance	PWC
Macquarie Infrastructure Real Assets	Internal Controls Report	Reasonable Assurance	RMG Internal Audit (Macquarie Risk Management Group)
Northern Trust Company	SOC 1	Reasonable Assurance	KPMG LLP
Permira LLP	SOC 1- Provided by Alterdomus, the fund's custodians	Reasonable Assurance	Ernst & Young LLP
UBS Asset Management	SOC 1	Reasonable Assurance	Ernst & Young LLP

NB: UBS Asset Management: *Basis of qualified opinion issued by auditors hinged on lack of sufficient evidence by manager to demonstrate that quality control check was completed for certain "New security set ups" and "Recording of Dividend Income Data Events". The manager was contacted and responded that by confirming "Standardised control checks have been created for both highlighted exceptions and these will make evidence gathering on both processes more efficient".*

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

B: FINANCIAL PERFORMANCE

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

General Scheme membership

Membership of the scheme is split between

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

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

Membership Summary

	2021/22	2020/21	2019/20	2018/19
Active Members	5,593	7,768	7,435	9,015
Pensioners/Dependants	7,402	6,861	6,682	6,881
Deferred	11,999	10,225	10,571	9,643
Total Membership	**24,994**	**24,854**	**24,688**	**25,539**

CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2021/22 amounted to £54.9m compared to £53.4m for the previous year. The 3% Increase from previous year is mainly attributable to the increased active membership and employee's pay increases during the year under review. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2021/22 were set from the 2019 valuation.

Analytical Review of Performance

Pension Fund Account	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000	2018/19 £' 000
Dealings With Members				
Contributions	54,966	53,484	49,051	44,663
Pensions	-57,077	-50,752	-54,058	-46,642
Net Additions/(Withdrawals) from Dealings with members	**-2,111**	**2,732**	**-5,007**	**-1,979**
Management Expenses	-10,832	-10,749	-9,882	-8,833
Net Investment Returns	11,858	13,667	23,101	22,732
Change In Market Value	102,033	170,519	-86,092	42,843
Taxes On Income	-35	-22	-48	-83
Net Increase/(Decrease) In Fund	**100,913**	**176,147**	**-77,928**	**54,680**

Analysis of Dealings with Members

	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000	2018/19 £' 000
Contributions Receivable				
Employees	11,015	10,231	10,109	9,486
Employers	39,654	38,450	37,196	33,330
Transfers In - Individual Transfers In	4,297	4,803	1,746	1,489
Transfers In - Bulk Transfer In	0	0	0	0
Total Contributions	**54,966**	**53,484**	**49,051**	**44,305**

	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000	2018/19 £' 000
Benefits and Other payments				
Pensions	-42,557	-39,955	-38,846	-36,423
Lump Sum Retirements and Death Benefits	-9,472	-7,256	-8,342	-7,593
Transfers Out	-4,887	-3,459	-6,767	-2,547
Refunds	-161	-82	-103	-79
Total Payments	**-57,077**	**-50,752**	**-54,058**	**-46,642**

The Key variances in members dealings were due to the following:

- Lump Sum Paid in 2021/22 increased by 23% as due to more people made redundant.

- Transfers out for 2021/22 increased by 29% compared to previous year as more individuals transferred their services out the Hillingdon Fund. Whilst Transfers In dropped by 11% from 2020/2021 due to fewer transactions.

Analysis of Operational Expenses

	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000	2018/19 £' 000
Administration				
Employees	-384	-397	-324	-355
Outsourced Administration Costs	-954	-545	-481	-433
Support Services Charges	-47	-21	-20	-52
	-1,385	**-963**	**-825**	**-840**
Governance and Oversight				
Investment Advisory Services	-84	-113	-95	-55
Governance & Compliance	-29	-42	-36	-12
External Audit	-26	-26	-17	-22
Actuarial Fees	-86	-57	-142	-7
	-225	**-238**	**-290**	**-96**

Investment Management				
Management Fees	-5,984	-4,463	-6,485	-5,934
Performance Fees	-1,132	-2,143	-1,080	-1,405
Transaction Costs	-2,046	-2,881	-1,143	-492
Custodian fees	-60	-61	-59	-66
	-9,222	**-9,548**	**-8,767**	**-7,897**
Total Operational Expenses	**-10,832**	**-10,749**	**-9,882**	**-8,833**

The Key points to note from the operational expenses are as follows:

- Transaction costs decreased by about 30% due to less portfolio activities by active fund managers within the LCIV pooled funds.
- Investment management expenses increase is attributable to increased alternative investments with London CIV (Infrastructure & Private Debt)
- Increase in actuarial fees was mainly due to valuation year activities fees compared to 2020/21.

C: INVESTMENT POLCIY AND PERFORMANCE

Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to Environmental Social Governance issues, and how the Fund demonstrates compliance with the 'Myners Principles'. These principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- Effective decision making.
- Clear objectives.
- Risk & liabilities.
- Performance Measurement.
- Responsible ownership.
- Transparency and reporting.

From 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest Fund money in a wide range of instruments
- The administering authority's assessment of the suitability of investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed

- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental, or corporate governance considerations are considered in the selection, non-selection, retention, and realisation of investments.

Fund Value and Asset allocation

The strategic asset allocation is agreed by the Pension Fund Committee based on the risk appetite and return on investments required to fulfil its paramount obligation of paying Pensions to members. The strategy benefits from input by both officers and the Fund's investment advisors.

Whilst managers can use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity and alternative investments during the year.

Cash movement is incidental as the Fund has a zero cash policy but cash returns from alternative investments during the year are received in the custody account pending reinvestment.

The asset allocation as of 31 March 2022 is as follows:

Asset Category	Opening Value 01 April 2021	Strategic Weighting	Actual Weighting	Closing Value 31 March 2022	Strategic Weighting	Actual Weighting
	£'000	**%**	**%**	**£'000**	**%**	**%**
Equities	537,107	45	46	577,692	46	46
DGF	50,833	0	4	54,528	0	4
Bonds	261,498	24	23	268,297	24	21
Property	139,177	12	12	175,623	12	14
Alternatives:						0
Private Equity	13,369	1	1	8,545	0	1
Infrastructure	34,327	8	3	43,208	8	3
Private Credit	60,253	5	5	68,176	5	5
Long Lease Property	49,749	5	4	56,203	5	4
Cash	15,255	0	1	11,928	0	1
Total	**1,161,568**	100	100	**1,264,200**	100	100

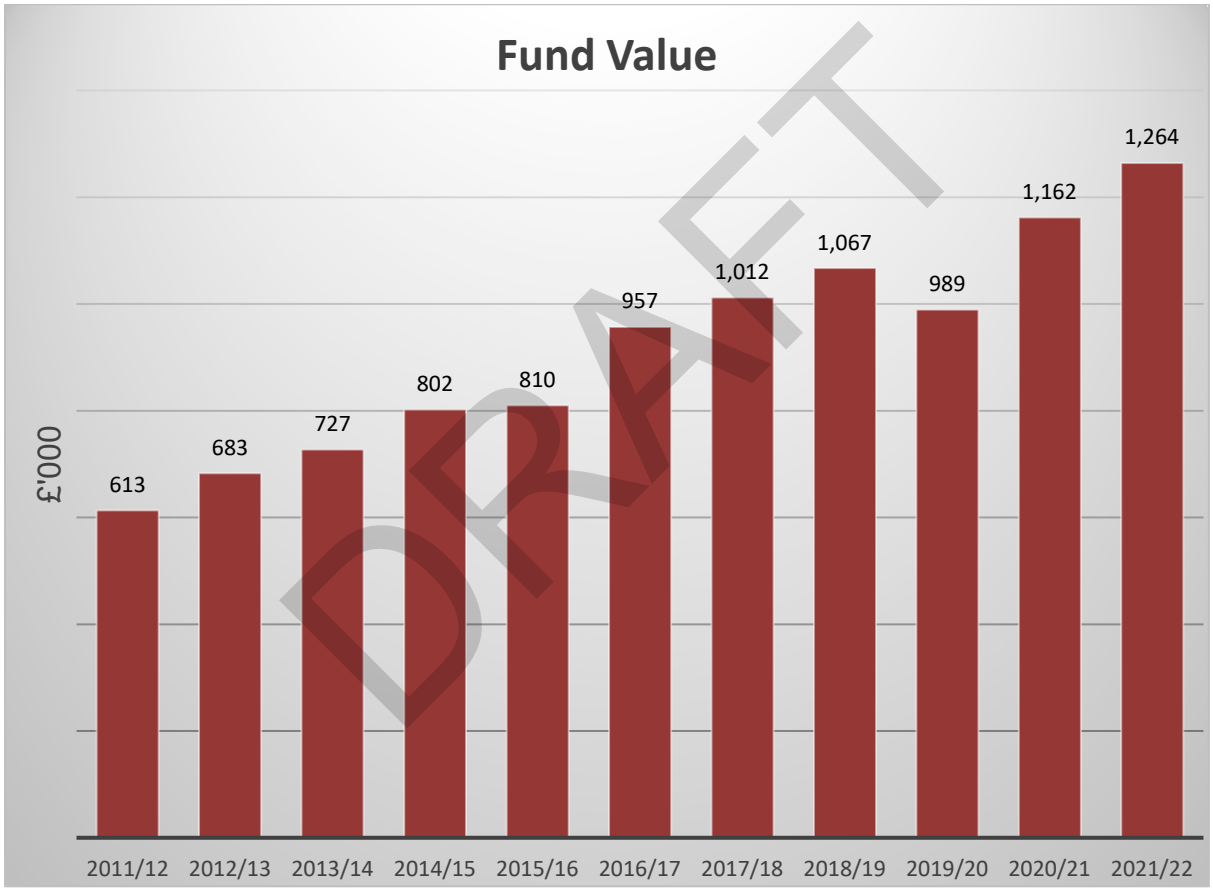
Asset Allocation Variances

The table above shows 4% variances between DGF strategic and actual weightings compared to its strategic allocation. This attributable to asset allocation decisions taken previously to fund LCIV Infrastructure with DGF allocation reduced to zero.

Weighting difference in Infrastructure is due to the allocated commitments to LCIV-Infrastructure offerings yet to be fully drawn-down and still invested in DGF.

Fund Value

The Fund value increased by £103m as recovery from the impact of COVID-19 continue to manifest in the asset prices during the current year under review.



Funding Strategy Statement

The Funding Strategy Statement sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.
Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward.
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding those liabilities

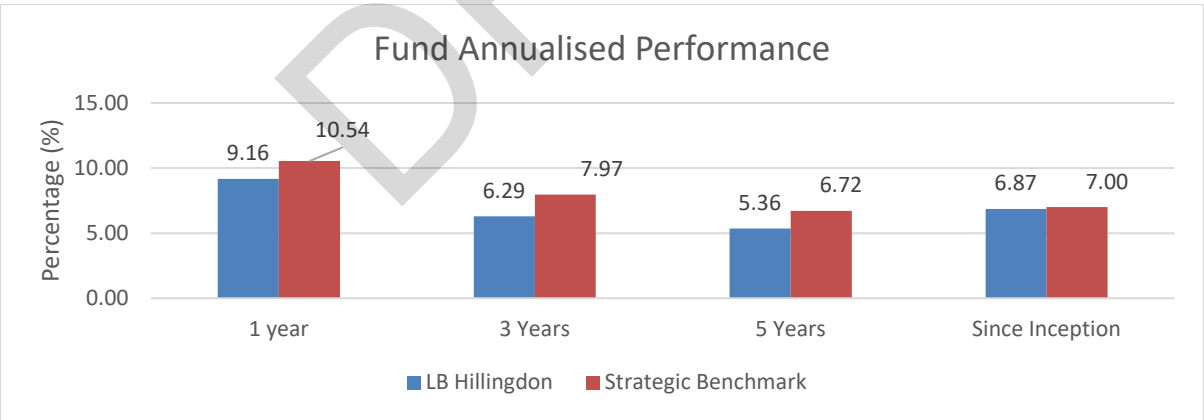
The latest Funding Strategy Statement can be accessed via the Pension Fund Web page.

https://archive.hillingdon.gov.uk/article/6492/Pension-fund

Investment Performance

Overall relative performance of the Fund for the year 2021/22 was 1.38% behind the overall benchmark. Across all performance measurement intervals of one, three and five years, the annualised returns were behind the respective benchmarks as shown in the chart below.

The since inception relative performance was 0.13% behind the benchmark.

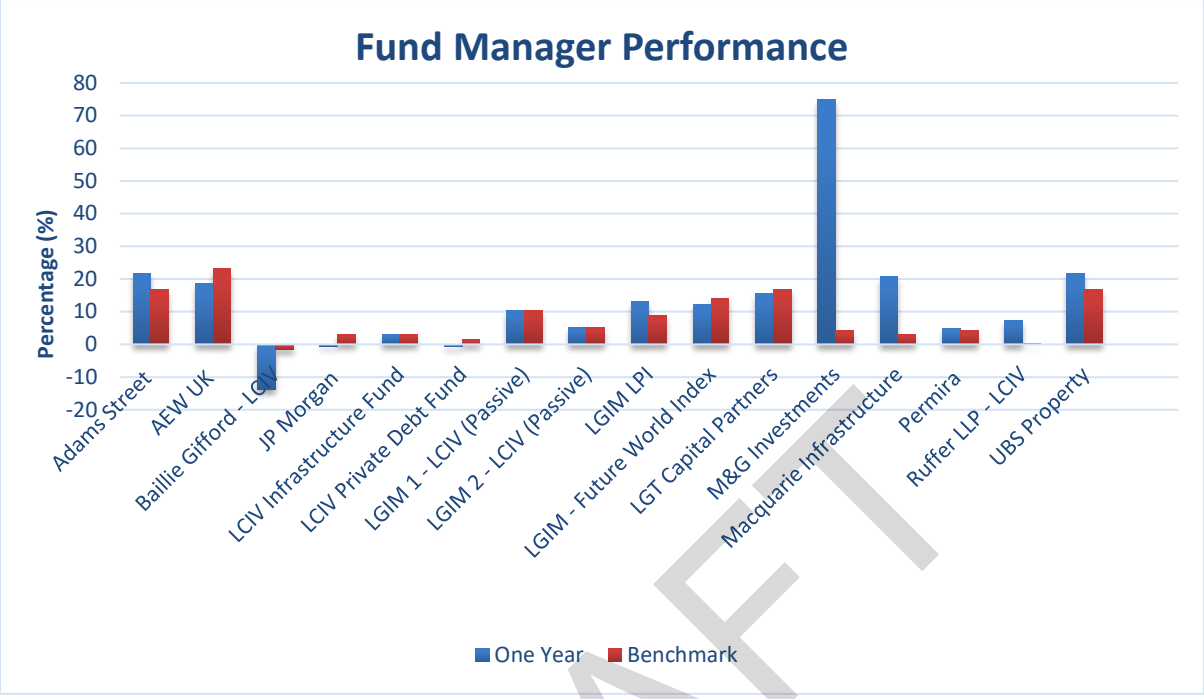


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by officers and the Fund's investment and independent advisers.

Investment Managers Performance

The overall performance of each manager is measured over rolling three-year periods, as inevitably there will be short-term fluctuations in performance.



Fund Manager Performance 2021/22		
	One Year	Benchmark
	%	%
Adams Street	21.55	16.72
AEW UK	18.48	23.14
Baillie Gifford - LCIV	-13.75	-1.69
JP Morgan	-0.52	3.17
LCIV Infrastructure Fund	3.10	3.17
LCIV Private Debt Fund	-0.68	1.47
LGIM 1 - LCIV (Passive)	10.40	10.43
LGIM 2 - LCIV (Passive)	5.11	5.11
LGIM LPI	12.97	8.96
LGIM - Future World Index	12.29	14.11
LGT Capital Partners	15.63	16.72
M&G Investments	74.94	4.17
Macquarie Infrastructure	20.68	3.17
Permira	4.76	4.17
Ruffer LLP - LCIV	7.27	0.17
UBS Property	21.55	16.72

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Adams Street, AEW UK, Baillie Gifford (LCIV), Churchill (LCIV) JP Morgan, LGT Capital, M&G, Macquarie, Permira, Ruffer (LCIV), Stepstone (LCIV), UBS Property

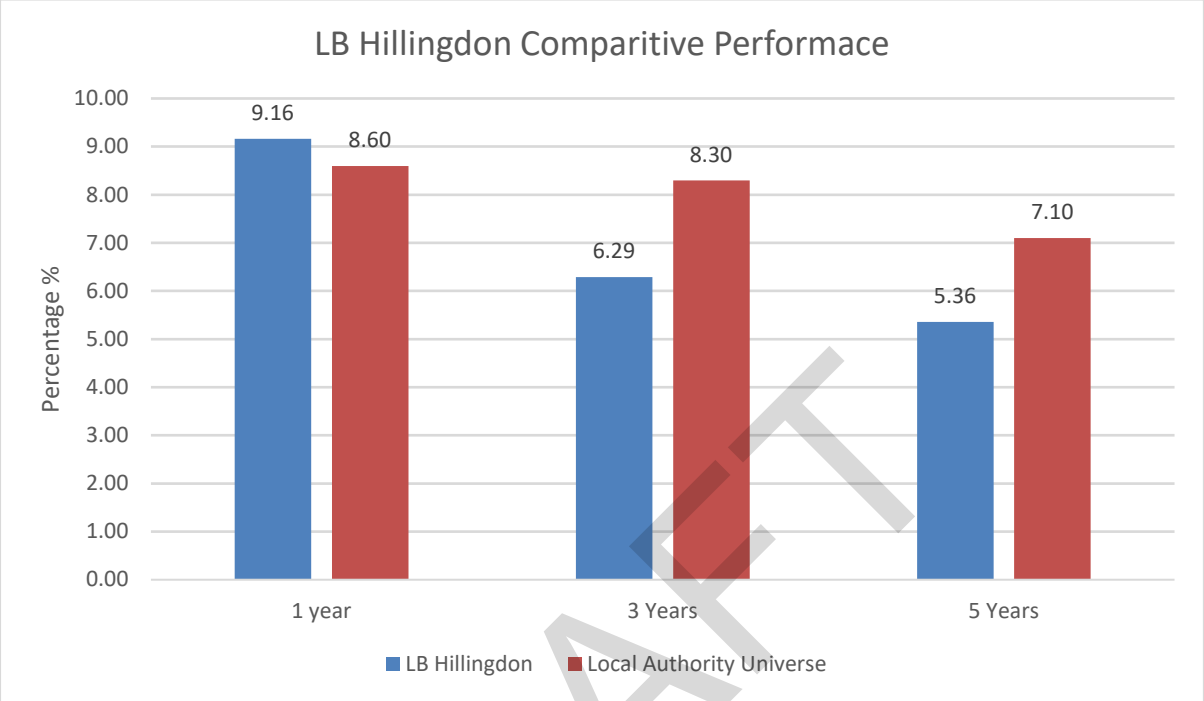
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. All LGIM mandates are passive.

- Underperformance of the Fund was mainly attributable to underperforming equity manager Baillie Gifford and JP Morgan, a Multi Asset Credit manager.

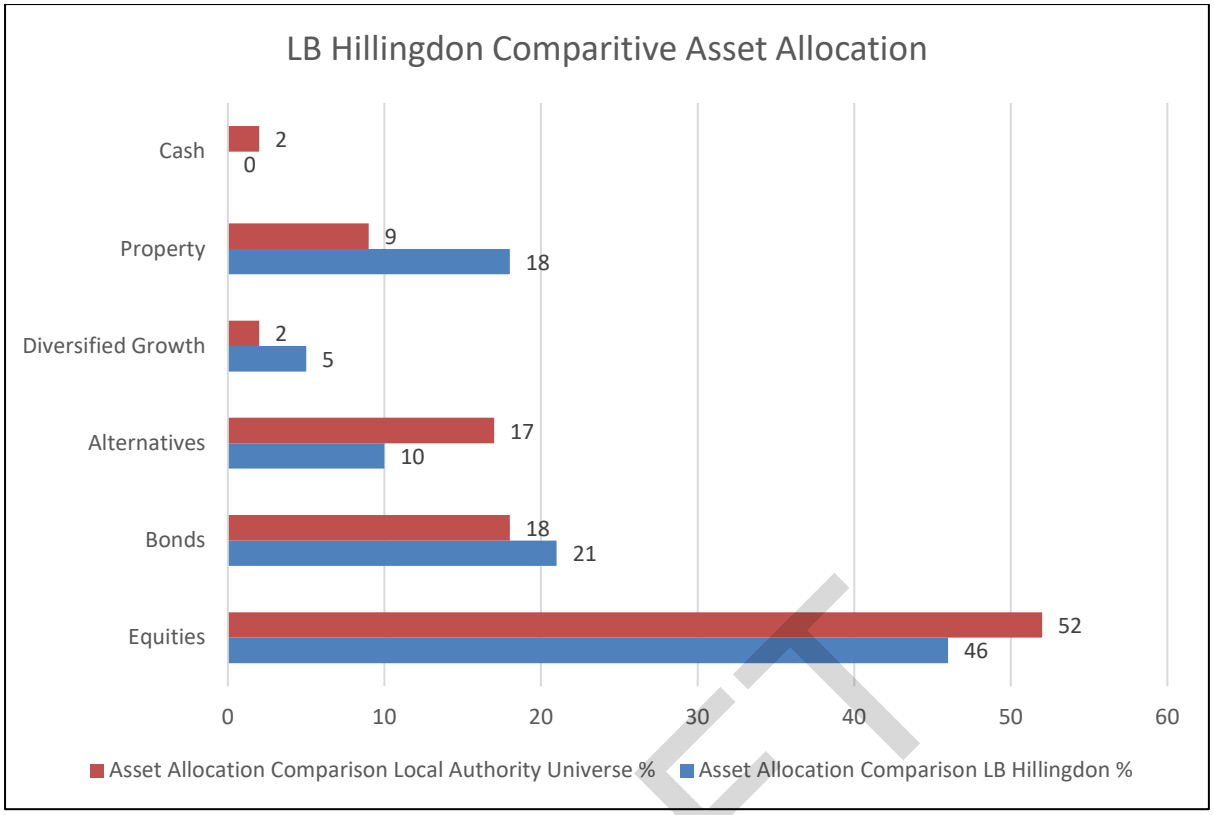
Historical Fund Managers Performance Returns				
Manager	***One Year***	***Three Years***	***Five Years***	***Benchmark***
	%	*%*	*%*	
Adams Street	21.55	20.31	15.62	MSCI All Countries World Index
AEW UK	18.48	9.90	8.62	IPD UK PPFI All Balanced Funds Index
JP Morgan	-0.52	3.6	3.09	LIBOR +3%pa
LGIM 1 - LCIV (Passive)	10.4	13.21	9.56	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unHedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)	5.11	3.5	4.18	Markit iBoxx £ Non-Gilt
LGT Capital Partners	15.63	11.87	13.86	MSCI All Countries World Index
M&G Investments	74.94	6.38	4.99	Sonia +4%pa
Macquarie Infrastructure	20.68	14.2	13.36	Sonia +3%pa
Permira	4.76	4.78	5.46	Sonia +4%pa
Ruffer LLP - LCIV	7.27	10.33	5.72	Sonia
UBS Property	26.62	8.25	7.49	IPD UK PPFI All Balanced Funds Index

The above tables provide information on those managers that manage fund assets and performance return over three different periods and their respective measurement benchmarks.

Comparative Performance



The graph above shows the Fund's investment returns in comparison with UK Local Authorities average over one, three and five-year periods. The performance difference is partly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund. In addition, performance has also been negatively impacted by poor results from the active equity managers.



Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. External investment managers are expected to undertake appropriate monitoring of underlying investments with regard to their policies and practices on all issues that could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors, integrating material ESG factors within its investment analysis and decision-making.

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.

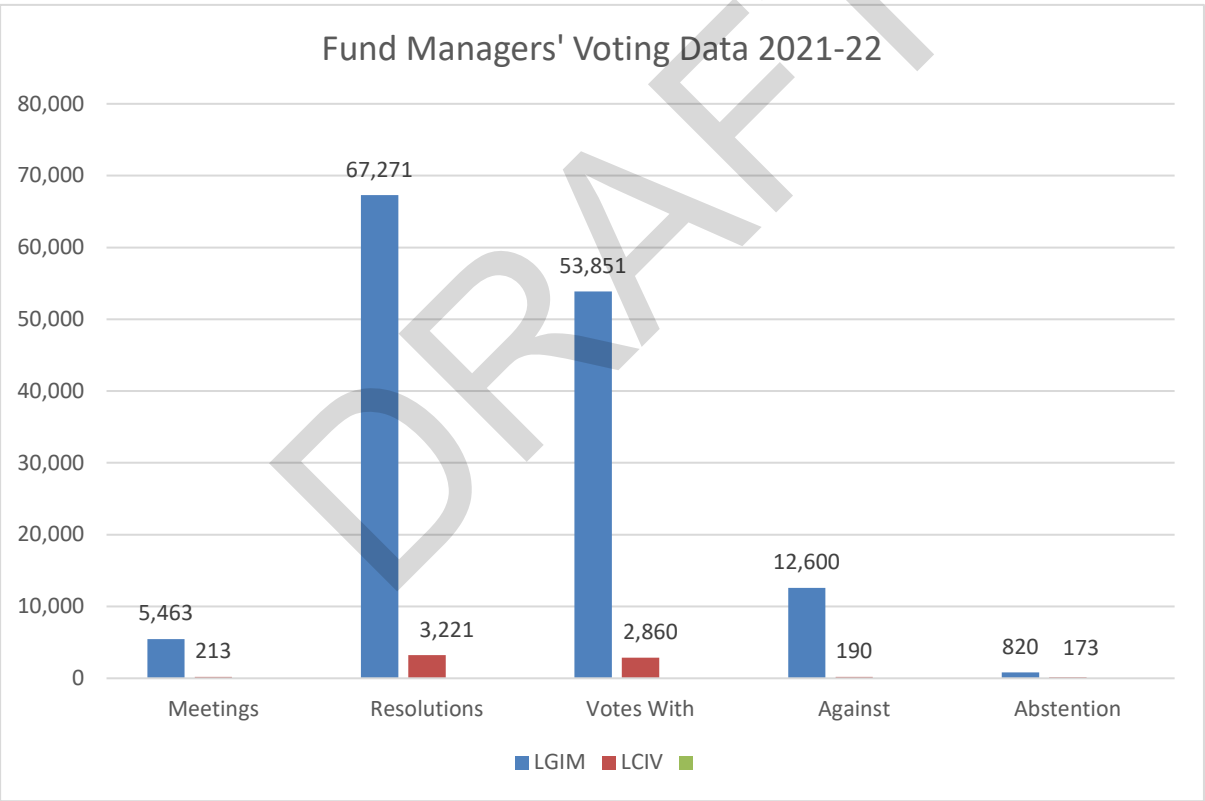
We as a Fund appreciates that to gain the attention of companies in addressing governance concerns; collaborating with other investors sharing similar concerns may be an effective tool.

The Fund applied for and was granted signatory status of the 2020 UK Stewardship Code on 02 September 2022.

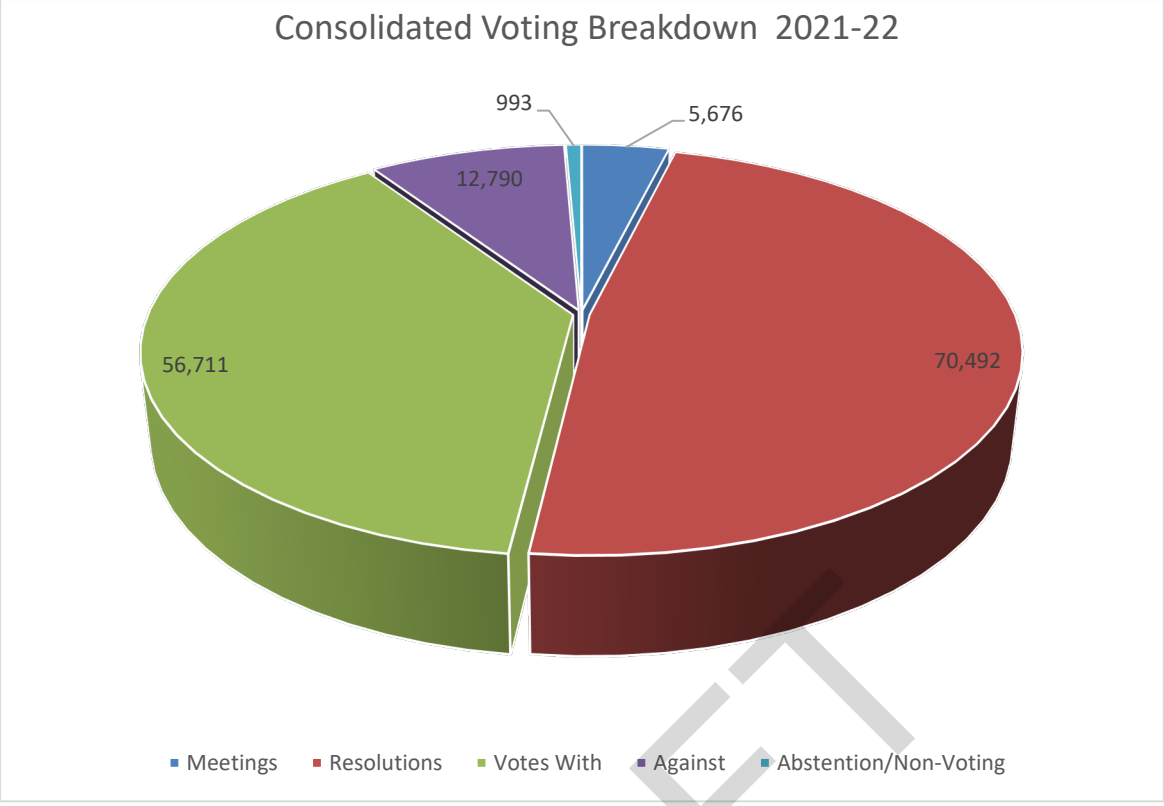
Exercise of voting rights

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues affecting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

The **UK Stewardship Code 2020** sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
The Fund is now a signatory to the 2020 UK Stewardship Code and has produced a compliance statement to achieve signatory status. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners.



The graph above shows a breakdown of voting activities by Fund's investment managers during 2021-22 financial year. LGIM were the most active in terms of voting activities by attending and voting at 5,463 meetings. All managers voting activity relates to the managers votes cast for the funds rather than Hillingdon specific shares.



Custody

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

Separation of Responsibilities

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

As of the 31st of March 2022 the Fund's bank accounts were held with Nat West. Funds not immediately required to pay benefits are held as interest bearing operational cash with the bankers and the custodian.

The actuary, Hymans Robertson is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

D. SCHEME ADMINISTRATION

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

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

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

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

PERFORMANCE INDICATORS
The contract with Hampshire Pension Services (Previously Surrey County Council until 27 Sept 2021) includes several key performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance	
		2020/21	2021/22
Death notification acknowledged, recorded and documentation sent	5 working days	79%	99%
Payment of death grant made	10 working days	75%	83%
Retirement notification acknowledged, recorded and documentation sent	10 working days	77%	92%
Payment of lump sum made	10 working days	78%	95%
Calculation of spouses benefits	10 working days	68%	75%
Transfers In - Quotes	20 working days	73%	75%
Transfers In - Payments	20 working days	80%	79%
Transfers Out - Quote	20 working days	79%	90%
Transfers Out - Payments	20 working days	82%	94%
Employer estimates provided	10 working days	87%	93%
Employee projections provided	10 working days	87%	99%
Refunds	20 working days	88%	99%
Deferred benefit notifications	20 working days	69%	80%

Note: 2021/22 performance figures are the average of both administration providers in the year under review. Please note since the administration service passed to Hampshire Pension Services, KPI's have consistently been maintained at 100%.

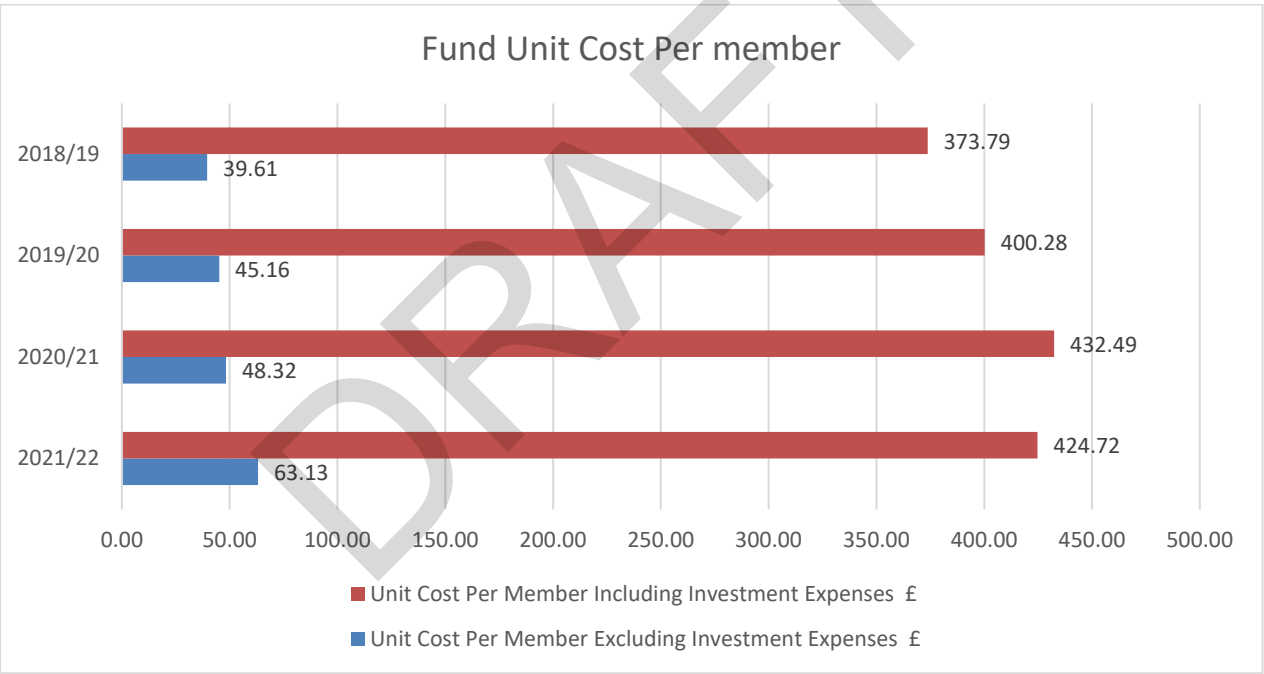
Performance indicators for all measurable metrics Improved throughout 2021/22 due largely to the impact of the new administration provider, Hampshire Pension Service (HPS), engaged in September 2021.

STAFFING COSTS ANALYSIS

The administration of the Fund is outsourced to Surrey County Council run consortium, Orbis, under a Service Level Agreement. Agreed monthly charges are invoiced to cover the administration charges along with any added costs for software licences incurred by Orbis.

1.75 FTE staff are employed by Hillingdon to deal with the added internal administration of the Fund and liaise with Surrey CC on issues or concerns raised by members.

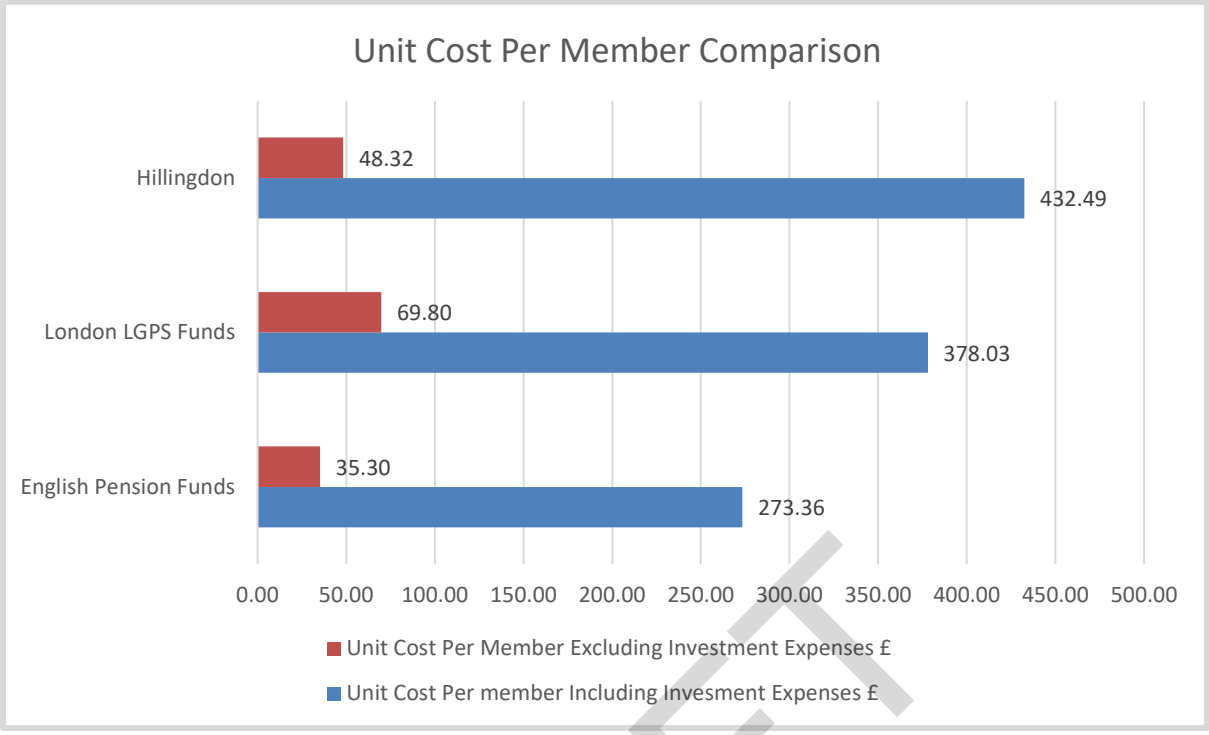
1.80 FTE staff are employed by the Finance Directorate to oversee the governance and accounting side of the Fund.



The increase in administration costs and Investment Management expenses were responsible for increased in costs per member from £48 in 2020/21 to £63 per head in 2021/22. The maturity profile of alternative investments resulted in increased performance fees paid to investment managers in this asset class as portfolios continued to wind down due to expiration of their respective investment periods.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2021/22 figures were yet to be released.

Membership costs comparison 2020/21

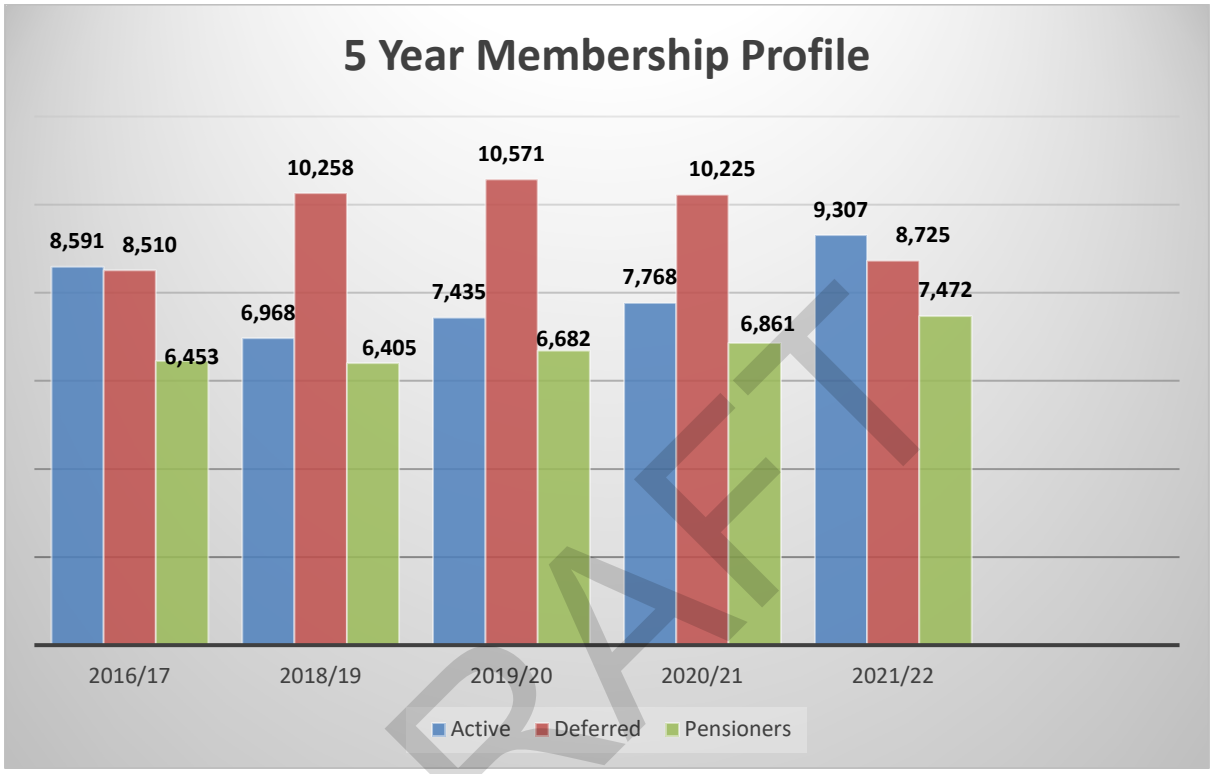


For the year 2020/21, the unit cost per member excluding investment expenses is about 27% higher than the average for Pension Funds in England but less than London Funds' average at £48 per member. The cost per member including Investment management expenses is about £432 per member and comes out higher than most London Pension Funds in comparison.

Based on comparative figures obtained from ONS SF3 available as of 31 March 2022.

MEMBERSHIP

Active and deferred membership continued to grow over the last two financial years. The most significant movement year-on-year is the increase in active membership by 333 and overall scheme membership increased year-on-year by 0.7% from 24,688 to 24,854 in 2020/21. The membership profile over the last five years is shown below:



The total number of pensioners in receipt of enhanced benefits due to ill-health or early retirement on the grounds of redundancy or efficiency of the service on 31 March over a five-year period is shown in the table below.

Reasons for leaving	2017/18	2018/19	2019/20	2020/21	2021/22
Ill Health Retirement	8	8	10	6	8
Redundancy	58	39	41	34	28
Total	**66**	**47**	**51**	**40**	**36**

COMPLAINTS

The Council's complaints procedure is available to any person who wishes to suggest or complain about the service. Number of complaints are reported as part of the administration KPI monitoring quarterly to Pensions Committee.

There is also a two-stage statutory Independent Dispute Resolution Procedure (IDRP) within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Chief Accountant, London Borough of Hillingdon.

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2021/22 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
		£	
London Borough of Hillingdon	Administering Authority	27,332,420.60	24.1
Barnhill School - ACADEMY	Scheduled Body	275,817.34	24.9
Belmore Primary School - ACADEMY	Scheduled Body	187,186.42	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	235,768.70	24.2
Bishopshalt School - ACADEMY	Scheduled Body	254,240.92	26.5
Charville Primary School	Scheduled Body	173,713.65	23.2
Coteford Academy - QED Academy Trust	Scheduled Body	149,734.20	25.9
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	131,075.11	23.7
Cranford Park School - Park Federation Academy	Scheduled Body	283,139.14	22.7
Douay Martyrs School - ACADEMY	Scheduled Body	330,699.78	25.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	277,485.56	20.9
Field End Infant School	Scheduled Body	139,779.53	24.1
Field End Junior School	Scheduled Body	137,736.86	24.1
Grangewood School - EDEN ACADEMY	Scheduled Body	229,122.58	20.9
Global Academy - Heathrow	Scheduled Body	116,675.68	19.2

Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	323,422.91	21.8
Harefield ACADEMY	Scheduled Body	110,318.26	22.5
Haydon Secondary School - ACADEMY	Scheduled Body	383,942.01	23.6
Heathrow Aviation (UTC) Alet	Scheduled Body	34,312.12	20.1
Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	152,931.83	21.9
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	77,368.34	19.4
John Locke Academy - Elliot Foundation Trust	Scheduled Body	128,158.31	20.3
Lake Farm Academy - Park Federation Academy	Scheduled Body	186,299.01	19.6
Laurel Lane Primary School	Scheduled Body	107,073.29	23.7
LDBS FRAYS ACADEMY BGC FRAYS TRUST	Scheduled Body	50,438.11	23.7
LHC	Scheduled Body	959,672.22	24.1
Moorcroft Special School - EDEN ACADEMY	Scheduled Body	217,880.09	20.9
NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	54,891.18	21.8
Northwood Academy - QED Academy Trust	Scheduled Body	167,241.09	23.8
Park Federation - Academy (Payroll Staff)	Scheduled Body	69,984.91	19.6
Pentland Field School - Eden Academy	Scheduled Body	270,681.38	20.9
Pinkwell Primary School - Elliot Foundation Trust	Scheduled Body	322,479.10	25.7
Queensmead Secondary School - QED Academy Trust	Scheduled Body	243,220.47	21.8
Queensmead QED - Naveen Bandari	Scheduled Body	18,500.24	21.8

Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	408,204.33	22.9
Ruislip Academy	Scheduled Body	309,785.76	25.7
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	133,674.05	31.3
St Martins Primary School	Scheduled Body	94,587.45	23.7
St Matthews Primary School - LBDS FRAYS ACADEMY	Scheduled Body	99,955.04	23.7
Park West Academy	Scheduled Body	123,012.02	20.7
Sunshine House (Eden Academy)	Scheduled Body	76,970.09	20.9
Swakeleys School - ACADEMY	Scheduled Body	188,149.45	21
HCUC	Scheduled Body	2,136,359.68	23.4
Uxbridge High School - ACADEMY	Scheduled Body	245,442.25	21
Vyners School - Multi Academy Trust	Scheduled Body	356,269.86	29.7
West Drayton Primary School	Scheduled Body	202,684.51	26.4
William Byrd Primary	Scheduled Body	216,951.04	27.3
Willows Special School - ACADEMY	Scheduled Body	76,328.03	31
Woodend Park School - Park Federation Academy	Scheduled Body	230,095.92	22.2
Young Peoples Academy - Orchard Hill Academy College Trust	Scheduled Body	130,918.92	19.4
AIP - Uxbridge High School	Admitted Body	69,162.91	37.5
BRAYBORNE FAC - Bishop Ramsey BISHOP RAMSEY	Admitted Body	12,562.79	35.1
Caterlink - Frays Academy	Admitted Body	14,462.81	30
Caterplus - Genuine Dining	Admitted Body	19,403.47	26
Cleantec (Harlington School)	Admitted Body	8,886.31	35.5
CCS HOMECARE SERVI	Admitted Body	93,348.54	24.1
CUCINA - Bishopshalt	Admitted Body	17,858.61	27.7
CUCINA - Ruislip High School	Admitted Body	2,133.25	27.7
E/N HERTS NHST	Admitted Body	11,931.84	34.6

ENERGY KIDZ LTD	Admitted Body	19,054.64	34.5
Greenwich Leisure Services	Admitted Body	42,462.78	28
Hayward Services (Highfield)	Admitted Body	2,558.47	34.5
Hayward Services (Hillingdon)	Admitted Body	12,263.96	34
Hayward Services (Guru Nanak)	Admitted Body	43,175.22	32.5
Hayward Services (Ryefield)	Admitted Body	10,753.74	37.3
HEATHROW TRAVEL CARE	Admitted Body	53,877.96	18.9
HERTS CATERING LTD	Admitted Body	3,039.05	35.6
Hillingdon & Ealing Citizens Advice	Admitted Body	37,133.49	23.2
PSD Childcare Limited	Admitted Body	1,746.00	34
Taylor Shaw - Haydon Academy	Admitted Body	6,132.94	33.7
West Drayton Primary - Pabulum	Admitted Body	9,466.29	34.4
Total		**39,654,214.43**	

Analysis of Fund Membership Data

The following table summarises the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

Analysis of Fund Membership Data	**Active**	**Ceased**	**Total**
Administering Authority	1	0	1
Scheduled Bodies	47	0	47
Admitted Bodies	21	0	21
	69	**0**	**69**

London Borough of Hillingdon Pension Fund ("the Fund")
Actuarial Statement for 2021/22

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as of 31 March 2019. This valuation revealed that the Fund's assets, which on 31 March 2019 were valued at £1,067 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £161 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	22.8 years	25.5 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as of 31 March 2022 is likely to be better than that reported at the previous formal valuation as of 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as of 31 March 2022, and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Craig Alexander FFA

30 May 2022

For and on behalf of Hymans Robertson LLP

F: GOVERNANCE

Pension Committee

The Pensions Committee is the formal decision-making body for the Fund. The Committee consists of five Councillor Members, all with voting rights. During 2021/22 these were:

Councillor
Martin Goddard
(Chairman)

Councillor
Duncan Flynn
(Vice-Chairman)

Councillor
John
Hensley

Councillor
Raju Sansarpuri

Councillor
John Morse
(Labour Lead)

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

Record of Attendance

Name	Meetings attended
Cllr Martin Goddard	4/4
Cllr Duncan Flynn	4/4
Cllr John Hensley	3/4
Cllr John Morse	3/4
Cllr Raju Sansarpuri	2/4

Local Pension Board

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

The members of the Board meetings during 2021/22 were:

Employer Representatives:
Anil Mehta – From August 2021
Hayley Seabrook – Till July 2021
Shane Woodhatch

Scheme Member Representatives:
Roger Hackett
Tony Noakes

Record of Attendance
Three Meetings were held in 2021/22: July 2021, November 2021, and January 2022

Name	Meetings attended
Anil Mehta	2/3
Hayley Seabrook	1/3
Roger Hackett	3/3
Tony Noakes	3/3
Shane Woodhatch	2/3

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

Knowledge and Skills

The CIPFA Knowledge and Skills framework has been utilised to track training needs of both Pensions Committee and Pensions Board with some addition categories on asset classes and investment topics for Pension Committee members to ensure investment decisions are supported with knowledge in those areas. All members have been asked to complete a review scoring themselves against each topic from 1-5 of knowledge with 5 being highly skilled and 1 being no knowledge.

The Fund has a training policy in place which is reviewed every 3 years and members are invited on relevant training when courses arise. In addition, training is provided at the start of Pension Committee and Pension Board meetings.

Internal training provision has been focused on topics where members have highlighted, they have low knowledge and skills from their training needs analysis or where complex areas of investment decision making are taking place and the Fund want to ensure the Committee are skilled in making those decisions.

Training Received in 2021/22

	Cllr Goddard (Chair)	Cllr Flynn	Cllr Hensley	Cllr Morse	Cllr Sansarpuri
ESG Objectives & Metrics – Isio	Y	Y	Y	N	Y
Inflation - Isio	Y	Y	Y	Y	N
Multi Asset Credit - Isio	Y	Y	Y	Y	N

Pensions Board

ANNUAL REPORT OF THE LOCAL PENSIONS BOARD Item 10

Committee	Pensions Committee
Reporting Board Member	Roger Hackett – Chair of the Local Pensions Board
Papers with report	Annual Report of the Pensions Board

RECOMMENDATION

1. That the Pensions Committee note the annual report of the Local Pension Board for the year 2021

REASON FOR ITEM

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee on the work undertaken during the year and future work plans.

This report has been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board during the year 2021

FINANCIAL IMPLICATIONS

The financial implications are included in the annual report

LEGAL IMPLICATIONS

The legal implications are included in the report

1 Chair's Foreword

Welcome to the Annual Report of the Local Pension Board (LPB) of Hillingdon Pension Fund (HPF). This report covers the period from January to December 2021. At the Board meeting of February 2021, the terms of reference of the Board was changed allowing for the election of a Chair for one year. I was privileged to be elected to serve as Chair of the Board for 2021.

The Board was able to carry out its role of assisting the Administering Authority in securing compliance with regulations despite the challenges of COVID-19. All the meetings were held virtually during this time and Officers and the administration service providers were able to deliver the expected services.

Some of the key achievements the Board oversaw in addition to the regular review of the Pensions Committee reports were:

- The fund achieving full compliance with the Pension Regulators Code of Practice 14
- Reviewing the Anti-Scamming Arrangements
- Raising awareness of cyber security and the Cyber scorecard assessment
- Monitoring breaches and ensuring corrective actions were implemented
- Full knowledge and skills assessment of Board members and the successful implementation of a comprehensive training plan.
- Supporting the Pensions Committee and Officers in successfully transferring the administration services from Surrey County Council (SCC) to Hampshire County Council (HCC).

The year ahead continues to be met with the challenges of COVID-19 and the resulting uncertainties in terms of changes in rules that the government may implement. However, the Fund has adapted to the changes including the ability to function with staff working remotely.

There are upcoming regulatory changes with which the Fund has to comply and that the Board will oversee; these include:

- The Pensions Regulator's Single Code of Practice
- Updated Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud & GMP

In closing I would like to thank the Pensions Committee, Officers, Advisers and fellow Board Members for their cooperation and support during my time as Chair and I look forward to helping the Fund address the challenges we expect to face in 2022.

Roger Hackett

Chair of Hillingdon Local Pension Board (2021)

2 Introduction to the Local Pension Board

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the scheme. Such assistance is to:

- Secure compliance with the regulations and any other legislation relating to the governance and administration of the scheme, and requirements imposed by the Pensions Regulator in relation to the scheme; and
- To ensure the effective and efficient administration of the scheme.

London Borough of Hillingdon Council ratified the establishment of the Board on 6th November 2014 to commence with effect from 1st April 2015. At its meeting 02 November 2017, Council agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two Scheme member representatives.

Membership of the Board

Employer Representatives	Scheme Member Representatives
Hayley Seabrook (Jan-21-Jul-21)	Roger Hackett
Shane Woodhatch	Tony Noakes
Anil Mehta (Aug-21-Dec21)	

Record of Attendance

Name	Feb-21	Apr-21	Jul-21	Nov-21
Roger Hackett	**Y**	**Y**	**Y**	**Y**
Tony Noakes	**Y**	**Y**	**Y**	**Y**
Hayley Seabrook	**Y**	**Y**	**Y**	**n/a**
Shane Woodhatch	**Y**	**N**	**Y**	**N**
Anil Mehta	**n/a**	**n/a**	**n/a**	**Y**

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the period from February to November 2020.

AON Hewitt is appointed as Governance advisers to support the development and work of the Board and attend meetings as necessary.

3 Summary of the Work of the Board

Transition of administration services
One of the largest pieces of work for the Board during 2021 was their involvement regarding the transition of pension administration services from Surrey County Council to Hampshire County Council.

The Board were heavily involved in monitoring the communications project, change of pension pay-date, risk management and data integrity. The Board provided robust challenge to officers and Committee to ensure all aspects and member interests were taken into consideration and managed appropriately.

The transition proceeded in accordance with the project timeline and successfully went live on 27th September 2021.

TPR code compliance review
The review of the Councils compliance with the TPR code of practice was initially presented to the Board in February 2020 with full compliance in 78 areas, partial compliance in 18 and 1 area of non-compliance. Work continued throughout 2020 reducing partial compliance to 7 and removing the non-compliance item.

During 2021, the Board has worked closely with officers and by the November meeting the Fund had moved to 100% compliance across all areas.

Updated Terms of Reference and Operating Procedures
In 2020 with the start of the pandemic it was noted there were some potential gaps in the Board's Terms of Reference. These were addressed with updated Terms of Reference being approved by the Council. This in turn allowed the Board to prepare a robust and comprehensive set of Operating Procedures giving greater detail and clarity on how the Board should operate.

Cyber Security & Pension Scams
Areas high on the agenda of the Board are cyber security and pension scams. Throughout 2021 various items have been raised by the Board to understand the Funds position. These included the completion of a cyber scorecard to understand the control environment and positioning within a sample of other Funds. Clarification was sought on the Council's own IT security as well as measures in place with third party suppliers. It was confirmed that the Fund's new administration partner HCC had signed up to the Pensions Regulator's Pension Pledge and that they were preparing a policy relating to pension scams and the recently introduced Pension Transfer guidance.

Other key areas of work have been undertaken as outlined below

- Monitoring of the data quality and breaches
- Review of Policy documents to ensure they are kept up to date
- Monitoring the performance of the Pensions Administration

- ESG – Stewardship Code and TCFD progress

Future Work of the Board

As noted in the Chair's foreword, a number of key areas will be monitored in 2022 including:

- The Pensions Regulator's Single Code of Practice
- Updated Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud and GMP.

Another key area will also focus on the progress of the triennial Fund valuation which is due to commence in April 2022. The Board will attend the session in January 2022 to prepare the Committee and Board members for the process, training and what to expect.

The Board will also keep a keen eye on how the new administration partnership with HCC progresses past the initial implementation.

4 Areas Investigated by the Board

No official investigations were required or undertaken by the Board.

5 Details of any Conflicts of Interest

The SAB guidance recommends that the Board reports details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed.

Declaration of interest remains on the agenda at the start of each meeting and in addition to the register of interest, Pension Board members have been requested to renew their declarations of interest form in line with best practice.

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest.

6 Areas of Concern or Risk

Regulatory changes **–** The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include McCloud Judgement; Goodwin Judgement; GMP reconciliation, Pensions Dashboard and potentially a new iteration of the Exit Cap.

In addition, the framework under which the Fund will need to operate is also expected to materially change with the new Single Code of Practice and Good Governance Framework implementation.

The Board will continue to monitor and seek assurance from Officers that the changes can be effectively delivered in compliance with the regulatory deadlines.

7 Training

7.1 Regular training has been made available to the Board and is a standing item on the quarterly work programme. As a result of the move to virtual meetings, training has been delivered separately from the meetings. The schedule below outlines the training undertaken by the Board.

Areas of Training	Date	Roger Hackett	Tony Noakes	Hayley Seabrook*	Shane Woodhatch	Anil Mehta*
The Pensions Regulator Public Sector Toolkit	On-demand	Y	Y	Y	Y	Y
The Pensions Regulator Pensions Scam	On-demand	Y				
AON - Introduction to the LGPS	On-demand	Y				
AON - Pension legislation and guidance, and national governance	On-demand	Y				
AON -Local governance and pensions procurement and contract management	On-demand	Y				
AON - Funding strategy and actuarial methods, and financial, accounting and audit matters	On-demand	Y				
AON -Investments – Strategy, asset allocation, pooling, performance, and risk management	On-demand	Y				
AON -Investments - Financial markets and products	On-demand	Y				
AON – Pension Administration & Communications	On-demand	Y				
CIPFA K&S Assessment	On-demand	Y	Y	Y	Y	Y
CIPFA LPB Spring Seminar	15/02/21	Y				
AON Conflicts of Interest Training	Feb-21	Y	Y	Y		
Hymans Keeping the LGPS connected	25/02/21	Y				
AON mitigating cyber security risk	10/03/21	Y				
AON conference current issues for DB schemes	22/03/21	Y				
TPR Pensions scam webinar - Pensions pledge	31/03/21	Y				
Russell-Cooke LLP - how to avoid scams	23/02/21	Y				
AON Cyber risk in LGPS	19/03/21	Y			Y	
CIPFA Annual PB meeting	23/06/21	Y				
Hymans Keeping the LGPS connected	12/05/21	Y				
PLSA - LA Conference	18-19/05/21	Y				
Governance update training (joint) Clare Scott	02/07/21	Y	Y		Y	
Sackers Quarterly Update	15/07/21	Y				
Professional Pensions Live	14/09/21	Y				
Hymans Robertson: LGPS Pensions Administration: Future Challenges and Changes.	30/11/21	Y				

*Term of Office: H Seabrook Jan21-Jul21, A Mehta Aug21-Dec21)

7.2 The future training programme for the Board has been set out below. Board members have been requested to refresh the knowledge and skills assessment to assist officers to develop a targeted training programme.

Areas of Training	Date
AON CIPFA K&S Framework 7 Sessions	On-demand
Triennial Valuation (Joint with Committee)	19-Jan 2022
Investment and portfolio construction in an inflationary/COVID environment - Baillie Gifford view (Joint with Committee)	9-Feb-2022

8 Work Plan

The workplan below sets out the tasks undertaken by the Pension Board during 2021.

Meetings	**Specific topics**
17 February 2021	• Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Terms of Reference • Pension Board Annual Report • Review of Pension Committee Reports
21 April 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Terms of Reference • Review of Pension Committee Reports
28 July 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Cyber Scorecard • Review of Pension Committee Reports
3 November 2021	• Administration Report and regulatory update • tPR Checklist review & focus areas • Training Update Report • PB Code of Practice • Breaches Log • Cyber Security • Operating Procedures • Review of Pension Committee Reports

The Future workplan of the Board is set out below.

Meetings	Specific topics
26 January 2022	• TPR Checklist review & focus areas • Training Update Report • Administration Report • Draft PB Annual Report • Breaches Log • Review of Pension Committee Reports
4 May 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Data Cleansing Plan/Update • Training Update Report • Breaches Log • Review of Pension Committee Reports
20 July 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Breaches Log • Review of Pension Committee Reports
9 November 2022 (TBC)	• Administration Report • TPR Checklist review & focus areas • Single Code Update • Training Update Report • Breaches Log • Review of Pension Committee Reports
29 April 2023 (TBC)	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Breaches Log • Review of Pension Committee Reports

9 Expenses

The Board incurred expenses of £770 in relation to its operations in 2021. (This does not include the standard governance support fees)

G: FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ('the Code').

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

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

   The Corporate Director of Finance has also:

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

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as of 31st March 2022 and its income and expenditure for the year then ended.

Andy Evans
CORPORATE DIRECTOR OF FINANCE
28 September 2022

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that the draft Pension Fund accounts were considered by Pensions Committee at meetings held on 28-09-2022.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 28 September 2022.

Cllr Martin Goddard
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)
28 September 2022

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2022 £'000	31 March 2021 £'000
Contributions	4	50,669	48,681
Transfers In from other pension funds	5	4,297	4,803
		54,966	**53,484**
Less: Benefits	6	(52,029)	(47,211)
Less: Payments to and on account of leavers	7	(5,048)	(3,541)
		(57,077)	**(50,752)**
Net additions/(withdrawals) from dealings with members		**(2,111)**	**2,732**
Less: Management expenses	8	(10,832)	(10,749)
Net additions/(withdrawals) including fund management expenses		**(12,943)**	**(8,017)**
Return on investments			
Investment income	9	11,858	13,667
Profit and losses on disposal of investments and changes in market value of investments	10A	102,033	170,519
Taxes On Income		(35)	(22)
Net return on investments		**113,856**	**184,164**
Net Increase/(Decrease) in the fund		**100,913**	**176,147**
Net Assets at start of year		**1,165,202**	**989,055**
Net Assets at end of year		**1,266,115**	**1,165,202**

NET ASSETS STATEMENT

	Note	31 March 2022 £'000	31 March 2021 £'000
Investment Assets	10	1,264,200	1,161,568
Investment Liabilities	10	0	0
Total net investments		**1,264,200**	**1,161,568**
Current Assets	11	2,939	4,323
Current Liabilities	12	(1,024)	(689)
Net assets of the fund available to fund benefits at the end of the reporting period		**1,266,115**	**1,165,202**

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.

Andy Evans
Corporate Director of Finance
8 July 2022

Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

AIP – Uxbridge High school

Braybourne Facilities - Bishop Ramsey Cleaners

CCS Homecare Service

Caterlink - Frays Academy

Caterplus – Genuine Dining

Cucina - Ruislip High School

Cucina - Bishopshalt

Energy Kidz Ltd

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak School
- Ryefield School

Heathrow Travel Care

Herts Catering

Hillingdon & Ealing Citizens Advice

HPS Services FM Limited

NHS - Michael Sobel House

Pabulum - West Drayton Academy

PSD Childcare Limited

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
- Sunshine House School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Field End Junior School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Notes to the Pension Fund Account

Haydon Academy

Heathrow Aviation Engineering

Hermitage Primary School

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
- Skills HUB

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
- Brookside Primary School

Ruislip Academy

Ryefield Primary School

Vyners Academy

Park Academy West London

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2022	31 March 2021
Number of employers with active members	69	61
Number of employees in scheme		
London Borough of Hillingdon	3,562	4,972
Other employers	2,031	2,796
Total	**5,593**	**7,768**
Number of Pensioners		
London Borough of Hillingdon	6,643	6,187
Other employers	759	674
Total	**7,402**	**6,861**
Deferred Pensioners		
London Borough of Hillingdon	8,635	7,566
Other employers	3,364	2,659
Total	**11,999**	**10,225**

c. Funding

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

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 2022. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as of 31 March 2019, this covers the three financial years following 2019/20 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% of pensionable pay, as per the 2019 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 is one direct investment 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 2021-22) and governance is overseen by the Pensions Board (Four meetings in 2021-22). Pensions Committee and Pensions Board consisted of the following members in 2021/22:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Duncan Flynn (Vice-Chairman)
Cllr Carol Melvin - Till Nov 21
Cllr John Morse
Cllr Raju Sansarpuri
Cllr John Hensley – From Dec 2021

Pensions Board

Roger Hackett (Scheme Member Representative)
Tony Noakes (Employee Representative)
Anil Mehta – From November 2021
Hayley Seabrook (Employer Representative)- Till July 2021
Shane Woodhatch (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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 accrual 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 of 31 March 2022.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2022). 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 accrual 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 accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2021/22, no such fees are based on estimates (2020/21: £41k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

e. Administration expenses are paid when invoiced by third party providers through the administering 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. Contribution Income
Normal contributions are accounted for on accrual basis as follows:
- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, that rise according to pensionable pay.
- Employer contributions are set at a percentage rate recommended by the fund actuary for the period which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant body.
Additional employers' contributions in respect of ill-health are accounted for as part of the tri-ennial valuation exercise and employers' contribution rates adjusted accordingly for relevant employers. Early retirement strain costs are accounted for on accrual basis.

Notes to the Pension Fund Account

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 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 is accrued on daily basis.

Critical Judgements and Uncertainties

l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as of 31 March 2022 was £319,965k (£294,037k on 31 March 2021).

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.

Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, 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 £8,545k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2022. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £43,208k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £1,641k. 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 assumptio
Direct Lending - Permira Credit Solutions & LCIV Private Debt	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statem are £65,107k. There is a risk that this investment ma under or overstated in the accounts. There are no op traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptio**
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 2022 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19.	The total Pooled property investments in the fina statement is £231,826k. There is a risk the investments be over or under stated in the accounts. These asset clas investments are not openly traded and a lot of unobserv inputs are utilised in the valuation of the assets. Th unobservable valuation assumptions may have a profo effect on the actual pricing at year end thus skew sh valuation the fund accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptio**
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 2022 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 individual assumptions can be measured. For instance increase in the discount rate assumption would result decrease in pension liability. An increase in assu earnings would increase the value of liabilities and increase in assumed life expectancy would increase liability. This would not effect the Fund Account or Net A Statement, but would impact the Council Accounts. B are the details of the sensitivity analysis to the metho assumptions used for year ended 31 March 2022 by fund's actuaries.

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

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2022	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.1% p.a increase in the Discount Rate	2%	37
1 year increase in member life expectancy	4%	79
0.1% p.a. increase in the Salary Increase Rate	0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	35

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 2022 £'000	31 March 2021 £'000
Employees	11,015	10,231
Employers Contributions:		
Normal	33,824	32,737
Deficit Funding	5,830	5,713
	50,669	**48,681**

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 2022 £'000	31 March 2021 £'000
LB Hillingdon	35,181	34,759
Scheduled Bodies	14,889	13,528
Admitted Bodies	599	394
	50,669	**48,681**

5. TRANSFERS IN

	31 March 2022 £'000	31 March 2021 £'000
Individual transfers in from other schemes	4,297	4,803
	4,297	**4,803**

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2022 £'000	31 March 2021 £'000
Pensions	(42,557)	(39,955)
Commutations and Lump Sum Retirement Benefits	(8,024)	(6,478)
Lump Sum Death Benefits	(1,448)	(778)
	(52,029)	**(47,211)**

By authority	31 March 2022 £'000	31 March 2021 £'000
LB Hillingdon	(47,038)	(43,708)
Scheduled Bodies	(4,439)	(3,177)
Admitted Bodies	(552)	(326)
	(52,029)	**(47,211)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2022 £'000	31 March 2021 £'000
Refunds to members leaving service	(161)	(82)
Individual transfers out to other schemes	(4,887)	(3,459)
	(5,048)	**(3,541)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2022 as follows:

	31 March 2022 £'000	31 March 2021 £'000
Administrative Costs	(1,385)	(963)
Investment Management Expenses	(9,222)	(9,548)
Oversight and Governance	(225)	(238)
	(10,832)	**(10,749)**

Notes to the Pension Fund Account

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2021/2022	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	0	0	0	0
Pooled Investments	(5,703)	(3,464)	(979)	(1,260)
Pooled Property Investments	(3,361)	(2,449)	(148)	(764)
Private Equity	(98)	(71)	(5)	(22)
	(9,162)	**(5,984)**	**(1,132)**	**(2,046)**
Custody Fees	(60)			
Total	**(9,222)**			

2020/2021	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(94)	(88)	0	(6)
Pooled Investments	(5,971)	(2,827)	(1,242)	(1,902)
Pooled Property Investments	(2,323)	(1,307)	(104)	(912)
Private Equity	(1,099)	(241)	(797)	(61)
	(9,487)	**(4,463)**	**(2,143)**	**(2,881)**
Custody Fees	(61)			
Total	**(9,548)**			

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2022 £'000	31 March 2021 £'000
Equities	0	(6)
Pooled Investments	(1,260)	(1,902)
Pooled Property Investments	(764)	(912)
Private Equity	(22)	(61)
	(2,046)	**(2,881)**

8C. EXTERNAL AUDIT COSTS

	31 March 2022 £'000	31 March 2021 £'000
Payable in Respect of External Audit	(26)	(40)
	(26)	**(40)**

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

Notes to the Pension Fund Account

9. INVESTMENT INCOME

	31 March 2022 £'000	31 March 2021 £'000
Income from Equities	57	1,398
Pooled Property Investments	3,104	2,108
Pooled Investments- Unit trusts and other managed funds	8,546	10,061
Interest on cash deposits	42	18
Other (for example from stock lending or underwriting)	109	82
	11,858	**13,667**

10. INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Investment Assets		
Equities	29	42
Pooled investments	1,011,872	943,976
Pooled property investments	231,826	188,926
Private equity	8,545	13,369
Other Investment balances		
Cash deposits	11,821	15,166
Investment income due	107	89
Total investment assets	**1,264,200**	**1,161,568**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	0	0
Total investment liabilities	**0**	**0**
Net investment assets	**1,264,200**	**1,161,568**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2021/22	Value 1 April 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2022 £'000
Equities	42	0	0	(13)	29
Pooled Investments	943,976	422,330	(414,496)	60,062	1,011,872
Pooled Property Investments	188,926	12,294	(3,060)	33,666	231,826
Private Equity	13,369	122	(5,763)	817	8,545
	1,146,313	**434,746**	**(423,319)**	**94,532**	**1,252,272**
	1,146,313	**434,746**	**(423,319)**	**94,532**	**1,252,272**
Other investment balances					
Cash Deposits	15,166	0	0	0	11,821
Investment Income Due	89	0	0	0	107
Outstanding Sales	0	0	0	0	0
Adjustments to Market Value Changes	0	0	0	7,501	0
Total Investment Assets	**1,161,568**			**102,033**	**1,264,200**

2020/21	Value 1 April 2020 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
Other investment balances					
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
Total Investment Assets	**986,131**			**170,519**	**1,161,568**

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Equities		
UK		
Quoted	29	42
	29	**42**
Pooled funds - additional analysis		
Fixed income unit trust	268,297	261,498
Diversified Growth Funds	54,528	50,833
Infrastructure Funds	43,208	34,327
Global Equity	577,640	537,065
Limited liability partnerships	68,176	60,253
	1,011,849	**943,976**
Other Investments		
Pooled property Investments	231,849	188,926
Private equity	8,545	13,369
	240,394	**202,295**
Cash deposits	11,821	15,166
Investment income due	107	89
Sales Settlements Outstanding	0	0
	11,928	**15,255**
Total investment assets	**1,264,200**	**1,161,568**
Investment liabilities		
Purchase Settlements Outstanding	0	0
Total investment liabilities	0	0
Net investment assets	**1,264,200**	**1,161,568**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2022 £'000	%	Market Value 31 March 2021 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	729,696	58	668,045	58
London CIV Asset Pool	166,219	13	127,945	11
	895,915	71	795,990	69
Investments Managed Outside of London CIV Asset Pool				
Adams Street Partners	5,823	0	10,103	1
AEW UK	82,349	7	60,712	5
JP Morgan Asset Management	115,979	9	116,580	10
LGT Capital Partners	2,722	0	3,266	0
M&G Investments	1,641	0	1,248	0
Macquarie Infrastructure	17,853	1	20,862	2
Permira Credit Solutions	36,624	3	59,005	5
UBS Global Asset Management (Equities)	93	0	119	0
UBS Global Asset Management (Property)	93,954	7	78,990	7
Other*	11,247	1	14,693	1
	368,285	29	365,578	31
Total	**1,264,200**	**100**	**1,161,568**	**100**

* 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 £29k (31 March 2021: £29k). 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 £31k (31 March 2021: £30k) 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 2022 £'000	31 March 2021 £'000
Debtors		
Employers' contributions due	374	63
Employees' contributions due	107	16
Other	83	0
Cash balances	2,375	4,244
	2,939	**4,323**

12. CURRENT LIABILITIES

	31 March 2022 £'000	31 March 2021 £'000
Creditors		
Other local authorities (LB Hillingdon)	(244)	(172)
Other entities	(780)	(517)
	(1,024)	**(689)**

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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, £106k was received in additional voluntary contributions by members, in 2021/22 (£154k 2020/21) and AVC Fund value was £4,997k (£5,175k 2020/21). Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

	Market Value 31 March 2022 £'000	Market Value 31 March 2021 £'000
Prudential Assurance Company	4,997	5,175
	4,997	**5,175**

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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held on 31 March 2022.

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).

Sensitivity of assets valued at level 3

	Valuation range (+/-)	Market Value 31 March 2022 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	43,208	47,529	38,887
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	66,537	73,191	59,883
Pooled Property - UBS Property & AEW UREF	10%	48,912	53,803	44,021
Private Equity - d	5%	8,545	8,972	8,118
Venture Capital	5%	41	43	39
Total		**167,243**	**183,538**	**150,948**

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) The assumed movement is based fluctuations in market prices for comparable assets, real estate market Illiquidity and counterparty default.

d) 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.

Values as at 31 March 2022	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss				
Equities	29	0	0	29
Pooled Investments	0	900,423	111,427	1,011,850
Pooled Property Investments	0	182,936	48,912	231,848
Private Equity	0	0	8,545	8,545
	29	**1,083,359**	**168,884**	**1,252,272**
Financial Liabilities at Fair Value through Profit and Loss				
Total	**29**	**1,083,359**	**168,884**	**1,252,272**

Values as at 31 March 2021	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss				
Equities	42	0	0	42
Pooled Investments	0	849,355	94,621	943,976
Pooled Property Investments	0	0	188,926	188,926
Private Equity	0	0	13,369	13,369
	42	**849,355**	**296,916**	**1,146,313**
Financial Liabilities at Fair Value through Profit and Loss				
Total	**42**	**849,355**	**296,916**	**1,146,313**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2021/22.

Notes to the Pension Fund Account

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

Fund Managers & Asset Categories	Value 1 April 2021	Transfers Out of Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,369	0	122	(5,763)	(840)	1,657	8,545
Private Finance - M&G	1,248	0	0	(333)	836	(110)	1,641
Infrastructure - Maquarie & LCIV	34,327	0	9,704	(5,342)	(348)	4,867	43,208
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property & AEW UREF	188,926	(157,426)	9,477	(65)	8,052	(52)	48,912
Direct Lending - Permira & LCIV Private Debt	59,005	0	29,481	(20,563)	(1,448)	62	66,537
Total Level 3 Assets	**296,916**	**(157,426)**	**48,784**	**(32,066)**	**6,252**	**6,424**	**168,884**

There were transfers out of level 3 assets in 2021/22. Property Investments in UBS, AEW & LGIM were reclassified as Level 2 assets due to the removal of uncertainty clauses in the valuation of these assets for the year under consideration.

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

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 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 to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

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

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

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

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

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

Pooled Property: AEW, UBS Property & LGIM LPI
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."

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

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 & LGIM LPI
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. These are:

i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

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 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Financial Assets								
Equities	29	0	0	29	42	0	0	42
Pooled Investments	1,010,420	0	0	1,010,420	943,976	0	0	943,976
Pooled property investments	231,848	0	0	231,848	188,926	0	0	188,926
Private Equity	8,545	0	0	8,545	13,369	0	0	13,369
Cash	0	11,821	0	11,821	0	15,166	0	15,166
Other Investment balances	0	107	0	107	0	89	0	89
	1,250,842	**11,928**	**0**	**1,262,770**	**1,146,313**	**15,255**	**0**	**1,161,568**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,250,842**	**11,928**	**0**	**1,262,770**	**1,146,313**	**15,255**	**0**	**1,161,568**

Notes to the Pension Fund Account

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	31 March 2022 £000's	31 March 2021 £000's
Designated at Fair Value through profit and loss	102,033	170,519
	102,033	**170,519**

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

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

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

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

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 2022 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	632,167	15.00%	726,992	537,342
UK Equity	29	15.00%	33	25
Bonds	268,297	6.60%	286,005	250,589
Alternatives	119,931	3.50%	124,129	115,733
Property	231,848	5.50%	244,600	219,096
Total	**1,252,272**		**1,381,758**	**1,122,786**

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

Asset Type	Value as at 31 March 2021 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	587,857	14.80%	674,860	500,854
UK Equity	42	14.80%	48	36
Bonds	261,498	5.70%	276,403	246,593
Alternatives	107,990	4.20%	112,526	103,454
Property	188,926	5.00%	198,372	179,480
Total	**1,146,313**		**1,262,209**	**1,030,417**

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 of 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis
The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Value as at 31 March 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	11,821	118	11,939	11,703
Bonds - pooled funds	268,297	2,683	270,980	265,614
Total change in assets available	**280,118**	**2,801**	**282,919**	**277,317**

	Value as at 31 March 2021	Potential movement on 1.2% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,166	182	15,348	14,984
Bonds - pooled funds	261,498	3,138	264,636	258,360
Total change in assets available	**276,664**	**3,320**	**279,984**	**273,344**

Notes to the Pension Fund Account

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 of 31 March 2022, 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 of 31 March 2022 and as at the previous period ending 31 March 2021.

Currency exposure by asset type

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 6.60%, based on the data provided by PIRC. A 6.60% 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 6.60% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	**Asset Value 31 March 2022**	**Potential market movement**	**Value on increase**	**Value on decrease**
		5.30%		
	£'000	**£'000**	**£'000**	**£'000**
Pooled Funds	521,174	27,622	548,796	493,552
Private Equity/Infrastructure	51,753	2,743	54,496	49,010
	572,927	**30,365**	**603,292**	**542,562**

Assets exposed to currency risk	**Asset Value 31 March 2021**	**Potential market movement**	**Value on increase**	**Value on decrease**
		6.60%		
	£'000	**£'000**	**£'000**	**£'000**
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	521,073	**34,391**	**555,464**	**486,682**

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, except for 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 NatWest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements on 31 March 2022 was £14,196k (31 March 2021: £19,410k) and this was held with the following institutions:

Notes to the Pension Fund Account

Summary	Rating S&P	Balances as at 31 March 2022 £'000	Rating S&P	Balances as at 31 March 2021 £'000
Money market funds				
Northern Trust	AAAf S1+	11,821	AAAf S1+	15,366
Bank current accounts				
NatWest	A	2,375	A	4,044
Total		**14,196**		**19,410**

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 NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£2,375k). 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 of 31 March 2022, these assets totalled £900,424k, with a further £11,821k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

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

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as of 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as of 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 taxpayer 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 partially been offset by lower-than-expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term). A new actuarial valuation will be carried out based on assets and liabilities value as of 31 March 2022, with the results expected to be published later in the year.

Notes to the Pension Fund Account

Significant events

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

Contribution rates

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

Primary Rate (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	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 on 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 of 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. The longevity assumptions result in the following typical future life expectancies from age 65. 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
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 years

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 of 31 March 2022 to comply with the accounting standard. The financial markets at the accounting date will have considered 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 2022 % per annum	31 March 2021 % per annum
Inflation /Pensions Increase Rate	3.2%	2.9%
Salary Increase Rate	3.5%	3.2%
Discount Rate	2.7%	2.0%

An IAS 19 valuation was carried out for the Fund as of 31 March 2022 by Hymans Robertson with the following results:

Description	31 March 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	1,965	2,039
Active Members	787	770
Deferred Members	530	572
Pensioners	648	697

**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 on 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as of 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 on 31 March 2022 (and 31 March 2021) 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.

Net Liability

The table below shows the total net liability of the Fund as of 31 March 2022. 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 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	(1,965)	(2,039)
Fair Value of Scheme Assets (bid value)	1,261	1,162
Net Liability	**(704)**	**(877)**

19. 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 2021/22) 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 on 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. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as of 31st March 2022 determined that there was no material risk to the Fund of employers defaulting on their contributions. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

A cash flow forecast covering the period November 2022 to October 2023 has been produced to confirm the solvent position and outlook of the Pension Fund over the period stated above.

20. 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 is a member of the Pension Fund Committee who is a retired member of the Pension Fund, Cllr Tony Eginton (Reserve). Each member is required to declare their interest at each meeting.

Notes to the Pension Fund Account

Key Management Personnel

Three employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, the Deputy Director, Corporate Finance, and the Head of Statutory Accounts & Pensions. Total remuneration payable to key management personnel is set out below:

	31 March 2022 £'000	31 March 2021 £'000
Short term benefits	94	55
Post employment benefits	155	145
	249	**200**

NB: Increased Post-employment benefits figure for 2020-21 is attributable to reorganisation and addition of Deputy Director, Corporate Finance to the Pension Fund management structure.

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

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

21. BULK TRANSFER

There were no bulk transfers in 2021-22.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as of 31 March 2022 totalled £85,428k (£50,576k on 31 March 2021).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure, Property and Private Credit 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.

23. CONTINGENT ASSETS

Seven 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.

24. POST BALANCE SHEET EVENTS

Events taking place after the 31st of March 2022 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing on 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

H. ASSET POOLS (LCIV)

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale.
- Strong governance and decision making.
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.

Hillingdon made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016 as well as £50k for Hillingdon's share of set up costs. In addition to set up costs the fund pays an annual charge to support the work of the LCIV which is currently £25k.

Hillingdon Council delegated functions necessary for the proper functioning of the London CIV company, including the effective oversight of the ACS Operator to the Joint Committee (now the Shareholder Committee). The Chairman of Pensions Committee was appointed to have power to act for the Council in exercising its rights as a shareholder at any general meetings of the LCIV Company.

Delegated authority was given to the Chairman of Pensions Committee to make urgent investment decisions. This delegated authority was to enable the transition of existing mandates into the LCIV once the Fund’s existing managers have reached a stage to be included in the LCIV pool. This power was approved to include signing contracts, transferring funds to ensure the relevant sub funds within the LCIV pool would be launched on time. This power was delegated purely to transition existing mandates with existing fund managers to the equivalent with the LCIV and not for any wider investment decision which remains with the Pensions Committee.

In creation of the pools, the individual fund through the Pension Committee remain responsible for the Fund's Investment Strategy and for asset allocation; however, manager selection to meet the strategic asset allocation is managed by the pool. In December 2015 the London CIV opened its first sub-fund.

At the start of 2021/22 the London CIV had the following sub funds available for Hillingdon to invest.

Fund Name	Manager	Launch Date
Global Equities		
LCIV Global Alpha Growth Paris Aligned Fund	Baillie Gifford & Co	13-Apr-21
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Passive Equity Progressive Paris Aligned Fund	State Street Global Advisors Limited	01-Dec-21
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
LCIV Sustainable Equity Exclusion Fund	RBC Global Asset Management (UK) Limited	11-Mar 2020
LCIV Global Equity Quality Fund	Morgan Stanley Investment Management	21-Aug-2020
Emerging Market Equities		
LCIV Emerging Market Equity Fund	J.P. Morgan Asset Management	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
Fixed Income		
LCIV Global Bond Fund	Pimco	30-Nov-18
LCIV Alternative Credit Fund	CQS	31-Jan-22
LCIV MAC Fund	London CIV	31-May-18
Infrastructure		
LCIV Infrastructure Fund	Stepstone Infrastructure and Real Assets	31-Oct-19
LCIV Renewable Infrastructure Fund	Blackrock, Stonepeak, Quinbrook and Foresight	30-Mar-21

Property		
LCIV Real Estate Long Income Fund	Aviva Investors	11-Jun-20
The London Fund	LPPI	16-Dec-20
Private Debt		
LCIV Private Debt Fund	Churchill and Pemberton	30-Mar-21

In addition, the pool enabled access to Legal and General Investment Management and Blackrock passive investment products, under negotiated fees, to sit alongside the ACS structure with governance of the assets from the pool.

The Fund had total LCIV holdings of £796m on 31 March 2022, accounting for almost 68.5% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) Epoch (Global Equity), Stepstone (Infrastructure) on the LCIV platform and LGIM Passive.

Pooled assets

Sub Fund	Value £'000 31/03/2021	Opening Proportion %	Value £'000 31/03/2022	Closing Proportion %
LCIV Global Alpha Growth Paris Aligned Fund (Formerly Epoch)	63,647	5.48	56,423	4.46
LCIV RF Absolute Return Fund	50,833	4.37	54,528	4.31
LCIV Stepstone Infrastructure Fund	13,465	1.16	25,355	2.01
LCIV Private Debt	0	0	29,914	2.37
LGIM Passive Equities	473,376	40.75	521,174	41.23
LGIM Passive Bonds	144,920	12.48	152,319	12.05
LGIM LPI Property	49,749	4.28	56,203	4.45
	795,990	**68.52**	**895,916**	**70.88**

Post pool reporting

The costs set out in the table below represents the initial costs of creating the London CIV (LCIV) pool as advised by the LCIV, which the Hillingdon fund is a member.

LONDON CIV WHOLE POOL SET UP COSTS	**Total Direct Costs**
	£000s
Set Up Costs:	
Recruitment	200
Legal	700
Procurement	200
Other support costs e.g. IT, accommodation	200
Staff costs	400
TOTAL SET UP COSTS	**1,700**

LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Cumulative to date**
Set Up Costs	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Development Charge	0	75	65	65	85	85	375
Annual Service Charge including establishment of pool	25	25	25	25	25	25	150
Share Capital Costs	150	0	0	0	0	0	150
Transition Costs	32	132	0	0	0	0	164
Fee Savings	-84	-167	-181	-115	-96	-150	-793
Net (Savings)/Cost Realised	**-27**	**65**	**-91**	**-25**	**14**	**-40**	**-129**

The figures in the table above represents the service and development costs charges levied on the fund as a member of the London CIV pool. Transition costs refer to costs incurred in transfer of assets currently managed directly by the London CIV and passive portfolios negotiated by the CIV with LGIM. Fee savings represents the current costs of investments managed within the pool and LGIM compared with pre-pooling charges based on current asset valuations.

As at the end of 2021/22 the fund shows a net savings overall from pooling, if share capital is further excluded as it is still a fund asset then the fund has made a significant saving. As fund manager fees of the sub funds Hillingdon invests currently, are lower than before pooling, over time, the fund should show a cumulative saving in the long term.

Ongoing Investment Management Fees

The table below shows the fees paid to managers alongside the combined returns of those managers and the net impact (i.e. considering both fees and performance) on the value of Fund assets.

	Asset Pool			**Non-Asset Pool**			**Fund Total**
	Direct	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	
	£'000	**£'000s**	**£'000**	**£'000**	**£'000s**	**£'000**	**£'000**
Management Fees							
Ad Valorem	20	1,734	1,754	4,230	0	4,230	**5,984**
Performance	0	627	627	505	0	505	**1,132**
Transaction Costs	0	346	346	1,582	0	1,582	**1,928**
Custody	0	8	8	60	0	60	**68**
Other	110	0	110	1,610	0	0	**1,720**
Total £'000	**130**	**2,715**	**2,845**	**7,987**	**0**	**6,377**	**10,832**

In response to the Scheme Advisory Board Transparency Code the Fund contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2021/22 and future years to allow more transparent reporting. London CIV Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers, they select are signed up to the Transparency Code. Information from the completed templates were utilised to compile the overall Investment management costs for 2021/22.

Asset Allocation and Performance 2021/22

Asset Category	Opening Value		Closing Value		Performance 1 Year	
					Gross	Net
	£'000	%	£'000	%	%	%
Asset Pool Managed Investments						
Active listed Equity	63,647	5	56,423	4	N/A	N/A
Passive listed Equity	473,377	41	521,174	41	10.4	10.4
Passive Listed Fixed Income	144,920	12	152,319	12	5.1	5.1
Multi-asset funds/diversified growth funds	50,833	4	54,528	4	7.3	7.3
Private Debt	0	0	29,914	2	N/A	N/A
Infrastructure	13,465	1	25,355	2	3.1	3.1
Passive LPI Property	49,749	4	56,203	4	13.0	13.0
Total	**795,991**	**69**	**895,916**	**71**		
Non-asset pool managed investments						
Active listed Equity	42	0	29	0	N/A	N/A
Active listed Fixed Income	116,580	10	115,979	9	-0.5	-0.5
Private Debt	1,248	0	1,641	0	74.9	74.9
Private Debt	59,005	5	36,624	3	4.8	4.8
Property	60,712	5	82,349	7	18.5	18.5
Property	78,463	7	93,315	7	26.6	26.6
Unlisted Equity	10,144	1	5,845	0	21.6	21.6
Unlisted Equity	3,266	0	2,722	0	15.6	15.6
Infrastructure	20,862	2	17,852	1	20.7	20.7
Cash	15,255	1	11,928	1	N/A	N/A
Total	**365,577**	**31**	**368,284**	**29**		

Savings

	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
Price Variance	167,422	181,063	113,505	96,045.54	150,643.40

The price variance in the table measures the extent to which fee rates have generated savings based on the year end value of the assets under management by holding the assets in a sub fund run by the pool. In each case for Hillingdon's pooled assets the fee rate is lower than the fee rate before pooling, this is in part due to a direct transfer of asset class and economies of scale achieved through the pool on negotiating power.

Where assets transfer into different classes this would result in a different fee structure that would not be comparable.

The increase in fee savings in 2021/22 compared to 2020/21 is mainly due to increased fund value of passively managed pooled funds over the period. The above savings do not consider additional charges serviced on the fund because of investment in the pool sub funds, which are direct costs of us investing in the pool, for example auditing, FCA regulation and depositary costs.

London Borough of Hillingdon Pension Fund

Investment Strategy Statement

April 2020

HILLINGDON
LONDON

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.

Asset Class	**Target Allocation***	**Range**
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 & Diversified Credit
The Fund invests in inflation-linked government and diversified credit 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 Shareholder Committee, comprising nominated Member representatives from investing Funds within the pool; including the Chairman of the London Borough of Hillingdon Pensions Committee, Councillor Goddard.

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 it 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.

London Borough of Hillingdon

Administering Authority for the London Borough of Hillingdon Pension Fund

COMMUNICATION STRATEGY

Date approved: 28 September 2021

Date of renewal: September 2024

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 Hampshire County Council (HCC) under a delegation agreement. and the team at Hampshire 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 Hampshire 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 28 September 2021 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 our 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 input 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 by Hampshire County Council with the sign-off of the London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities 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.

With whom we will Communicate

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

Our aim is to provide all communications electronically where possible as a rapid access and secure means of sharing personal information. We however recognise that it is not always a suitable method for all stakeholders and where appropriate will provide communication in writing and other inclusive formats such as large print or braille where required.

Member Portal
All members are encouraged to sign up to the member portal which provides secure access to their specific details and allows them to to complete various forms, upload certain documents and send secure messages to Hampsire Pension Services staff. Members will also securely receive important documents like annual benefit statements, payslips via the member portal.
Members can access the portal at Civica Pensions - Home (hants.gov.uk)

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 HPS website Local Government Pension Scheme (LGPS) | Hampshire County Council (hants.gov.uk) which offers extensive information about membership of the LGPS and scheme regulations as well as forms and guides for members and links to relevant organisations. It is regularly updated and provides news feed for topical information.

Annual Benefit Statements
These statements are distributed electronically to all active and deferred scheme members. Where email addresses are held for the members, a notification is sent to advise that the statement is available on the portal. Members can choose to opt out of this service in which case they will receive a paper copy.

Correspondence
Most of our communication with members is undertaken electronically, either through our Member Portal or by secure email. If we hold a member's email address, then we will email to advise when a letter or document is made available for them to view. However, if we are unable to communicate electronically then we send the information in writing to the member's home address.
If a member wishes to opt out of electronic communications and to receive paper copies, then we ask that they put their request to us in writing.

We can also communicate with members in a specific way on request, for example in large print or Braille.
All emails sent contain a link to our satisfaction survey to encourage feedback from members.

Benefit statements
We make our annual benefit statements available to all members through our Member Portal. If we hold an email address for a member then we email to advise that the statement is available to view on the Portal.
Members can choose to opt out of this online service and instead receive paper statements.
All statements include some explanatory notes and members are advised where to find a more detailed explanation of their statement on our website.

Pension saving statements
By 6 October each year, we send a pension saving statement to any member who may be affected by the annual allowance tax limit. These are also available to view on the Member Portal.

Pensioner payslips, P60s and annual newsletter
All payslips are available to our pensioners through the Member Portal. If a member has paid income tax during the preceding year, then a P60 will also be available through the portal by the end of May. The member can either view or download copies of the payslip and P60.
A pensioner newsletter is added to the Member Portal every year in March or April. An expanded version of the newsletter can be viewed on our website.
Pensioner members can opt out of electronic communications and choose always to receive paper copies, by putting their request to us in writing.

Declaration of pension entitlement
We send forms to verify a member's continuing entitlement to receive pension payments:
• every year, to pensioners that live overseas and
• whenever a pensioner payment or mail is returned to us.

Telephone and email
All members have the opportunity to telephone or email the London Borough of Hillingdon Pension Fund / Hampshire Pension Services (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 the Fund and its employers reduces errors, improves efficiency and leads to good working relationships. The day-to-day communication with employers will be supported by Hampshire Pensions Services with sign off from London Borough of Hillingdon on key areas of communication. The main means of communication with employers are outlined below.

Website
The HPS website has a dedicated section for employers. It includes technical information, details of training courses, the latest employer news and an Employer Manual which contains details of procedures and employer responsibilities.
The website offers access to our Employer Hub. Employers are asked to register for this service which enables them to view or amend details of their own employee's records, submit forms to us or to provide member estimates, depending on their level of access.

Newsletters
We send a regular electronic newsletter, "Pensions Matters", to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administrative processes.
We also send ad hoc email communications, under the heading "Stop Press" to advise employers of any changes or information they should be aware of or would find useful.
Copies of "Pensions Matters" and "Stop Press" emails are also added to the employer section of the website.

Employer training
We offer employer training workshops on a variety of topics, in addition to dealing with queries via email or phone.
In addition, Pension Services will work with employers who have individual training needs offering targeted training on request or when a need is identified.

Employer meetings
We hold employer liaison meetings throughout the year with key employers or those where additional support is required. All employers may request a meeting with us. We also hold six-monthly meetings with employer focus groups and will attend established employer forums.

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.

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 and board 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 Hampshire staff are confident and prepared to undertake their role, as follows:

Pension Manager
The London Borough of Hillingdon and Hampshire 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 managers 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 in-house 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's Lead Pensions Officer will work together with the Lead Pensions Officer at Hampshire 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
- The ongoing impact of COVID 19 on all resources members, employers and other stakeholders.

Preparation and Review

This Strategy Statement was approved on 28 September 2021 by the London Borough of Hillingdon Pensions Committee. It is effective from 1 October 2021

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, Head of Finance - Statutory Accounting & Pension Fund
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

E-mail - jlake@hillingdon.gov.uk
Telephone - 01895 277562

M: EXTERNAL AUDIT OPINION

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

Opinion

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

Broker

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

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

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

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

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

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

Creditors
Amounts owed by the pension fund.

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

Debtors
Amounts owed to the pension fund.

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

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

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

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

Dividend

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

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

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

Equity
Stock or any other security representing an ownership interest.

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

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

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

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

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

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

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

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

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

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

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transition
To move from one set of investment managers to another

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

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

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

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

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

ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	1. Hampshire Pensions Services Partnership Report

HEADLINES

Pensions administration services are provided by Hampshire County Council (HCC) under a section 101 agreement.

The attached report provides an update of HCC's performance as at August 2022. Historic monthly reports are included in the member shared drive.

Historic key performance indicators show 100% against all indicators, each month since the October 2021 inception.

Member portal registrations continue to improve month-on-month and as at August 2022 show 25.29%.

Annual Benefit Statements were made available to members in line with with August deadline.

Inherited backlog cases continue to be cleared in line with the 2-year project schedule.

RECOMMENDATION

That the Pensions Committee note the administration update

FINANCIAL IMPLICATIONS

Financial implications have been previously dsclosed.

LEGAL IMPLICATIONS

The legal implications are in the body of the report.

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HAMPSHIRE PENSION SERVICES

Monthly administration report

AUGUST 2022

HILLINGDON
LONDON

Working in partnership with

Contents

1. Summary 2
2. Background 2
3. Membership 2
4. Administration performance 3
5. Unprocessed historic casework 4
6. Call and email volumes 5
7. Online services 5
8. McCloud 7
9. 2022 End of Year timetable 7
10. Pensions Dashboard Programme (PDP) 9
11. 2022 Software Development 9
12. Target address tracing project 9
13. Audit 10
14. Scheme legislation updates 11
15. Employer and Member Communications 11
16. Quality Assurance 12
17. Compliments and Complaints 12

1. Summary

1.1. The purpose of this report is to update the London Borough of Hillingdon with the current position of their local government pension scheme membership; performance against service level agreements and to provide other important and current information about the administration of the London Borough of Hillingdon Local Government Pension Fund.

2. Background

2.1. Hampshire Pension Services administer the Local Government Pension Scheme (LGPS) on behalf of the London Borough of Hillingdon (LBH) with effect from 27 September 2021.

2.2. Hampshire Pension Services also administer the LGPS for Hampshire County Council, West Sussex County Council and Westminster City Council; the Fire Pension Schemes for both West Sussex and Hampshire, and the Police Pension Schemes for Hampshire.

3. Membership

3.1. The table below details the number of members against status for each of the Local Government pension schemes and is correct as of the date this report was prepared. To support the monitoring of change in membership numbers, the table now compares the membership detailed in the OBC with the current month to show the total growth in membership since the start of the partnership.

	Active	Deferred*	Pensioner	Preserved Refunds**	Total
OBC	*9,020*	*11,400*	*7,036*	-	*27,456*
August-22	12,370	8,460	7,789	1,023	**29,642**
Growth	*37.13%*	*-25.78%*	*10.70%*	-	*7.96%*

*Leavers which are waiting to be processed are included in the active membership. However, the OBC deferred figure included both 2,045 leavers waiting to be processed and 1,256 preserved refunds.

**The preserved refund members are included for completeness but are not counted for the purposes of reporting membership to the Pensions Regulator and DLUHC (previously MHCLG).

4. Administration performance

4.1. Hampshire Pension Services' performance against agreed service level agreements for key processes are monitored monthly. They are calculated based on the number of working days taken to complete the process and are adjusted for time that we are unable to proceed, due to requiring input from the member or third party.

4.2. The table below shows performance from 1st August to 31st August 2022; the performance target for all cases is 15 days (except Deferred Benefits which is 30 days, and Rejoiners which is 20 days).

Time to Complete

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	% completed on time	*Average days to complete process*	*Total Cases (previous month)*	*% completed on time (previous month)*
Active Retirement	5	0	5	0	0	0	10	100.00%	*8*	*9*	*100.00%*
Deferred Retirement	7	5	14	0	0	0	26	100.00%	*10*	*20*	*100.00%*
Estimates	5	7	15	0	0	0	27	100.00%	*10*	*53*	*100.00%*
Deferred Benefits	4	2	5	13	95	0	119	100.00%	*24*	*110*	*100.00%*
Transfers In & Out	1	4	1	0	0	0	6	100.00%	*8*	*1*	*100.00%*
Divorce	0	0	2	0	0	0	2	100.00%	*13*	*1*	*100.00%*
Refunds	2	8	0	0	0	0	10	100.00%	*8*	*19*	*100.00%*
Rejoiners	1	0	0	3	0	0	4	100.00%	*16*	*9*	*100.00%*
Interfunds	1	23	17	0	0	0	41	100.00%	*10*	*24*	*100.00%*
Death Benefits	11	3	5	0	0	0	19	100.00%	*6*	*19*	*100.00%*
GRAND TOTAL	**37**	**52**	**64**	**16**	**95**	**0**	**264**	**100.00%**		***265***	***100.00%***

4.3. The table below shows outstanding work as of 31st August 2022. The time outstanding reflects the time from date of receipt of the initiating request, and includes time whilst cases are on hold pending further information.

4.4. Those cases which currently exceed the agreed service level agreement are on hold waiting for information from the member, their employer or another party and the time taken to process will be adjusted once the work has been completed.

4.5. These cases do not include the inherited outstanding leavers which are discussed in section 6 below.

Time Outstanding

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31+ days	Total	*Total Outstanding (previous month)*
Active Retirement	2	6	1	0	0	0	9	*5*
Deferred Retirement	1	6	4	0	0	0	11	*10*
Estimates*	53	43	27	4	5	0	132	*159*
Deferred Benefits	58	25	28	42	99	0	252	*307*
Transfers In & Out	0	0	0	0	0	0	0	*4*
Divorce	3	0	1	0	0	0	4	*2*
Refunds	2	3	0	0	0	0	5	*5*
Rejoiners	4	6	15	6	2	0	33	*31*
Interfunds	6	16	4	1	0	0	27	*20*
Death Benefits	1	5	3	1	4	0	14	*20*
GRAND TOTAL	**130**	**110**	**83**	**54**	**110**	**0**	**487**	***563***

*Estimates include all 'quote' calculations for retirement, transfers, divorce, and refunds.

5. Unprocessed historic casework

5.1. At the point of onboarding, there were 3,840 unprocessed leavers – the date of leaving for these members was prior to 1st September 2021.

5.2. As of 1st August 2022, the outstanding leavers has been reduced to 3,377.

5.3. During August we sent a further 116 leaver form requests to a number of scheme employers in the course of working through the outstanding cases; with 779 leaver forms being requested in total.

5.4. The top 5 employers with outstanding leavers are as follows:

Employer	Number of leavers outstanding
London Borough Of Hillingdon	641
Hedgewood School	197
Uxbridge Harrow College (HCUC)	126
Qed - Queensmead Academy	70
Eden Academy - Grangewood	67

6. Call and email volumes

6.1. The table below sets out the call statistics for Hillingdon for the month of August 2022:

Calls Received	167
Calls Answered	166
Calls Answered Percentage	99.40%
Calls Abandoned	1
Abandoned Percentage	0.60%
Average Wait Time	50 seconds
Calls Answered Within 5 Minutes	163
Percentage Of Calls Answered Within 5 Minutes	97.60%

6.2. Abandoned calls are caused by the member ending the call before we can answer, and in some cases, this can be because they have heard one of our automatic messages asking them to visit our website or Portal.

6.3. The total number of calls received were 3,401 and the statistics above are included in this number.

6.4. Our Pension Customer Support Team (PCST) record the number of emails received into our main Pension Services inbox. The table below shows the combined (Hampshire, West Sussex, Westminster, and Hillingdon) volumes, for August 2022.

Month	Total Emails Received	Response from PCST	Forms and Emails Forwarded to another team*
August	4,992	3,914	1,078
July	6,052	5,044	1,008

6.5. Of the emails responded to by PCST, 145 of these were for Hillingdon members.

7. Online services

Member Portal

7.1. Active, Deferred and Pensioner members of the LBH LGPS have the ability to register for our Member Portal and update their personal details, death grant nominations, and bank details; securely view annual benefit statements, payslips and P60s; run online voluntary retirement estimates; and complete their membership option and retirement declaration forms online.

7.2. The table below shows the total number of current registrations for each status as of 31st August 2022.

Status	Registrations to date	% of total membership	Registrations to 31/07/2022	% of total membership
Active	3,592	29.03%	3,539	28.04%
Deferred	1,844	21.80%	1,766	21.21%
Pensioner	1,802	23.14%	1,719	22.14%
TOTAL	**7,238**	**25.29%**	**7,024**	**24.47%**

7.3. The table below is the last position of member portal stats from Surrey County Council.

Status	Registrations to date	% of total membership
Active	4,201	36.06%
Deferred	2,638	32.63%
Pensioner	1,616	21.32%
TOTAL	**8,455**	**30.95%**

7.4. We have implemented a new reporting tool which allows us to monitor the number of people who log into the Member Portal. The table below sets out the current month and previous month for comparison.

Month	Active	Deferred	Pensioner
July 2022	642	897	348
August 2022	661	343	372

7.5. The table below shows the number of opt outs of the Member Portal for each membership status. Comparing the number of registrations and opt outs to the total membership allows us to identify the number of members who have not engaged via either route.

Engagement	Active	Deferred	Pensioner	Total
Portal	3,592	1,844	1,802	**7,238**
Opt out	9	14	413	**436**
No contact	8,769	6,602	5,574	**21,968**
Total	12,370	8,460	7,789	**29,642**

Employer Hub

7.6. All LBH employers are signed up to the Employer Hub, and 231 individual users have access.

8. McCloud

8.1. We have received 91 of 124 completed service/break data sets from LBH employers; initial data checks have been completed on all of the data sets received. This represents 56.20% of the membership populate who are likely to require McCloud remedy.

8.2. There are 33 employers yet to provide data, and the team is working with LBH and the employers to get the returns back.

8.3. We have received 87 of 138 completed service break/data sets from LBH employers; for the period 1st April 2021 – 31st March 2022. This represents 53.65% of the membership who are likely to require McCloud remedy.

8.4. The McCloud service and service break data uploader has been signed off and installed to UPM Live; data uploads have continued for smaller employers.

8.5. Project boards and technical working groups have been set up with our software supplier, Civica, and include all of their public sector client base as well as representatives of the LGA – discussions are ongoing regarding the implementation of remedy, and the process is being well documented.

9. 2022 End of Year timetable

9.1. We have agreed the timeline for the 2022 year end and the production of benefit statements. The table below details the key milestones for each step of the year end process.

Completed By	Task
05/10/2022	Pensions Savings Statements sent – will be produced by employer as ABS have been completed
31/10/2022	E-comms sent to members with benefit statement available on Member Portal

9.2. **Annual Returns** – all returns have been received from employers and we are currently working through the outstanding queries; and missing starter and leaver forms. Detailed updates are provided to the fund authority on a regular basis.

9.3. **Supplementary Pensions Increase -** all members entitled to supplementary pensions increase payments, have been contacted and paid the amount due to them.

9.4. **Deferred Benefit Statements** – The production of deferred benefit statements has been ongoing throughout August, and the final position as of the statutory deadline, 31st August 2022 is as follows.

Total Number of Statements Required	Total Number of Statements Produced	Total Number of Statements Missing	Percentage of Statements Produced
7,815	7,815	0	100%

9.5. All statements have been published on our Member Portal – those who have opted out of our online service, have received paper copies – and emails have been sent to those who we hold an email address for.

9.6. **Active Benefit Statements -** The production of active benefit statements has been ongoing throughout August, and the final position as of the statutory deadline, 31st August 2022 is as follows.

Total Number of Statements Required	Total Number of Statements Produced	Total Number of Statements Missing	Percentage of Statements Produced
12,793	12,517	276	97.84%

9.7. A high level summary of the reason we have been unable to produce a statement is below, and we will continue to work on those records which we are able to. Otherwise, we require additional information from the employer for the majority of cases.

Reason for missing statement	Number of members
Missing earnings/outstanding query with employer	270
Outstanding TUPE transfer	4
Further investigation required – potential data issue	2

9.1. **Pensions Savings Statements** – members who have exceeded their annual allowance this year have been identified and additional pay figures requested from employers. The current position is as follows.

	Number of members
Pensions Savings Statement sent	1
Pension Input calculation completed; statement not required	1
Pension Input calculation in progress	0
Pay figures outstanding (with employer)	32

10. Pensions Dashboard Programme (PDP)

10.1. On 30th August we responded to the standards consultation – we chose to focus our review on the areas which we felt were relevant to pension administrators, namely the Data Standards and Reporting Standards. We have not objected to any of the proposals made, particularly as there is now acknowledgement of the McCloud remedy and the requirement to provide two sets of benefits.

10.2. We have started thinking about data readiness and have been identifying groups of members which are likely to generate queries as a result of them using a Pensions Dashboard. An example are members who we currently hold a temporary National Insurance number for, as these will not be accepted by the PDP.

10.3. We are currently waiting for further information from Civica regarding their Integrated Service Provider (ISP) offering, before a full PDP report can be shared with Partners – referenced in last months' report.

11. 2022 Software Development

11.1. Installation and thorough 'live' testing of the online identification and verification (ID&V) module has been completed.

11.2. The week commencing 5th September, we will be writing to all of our overseas Fire pensioners and asking them to complete the online 'Proof of Life' process. The alternative paper-based process will still be an option if necessary.

11.3. We will be making this group aware that they are piloting our new software, and asking for their feedback, in the hope we can resolve any unidentified issues before we then write to all overseas pensioners for our Local Government and Police pension schemes (as these are much larger groups).

11.4. The work to implement Civica's Aggregation solution is currently on hold; testing has highlighted various issues which are now with Civica to resolve before testing can resume. This will delay the current project timeline.

12. Target address tracing project

12.1. We have submitted two tracing requests to Target, these included preserved refunds and deferred members who were confirmed as being 'lost contacts'.

12.2. The below table explains the position of the preserved refund trace:

Originally Submitted	Living As Stated	New Address	No Response	Negative	Deceased
667	518	59	60	27	3

12.3. In August we received 3 positive results of new addresses for members submitted as preserved refunds, and this has been updated in the above figures.

12.4. The below table explains the position of the deferred lost contact trace:

Originally Submitted	Living As Stated	New Address	No Response	Negative	Deceased
421	78	133	46	146	18

12.5. In August, we received 7 positive results of new addresses for members submitted as deferred lost contacts, and this has been updated in the above figures.

12.6. All results received back so far have been updated in UPM, and any results for members with negative responses or no responses will be updated as and when they come through.

13. Audit

13.1. The Annual Internal Audit Report and opinion for 2021/2022 has been recorded by SIAP as 'substantial' and they confirmed;

- I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

- In my opinion frameworks of governance, risk management and management control are substantial and audit testing has demonstrated controls to be working in practice.

- Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

13.2. The position of our 2022/23 pension audits are as follows:

Audit Area	Timing
Pension Transfers: To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes managed by HPS.	Completed – 'substantial' rating confirmed.
Member Deaths: To provide assurance that systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient, with the risk of overpayments minimised.	Scoping session complete – in testing phase.
UPM - Cyber Security: *(This has been identified as a new audit review area)* To provide assurance over the Cyber Security arrangements for the UPM application	Due to start in Quarter 3 / 4
Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that:- • Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; • All changes to on-going pensions are accurate and timely; • Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.	Due to start in Quarter 3 / 4

14. Scheme legislation updates

14.1. Legislation updates that have been received during August 2022 for the Local Government Pension Scheme, are detailed in Appendix 1, including any actions that Hampshire Pension Services have taken.

15. Employer and Member Communications

15.1. **Employer communications** – In August, we issued a stop press to inform employers that the Annual benefit statements for 2022 are now available on the member portal.

15.2. **Member communications** – In August, we issued a communication to inform active members of the scheme that their Annual benefit statement for 2022 is available on the member portal.

16. Quality Assurance

16.1. **Data Protection Breaches** – We have not identified any data protection breaches in August 2022.

16.2. **Data Subject Access Requests (DSAR)** – we have noticed an increase in these across all schemes but for Hillingdon in particular we have not received anu requests in August. We are continuing to monitor this due to concerns that these requests may become a complaint or claim against the pension fund regarding previous transfers out.

17. Compliments and Complaints

17.1. We did not receive any complaints In August 2022.

17.2. We did not receive any compliments from members of the LBH LGPS in August.

HAMPSHIRE
PENSION
SERVICES

2022 ACTUARIAL VALUATION

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	Included in Part II reports

HEADLINES

The draft whole fund triennial valuation has been completed. This item will be presented and discussed at a separate meeting prior to this Committee meeting. This will allow sufficient time for the fund actuary, Hymans Robertson, to explain the assumptions, results, and funding position.

In addition, the Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The FSS will be sent out for employer consolation prior to being presented at Committee.

RECOMMENDATIONS

It is recommended that the Pensions Committee agree that the following recommendations will be discussed in Part 2 of the agenda

- Agree a Funding Strategy Statement is to be sent out for consultation with scheme employers along with valuation results
- Note the whole fund initial triennial valuation results
- Approve the assumptions used in the triennial valuation

SUPPORTING INFORMATION

Triennial Valuation

The triennial revaluation of the pension fund to value the fund as at 31 March 2022 is almost complete. Membership, cash flow and investment data has been submitted to the fund actuary to enable completion of the valuation. In addition, the fund commissioned an exercise to enhance the assumption setting specific to the Hillingdon Fund.

The Fund Actuary has produced initial whole fund results. The initial fund results were presented by Hymans Robertson prior to this Committee meeting. Hymans Robertson will also participate in an employer forum during November, to enable scheme employers to ask questions on their individual results and FSS.

The initial results show that the funding level has improved from 87% at 31 March 2019 to 88% at 31 March 2022, subject to agreement of the underlying assumptions. The funding level only provides a high-level snapshot at a point in time and has limitations as set out in the Hymans Robertson paper. The initial results enable the fund to set its funding strategy and in turn set contribution rates for all employers. It is important to note the reported funding level does not directly drive contribution rates for employers, a funding plan is set which considers that the assets and liabilities will evolve over time in different economic situations.

Funding Strategy Statement (FSS)

The draft FSS will be prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns help pay for some of the benefits, although there is volatility in investment returns. Employees' contributions are fixed within the regulations, at a level which covers only part of the cost of the benefits. Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stability of employers contributions, and
- transparency of processes.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement.

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an

investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Taxpayers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. An allowance for the cost of these potential improvements has been made, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. The actuary expects minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. The actuary has assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

The actuary has assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, there is no allowance for these changes.

FINANCIAL IMPLICATIONS

Legal implications are included in the report and attachments.

LEGAL IMPLICATIONS

Legal implications are included in the report.

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INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	NT performance report on shared drive

HEADLINES

Market concern and volatility resulting from increased inflation, reduced growth expectations and the Russian invasion of Ukraine has led to reductions in market indices. The overall investment return of the Fund was -6.84% over the quarter which was 1.13% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 2.70% and 3.69% per annum, which are both behind the benchmark and the required 4% return required in the Funding Strategy Statement.

The Fund's asset allocation remains close to the target investment strategy except for LCIV Infrastructure which is yet to be fully drawn and funded by DGF/Absolute Return. There is also a circa 3% under allocation to MAC.

RECOMMENDATIONS

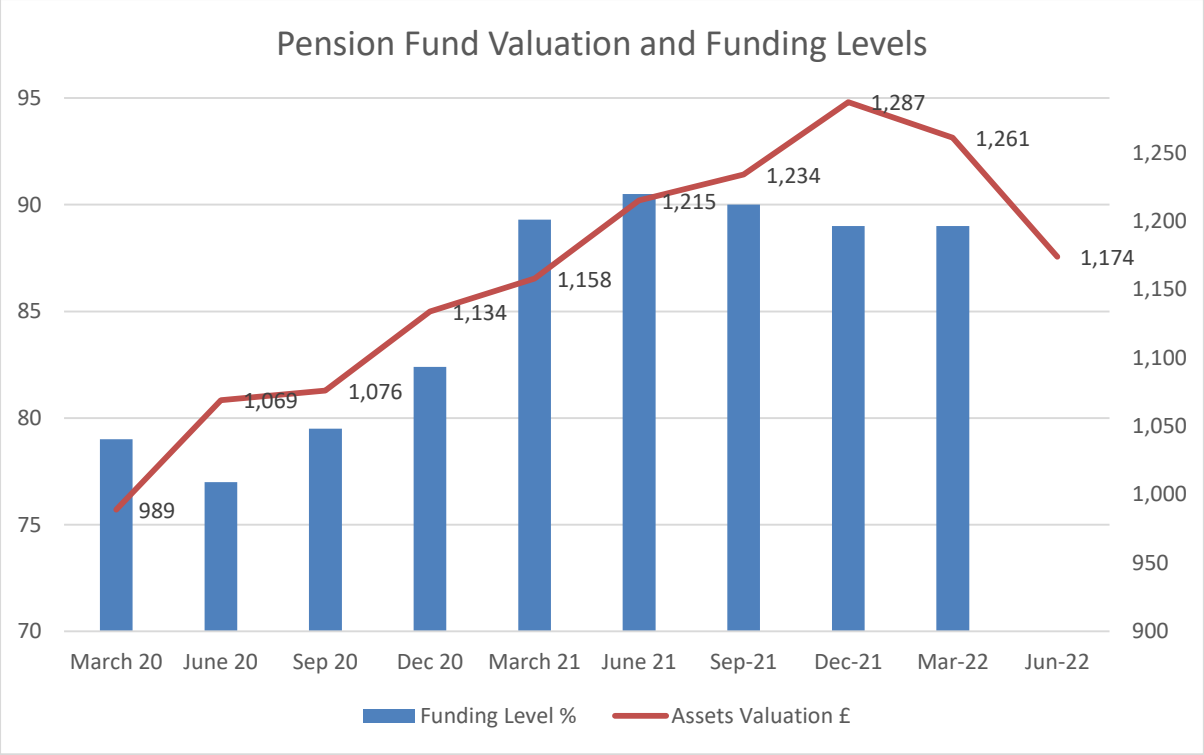
It is recommended that Pensions Committee note the funding and performance update.

SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of March 2019, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

As the formal triennial valuation as of March 2022 is materially complete and draft actuarial results are to be presented separately. Any necessary changes to employer contribution rates will be effective from April 2023



2. Fund Performance

Over the last quarter to 30 June 2022, the Fund returned -6.84%, underperforming the benchmark return by 1.13%. The Fund value decreased over the quarter by £86m, to £1,174m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-6.84	-5.78	-1.13
1 Year	-3.10	-0.30	-2.81
3 Year	2.70	4.88	-2.80
5 Year	3.69	5.28	-1.51
Since Inception (09/1995)	6.52	6.70	-0.17

Highlights of the investment managers' relative performance are as follows:

- Alternative investments mostly kept their performance in positive territory. Adams Street & LGT Capital (Private Equity) posted relative returns of 9.98% and 12.14% for the quarter and 14.24% & 10.81% for the one-year respectively. Macquarie and M&G and both posted impressive relative returns to the benchmark with quarter and one-year figures of 2.80%/3.88% and 72.48%/16.75% respectively.

- The absolute return through London CIV (Ruffer) reversed its performance from previous quarter with -4.44% and 1.67% relative

returns to the benchmark over the three-month and one-year horizons. True to their 'preservation of capital in all market conditions' strategy they have delivered annualised returns since their May 2010 inception in with the Fund of 4.86%.

- Notable underperformance is seen in the LCIV Global Alpha Paris Aligned Growth Fund. Since investing the growth style has struggled and the manager has delivered negative relative returns of -4.06% over the quarter and -22.27%. The Fund has met with the underlying manager and remains comfortable the strategy will deliver over the long term.

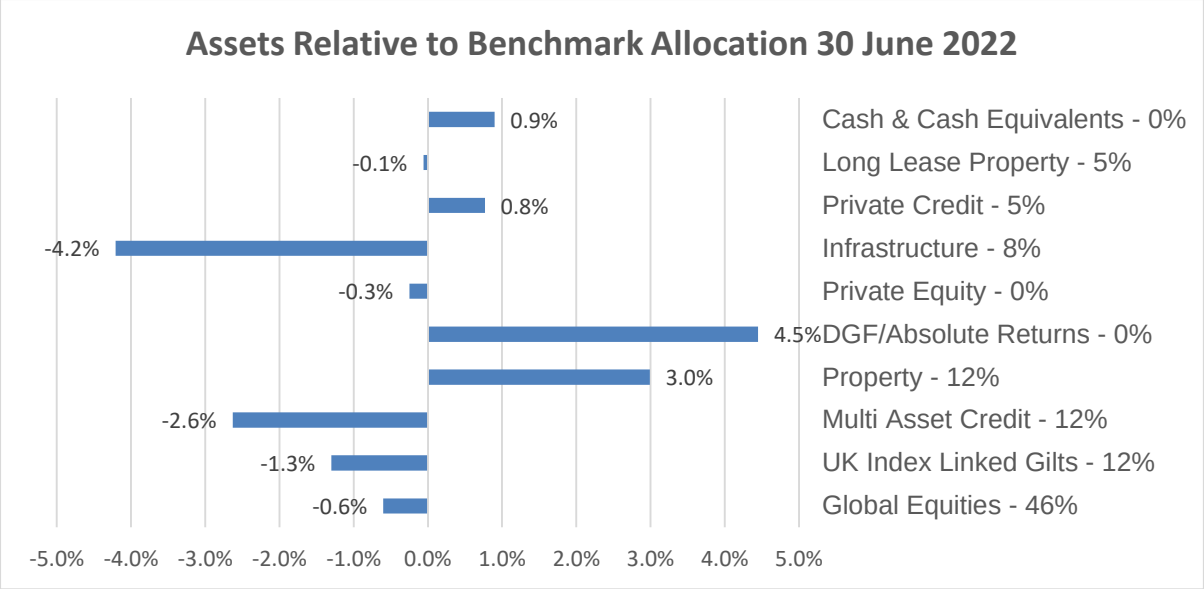
NB: Information from Northern Trust Quarterly performance report

3. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class

ASSET CLASS	Market Value As at 01 April 2022	Actual Asset Allocation As At 01 April 2022	Market Value As at 30 June 2022	Actual Asset Allocation As At 30 June 2022	Benchmark Allocation	Market Value As at 31 August 2022
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	520,903	44.35	45.00	555,831
UK Index Linked Gilts	142,671	12	125,583	10.69	24.00	132,287
Multi Asset Credit	113,127	9	110,000	9.37		110,000
Property	170,918	14	176,102	14.99	12.00	173,923
DGF/Absolute Returns	54,449	4	52,225	4.45	0.00	52,185
Private Equity	9,257	1	8,826	0.75	1.00	9,006
Infrastructure	41,776	3	44,494	3.79	8.00	51,834
Private Credit	65,928	5	67,739	5.77	5.00	65,803
Long Lease Property	56,836	5	57,975	4.94	5.00	58,060
Cash & Cash Equivalents	12,411	1	10,616	0.90	0.00	9,278
Totals	**1,218,536**	**100.00**	**1,174,463**	**100.00**	**100**	**1,218,207**



Highlights of transactions during the quarter under review:

- Total drawdown of £2.8m was called by the London CIV Infrastructure fund and £4.1m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £3.4m from Permira private debt, $335k & Eur267k from Private Equity and $509k & Eur154k from Macquarie Infrastructure.

Undrawn commitments on 30 June 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit.
- £28.9m (52.6%) to London CIV Infrastructure Fund. These funds are currently held in the LCIV Ruffer Absolute Return Fund.
- £3m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £37.4m (53.47%).

4. Investment Managers

The assets of the Fund are invested across 11 different Fund Managers and 13 portfolios in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Manager		Market Value As at 30 June 2022	Actual Asset Allocation	Market Value As at 31 August 2022
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	273,892	23.32	291,295
LGIM	Future World	197,375	16.81	210,461
LCIV - BALLIE GIFFORD	Global Equities	49,636	4.23	54,075
LGIM	UK Index Linked Gilts	125,583	10.69	132,287
LCIV MAC Fund	Multi Asset Credit	110,000	9.37	110,000
UBS PROPERTY	Property	97,219	8.28	96,285
AEW	Property	79,819	6.80	79,670
LCIV - RUFFER	DGF/Absolute Returns	52,225	4.45	52,185
ADAMS STREET	Private Equity	6,094	0.52	6,263
LGT	Private Equity	2,732	0.23	2,743
LCIV - STEPSTONE	Infrastructure	26,347	2.24	33,544
MACQUARIE	Infrastructure	18,147	1.55	18,290
M&G	Private Credit	1,927	0.16	692
LCIV Private Debt	Private Credit	32,572	2.77	31,963
PERMIRA	Private Credit	33,240	2.83	33,148
LGIM	LPI Property	57,975	4.94	58,060
Non-Custody	Cash & Cash Equivalents	9,680	0.82	7,246
		1,174,463	**100**	**1,218,207**

5. Market and Investment/Economic outlook (June 22 provided by London CIV)

The narrative in capital markets shifted over the course of the second quarter. Inflation is certainly still a key issue, as evidenced by the 9.1% year on year increase in UK inflation in May, but the risk of recession is now central to the conversation. Growth is anaemic, at best, and sentiment indicators have turned down across the world.

Looking at the evidence, we can see that consensus growth forecasts for the G8 economies have been revised down sharply, from 3.8% and 2.3% for 2022 and 2023 respectively at the beginning of this year, to a range around 1.5% now. Inflation, based on CPI, is now expected to average 7.3% in 2022, compared to 3.8% at the

start of the year, although economists think central bank action will drive inflation back down in 2023 and 2024.

Equities performed badly in the second quarter, so much so that the S&P 500 Index had its worst half-year period since 1962, posting a loss of more than 20% in U.S. Dollar terms, truly a multi-generational correction! The tone improved late in the period, albeit briefly, after the US Federal Reserve increased its reference rate by 0.75% to a range of 1.5% to 1.75%. Based on the MSCI World Index, global stocks lost 16.6% in U.S. Dollars in Q2 and just over 9% in Sterling terms, reflecting
the continued poor performance of Sterling.

Emerging market stocks outperformed developed market stocks in the quarter. The most positive feature of Q2was the recovery of Chinese stocks after an extended period in the doldrums. The reopening of key Chinese cities is a big development. If new lockdowns can be avoided, this will restore, at least partly, an important engine of growth for the global economy, and it should help reduce friction in global supply chains.

Equity investors are divided on whether central banks can find the right balance between combating inflation and averting a sharp slowdown. Stocks displaying value characteristics outperformed growth stocks by almost 16% in the first half of this year, but they are perceived to be relatively highly geared to economic activity and their performance have weakened as the risks of recession have increased, and oil and metals prices have softened.

Growth stocks are less aggressively mispriced than they were at the end of 2021, and there are pockets of exposure in that segment to companies which will be expected to be relatively resilient in a downturn. However, although investors appear to be starting to warm up to growth stocks, the tide can turn quickly – companies are punished severely for even small ‘misses’ in revenues or earnings.

FINANCIAL IMPLICATIONS

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

The Fund Actuary has undertaken a formal actuarial valuation based on the Fund status on 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

LEGAL IMPLICATIONS

There are no legal implications in the report.

RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Finance Babatunde Adekoya, Finance
Papers with this report	Full manager ESG reporting on members shared drive. LCIV Responsible Investment Documents Comparison of LBH/LCIV Responsible Investment Beliefs

HEADLINES

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

The purpose of this report is to provide information on how managers entrusted with investing the Pension Fund assets are implementing their ESG policies and demonstrate their commitment to ensuring it is a cogent part of their investment process.

In addition, the report details the progress on the UK Stewardship Code project and other relevant updates.

RECOMMENDATIONS

It is recommended that the Pensions Committee:

1. **Note confirmation that Hillingdon has received signatory status of the UK Stewardship Code;**
2. **Note the intention to begin TCFD reporting;**
3. **Note the fund managers' ESG activities and compliance efforts; and**
4. **Note comparison of LBH/LCIV Responsible Investment Beliefs**

SUPPORTING INFORMATION

Stewardship Code Update

The Stewardship Code project has progressed in accordance with the project timeline and the final report was submitted to the FCA ahead of the 30th of April deadline.

An update from the FRC was received on 2nd September 2022 confirming the Fund was successful in its application and has met the expected standard of reporting and will be listed as a signatory to the UK Stewardship Code ('the Code').

This is an excellent result and puts the Fund at the forefront of ESG within London being only one of two boroughs to have achieved signatory status.

Now the report has been approved by the FRC, it will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC. This has been actioned.

Comments by the FRC did note some improvements and these will be discussed at the next Committee meeting.

Task Force on Climate-Related Financial Disclosures (TCFD)

A meeting was held with the Pension Sub-Group (PSG) and London Collective Investment Vehicle (LCIV) to discuss several topics. One element discussed was the TCFD reporting service being provided by LCIV.

In part 2 of the agenda, details will be provided regarding the service, scheduling of reporting, commercial framework, and strategy implications. In addition, Committee will be formally asked to approve the recommendation to commence TCFD reporting in line with a best endeavours approach until formal LGPS regulations are issued. This will follow on from the recent consolation release.

Voting and Engagement

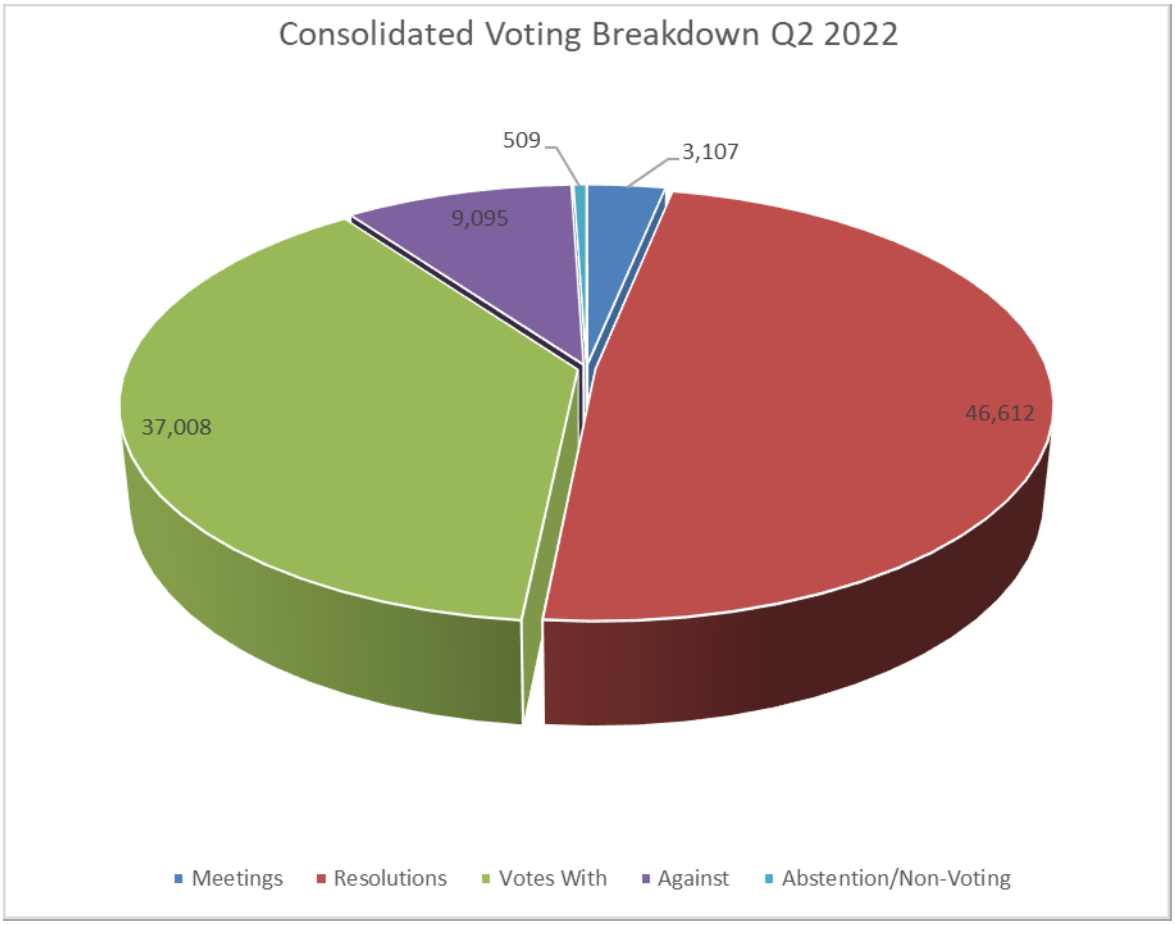
Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford).

	Fund Managers Voting Breakdown Q2, 2022				
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non-Voting**
Jun-22					
LCIV - Ruffer	64	1,158	1,053	87	18
LCIV - Baillie Gifford	63	919	740	123	56
	127	**2,077**	**1,793**	**210**	**74**
%			**86.33**	**10.11**	**3.56**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Mar-22	2,980	44,535	35,215	8,885	435
	2,980	**44,535**	**35,215**	**8,885**	**435**
%			**79.07**	**19.95**	**0.98**

The volume of meetings attended, and resolutions voted on by all the fund managers shown above encapsulate their commitment to ESG issues and demonstrates alignment of their stewardship activities with their own investment beliefs, policies, and

guidelines. Through this approach, they seek to be active owners on behalf of their clients, by encouraging good governance and a high standard of corporate practices.

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 20% of voting opportunities and supported resolutions on about 79%of occasions. Both LCIV portfolios combined, backed various management resolutions on 86.3% of voting opportunities and about 10.11% against the resolutions proposed by company managements. Abstentions for LGIM was 0.98% and 3.56% for LCIV.



The chart above provides a consolidated overview of voting pattern by all fund managers shown in the table above.

Engagement

ESG factors play an increasingly important role in determining the performance of certain assets. Pension Fund asset managers, as part of their ESG commitments undertake various engagement activities in their holistic approach in making investment decisions. These activities aim to affect changes within invested companies where it is deemed necessary or to complement existing practices.

London CIV

Attached is the London CIV's 'Delivering Sustainable Growth' report which shows their shows their approach to the four themes set out in the TCFD framework; governance, strategy, risk management and metrics.

Key facts include:

- 18 of 20 funds managed vy LCIV are signatories to TCFD
- LCIV has a net zero target of 2040 and operationally 2025
- 5.7% of LCIV's AUM are allocated to renewable energy infrastructure
- 4.5% carbon intensity reduction in 2021
- fossil fuel exposure reduced by 26% in 2021
- LCIV currently aligned to 2-3 degree warming scenario
- LCIV passive funds 33% less carbon intensive than LGM & Blackrock

Also attached is the updated 2022 LCIV Responsible Investment Policy. This policy sets out how their investment beliefs direct their investment practices in alignment with London CIV's purpose and vision, specifically to collaborate with client funds and help them achieve their pooling requirements and deliver value for Londoners through long-term and sustainable investment strategies.

The key theme at the 2022 LCIV conference was responsible investment and formed a key part of each session, regardless of the underlying subject matter.

Overall, LCIV continually aim to demonstrate their commitment to responsible investment and all elements of the ESG agenda.

LGIM

The latest available reporting from LGIM is located in the members shared drive and demonstrates the activities undertaken by LGIM to fulfil their mission statement of using their influence to ensure:

- Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking
- Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

Environment

Climate Impact Pledge

In June 2022, LGIM published our annual Climate Impact Pledge update, sharing their successes and indicating where they will be putting more pressure on companies to raise their standards. Some key facts and figures include:

• Having sanctioned 130 companies in 2021 for failing to meet their minimum standards, this number decreased in 2022 to 80 companies.

• LGIM are keeping 12 companies on their divestment list and adding two new companies.

• They have removed one company from the divestment list for demonstrating actions and improvements and have reinstated it in select funds.

Social

AMR: increasing scrutiny

LGIM are continuing to put pressure on companies to act on anti-microbial resistance (AMR). It's been a growing area of focus for them on account of its significant potential to impact the global economy via a number of sectors.

During the Q2 2022 voting season, this topic was directly addressed by a shareholder proposal at Abbott Laboratories, requesting a report on the public health costs of antimicrobial resistance, demonstrating that this issue is gathering support from a broader audience. For the second year running at McDonald's, LGIM supported a shareholder resolution calling for a report on 'Public Health Costs of Antibiotic Use and Impact on Diversified Shareholders', emphasising to the company the importance of this topic and the need for action. Earlier in the year, they also supported a similar resolution at Hormel Foods Corporation.

Governance

Income inequality: the living wage

LGIM aim to create a better future through responsible investing. Ensuring companies take account of the 'employee voice' and that they are treating employees fairly in terms of pay and diversity and inclusion is an important aspect of their stewardship activities. As the cost of living ratchets up in the wake of the pandemic and amid soaring inflation in many parts of the world, their work on income inequality and LGIM expectations of companies regarding the living wage have acquired a new level of urgency.

Certain industries have an inherent propensity to use lower skilled, lower wage employees, the travel and tourism and retail sectors being two of the most prominent. The manager believes that, particularly at this time of rising living costs, it's vital that

all employees, including (and perhaps especially) those in lower skilled jobs, should be paid a living wage.

Aiming for change

LGIM believe the successful companies of the future will be those that recognise the importance of all employees – not just those who are directly employed, but also contractors and those within their supply chains. They encourage companies to work together to make the living wage the new normal for lower skilled employees. The manager appreciate that this will represent an increase in costs for companies and reduction in margins, but believe this should be a short-term issue and that over the longer term, paying the living wage to all employees should be beneficial for companies, employees, and the economy. This is the environment that LGIM's responsible investment policies are aiming for, and are working hard to create.

Hillingdon Fund & LCIV Responsible Investment comparison

Committee requested that Hillingdon's approach to responsible Investing was compared to that of LCIV. On beginning the exercise, it became clear it was very difficult to compare policies on such a subjective subject. A best endeavour attempt is attached with <u>underlined</u> common themes and (marginal) differences in italics.

The only two areas in italics are:

- For Hillingdon, the inclusion of ESG factors in investment strategy is when there is a clear financial rationale to do so. Whereas LCIV design products that can ALSO deliver positive climate and social impact. The climate and social issues will vary by products, so this emphasises the importance of the Fund understanding the drivers when products are developed, something we have talked about regularly. An ideal example at the moment is the housing product.
- Hillingdon mentions divestment on a pragmatic basis if investment manager engagement is unsuccessful. This is not explicitly mentioned by LCIV. It is believed this is a major issue because the LCIV text is more focused on stock level decisions.

More generally though, Hillingdon text is drafted from the perspective of an asset owner and LCIV from that of an asset manager, so the different approaches make it harder to compare.

FINANCIAL IMPLICATIONS

ESG initiatives circa £95,000 for 22/23.

LEGAL IMPLICATIONS

Legal implications are included in the report.

London CIV TCFD Report 2022

For the reporting year ending 31st December 2021

Delivering
Sustainable
Growth

London CIV

About London CIV: Our Purpose and Vision

London CIV was formed in 2015 and manages the investment of the pension assets of the 32 Local Government Pension Scheme (LGPS) Funds in London. We are one of eight LGPS pools. These client funds are also our shareholders and we work collaboratively to deliver our agreed purpose which is To be the LGPS pool for London to enable the London Local authorities to achieve their pooling requirements.

Our updated statement of Investment Beliefs sets out how we work in collaboration with clients to improve investment returns and manage risk. It articulates how we set out to achieve our commitment to be responsible investors and good stewards. Our vision statement is To be the best in class asset pool delivering value for Londoners through long term sustainable investment strategies.

Our Client Funds retain responsibility for their asset allocation and investment strategy, and thus exposure to environmental, social and governance (ESG) risks. We see our role as helping them implement their strategy and to understand and manage the associated risks, whilst also addressing global issues and helping to drive progress.

Contents

Overview
2 About London CIV
3 Foreward
4 Key Facts
5 The Task force on Climate-Related Financial Disclosures
6 Governance
9 Strategy
16 Risk Management
18 Metrics and Targets
25 Appendix
27 Glossary

Foreword

Amidst the turmoil of the global COVID-19 Pandemic, the long-overdue UN COP26 climate conference finally took place in Glasgow in 2021, driving strong climate action momentum. Hundreds of countries pledged to halt deforestation and cut methane emissions by 2030, while leaders across the world vowed to reach net-zero emissions with varying levels of ambition.

In the case of India, Prime Minister Modi stunned the gathered negotiators with an ambitious pledge to achieve net-zero emissions by 2070, as the United Kingdom championed a plan to reach net zero by 2050 and reduce carbon emissions by 78% by 2035. If they are met in full and on time, these commitments will hold the rise in global temperatures to 1.8°C by the end of the century, marking the first-time governments have come forward with targets of sufficient ambition to keep global warming below 2 °C.

But even as we welcome this progress, we must also sound a note of caution: 1.8 °C is still above the Paris Agreement target of limiting global warming to well below 2°C and falls short of 1.5°C. Scientists have clearly warned of the major climate risks of breaching the 1.5°C limit - the point where global warming-linked consequences become increasingly severe, difficult and expensive to adapt to, protect ourselves from, and control further temperature increases. The Earth has already warmed by 1.2°C relative to pre-industrial times and the resulting changes in weather patterns, sea levels and the frequency of extreme weather events are already affecting ecosystems, human communities, and economies on a global scale[1]. To keep the window open for 1.5°C, we must cut our emissions in half by 2030 – which is now less than eight years away.

Breaching the 1.5°C threshold is of course, a threat to investors too. Financial markets must play a pivotal role in the transition to a greener, more sustainable economy. As significant asset owners, the London CIV is committed to playing its part. Climate change risk management forms a critical part of our client's fiduciary duty and is a strategic investment priority as 28 of our 32 clients have declared a climate emergency. London CIV have been a signatory to the Task Force on Climate Related Financial Disclosures ("TCFD") since June 2020 and will continue to report annually in line with its recommendations. While this is currently on a voluntary basis, the United Kingdom has announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025 with the phase-in of the Sustainability Disclosure Requirements. London CIV strongly supports this decision and believes that allowing industry to price climate-related risks and policy makers to address market failures will serve our clients' best interests. By aligning with the TCFD recommendations financial institutions can demonstrate that they are taking action towards building a more resilient financial system through climate-related disclosures.

Assessing the potential financial impact of climate-related risks and opportunities on an investment portfolio is an essential part of the TCFD framework. London CIV conducted this exercise for the first time in 2020, focusing on a range of climate impact and risk metrics. The assessment highlighted a positive climate performance against its benchmark but despite positive progress on climate risk mitigation efforts, the London CIV's investments were not compatible with a warming below 2°C.

This year, we've made great leaps towards our Responsible Investment milestones, particularly on climate. We launched three climate focused products in 2021: the LCIV Renewable Infrastructure Fund; the LCIV Global Alpha Growth Paris Aligned Fund; and the LCIV Passive Equity Progressive Paris-Aligned Fund ("PEPPA"). Most notably in October 2021, London CIV committed to net zero GHG emissions by 2040, becoming the first Local Authority pension pool to do so. Of course, we recognise that the climate strategies and targets of our client funds vary and expect to be able to meet their needs with our product range.

Ambition and rhetoric must result in action, which is why we do not view this report as an endpoint. Rather, we consider the adoption of effective climate risk management, comprehensive governance processes and techniques such as scenario analysis to be as integral to the implementation of the TCFD recommendations as the disclosures themselves. This report therefore serves as a useful framework to describe our journey towards improving the resilience of our funds to climate-related risks. We will continue to prioritise climate change issues at London CIV and aim for improved disclosure in the next reporting year.

Gustave Loriot, Responsible Investment Manager

1 IPCC (2021). Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis – Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change

Key Facts

£26.7bn
Pooled through London CIV

£44bn
of assets held by Client Funds

74%
AUM covered in ESG risk analysis[2]

18 out of 20
of our funds managed by signatories of TCFD

Net Zero
by 2040 and operationally by 2025

5.7%
of London CIV's Total AUM allocated towards Renewable Energy Infrastructure

4.5%
Carbon Intensity Reduction achieved in 2021 across Scope 1-2-3 emissions[3]

26%
The Fossil Fuel Exposure was reduced by 26% to reach 0.71% in 2021

2-3°C
London CIV is currently aligned with a 2-3°C warming scenario. Emissions are approximately 4.25% higher than the emissions allowed for a 2°C carbon balance

33%
Passive Funds managed by BlackRock and LGIM (Pooled) are on average 33% more carbon intensive than funds held on the London CIV ACS.

2 Covers the following asset classes (1) Listed Equity, (2) Fixed Income - Corporate. Uncalled capital from Private markets funds commitments have been excluded.
3 London CIV decarbonized by 38% across Direct + First-Tier Indirect emissions during 2021.

The Task Force on Climate-Related Financial Disclosures

The Task Force on Climate-Related Financial Disclosures was established in 2015 by the Financial Stability Board ("FSB") at the request of the G20 to review how the reporting on climate-related issues in financial reporting could be improved.

In June 2017, the TCFD published its final recommendations providing a framework for financial institutions and non-financial organisations alike to reflect and report on their climate-related risks and opportunities. As of October 6, 2021, the Task Force had over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of $194 trillion. TCFD supporters now span 89 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of over $25 trillion — a 99% increase since last year[4]. Perhaps most importantly, multiple jurisdictions have proposed or finalized laws and regulations to require disclosure aligned with the TCFD recommendations — In November 2020, the UK's Chancellor of the Exchequer announced the UK's intention to mandate climate disclosures by large companies and financial institutions by 2025, and in June 2021, the FCA published further proposals to extend TCFD-aligned disclosure requirements to issuers of standard listed equity shares and introduce TCFD-aligned disclosure requirements for asset managers, life insurers, and FCA-regulated pension providers.

The TCFD recommendations provide a framework organised around four themes, governance, strategy, risk management, and metrics and targets. (Figure 1). The following report has been structured to provide disclosures across each of these topics.

Figure 1: Core Elements of Recommended Climate-Related Financial Disclosures

Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

4 Task Force on Climate-Related Financial Disclosures 2021 Status Report – October 2021

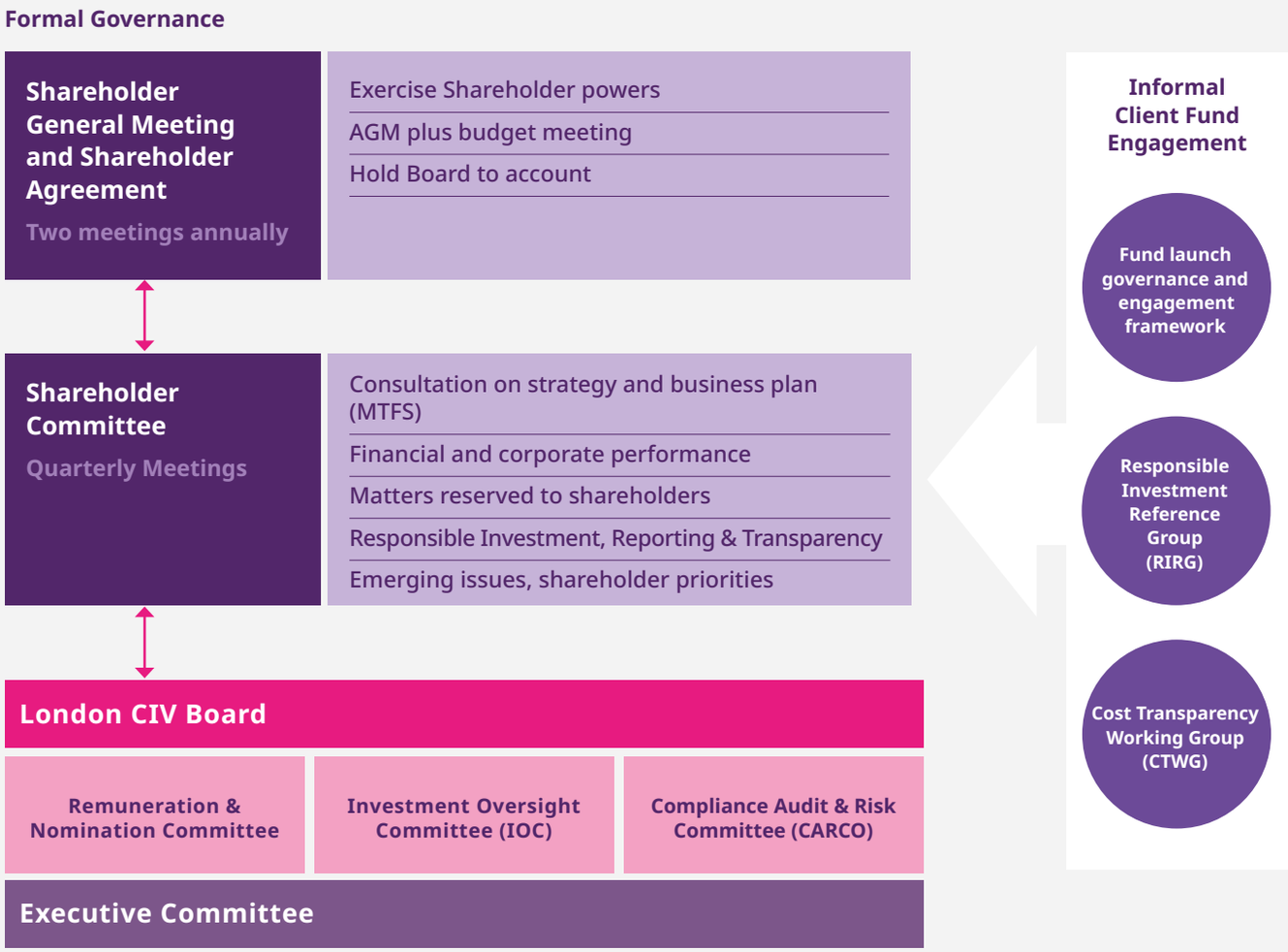
Governance

Governance

The TCFD's recommendations highlight the importance of good governance structures to ensure effective oversight of climate-related risks and opportunities.

As asset owner signatories to the UK Stewardship Code, London CIV are committed to ensuring that our governance structures and arrangements for strategic decision-making and leadership achieve best practice stewardship for the benefit of Client Funds and stakeholders. Our governance structure supports formal shareholder input through general meetings and the shareholder agreement and a representative Shareholder Committee. This is complemented by client engagement during the development of investment funds and a Responsible Investment Reference Group (RIRG). It is also designed to ensure that the Board remain accountable for overall strategy and critical RI issues such as climate change risk. This governance structure is summarised below.

London CIV committee structure



Governance continued

A. Describe the Board's oversight of climate-related risks and opportunities.

The London CIV Board approves and is collectively accountable for London CIV's Climate Change Policy, Responsible Investment Policy and Stewardship Policy. The Investment Oversight Committee ("IOC") oversees the implementation of London CIV's investment strategy and the Compliance Audit and Risk Committee ("CARCO") oversee London CIV's climate change risk mitigation strategy. The Shareholder Committee report back to the Board and its IOC and CARCO on a quarterly basis.

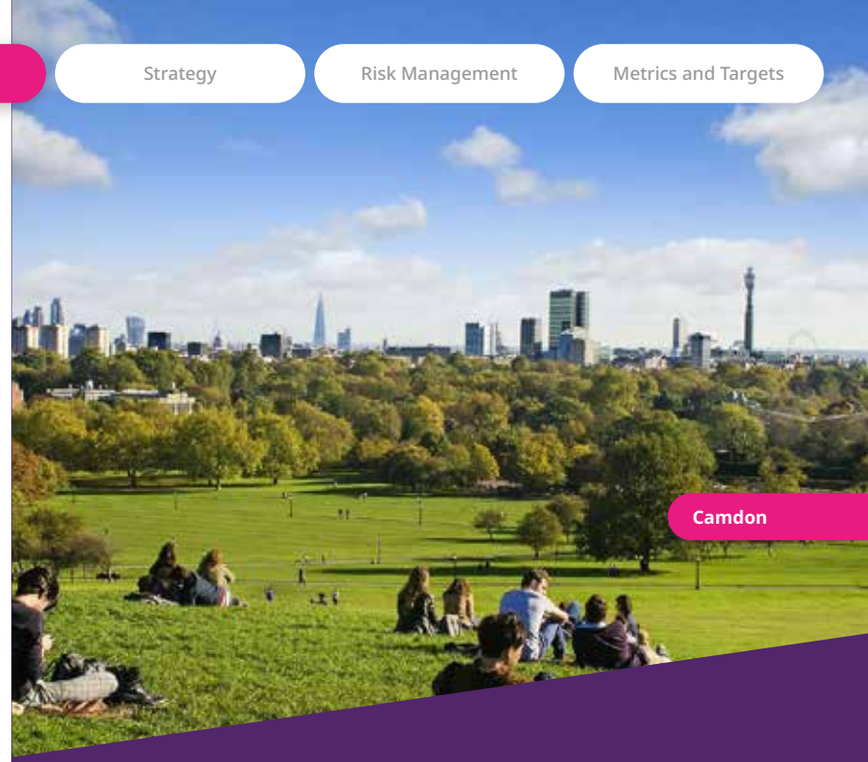
The Board also executes responsibilities for climate-related oversight via review of key climate related disclosures such as TCFD reporting and approval of emissions reduction targets. It delegates the implementation of London CIV's Climate Change Policy and other responsible investment activities to the Executive Directors responsible for administering the strategy.

Informal pool member engagement groups such as the Responsible Investment Reference Group ("RIRG") also support climate-related risk oversight. The RIRG includes representatives from client funds, London CIV, and an appointed ESG Champion from the Board. The group meets monthly to discuss a number of ESG issues with a specific focus on climate change risk.

B. Describe management's role in assessing and managing climate-related risks and opportunities.

The Executive Team, led by the Chief Executive Officer ("CEO"), is responsible for the day-to-day management of London CIV, including delivery and development of London CIV's climate change strategy. The Chief Investment Officer ("CIO") is responsible for managing the integration of climate change into fund design, implementation and overall investment decision making.

Operational accountability is led by the Head of Responsible Investment ("HRI") who reports to the CIO. The integration and mitigation of climate change risk is explicit in the roles of all members of the investment team. To ensure adequate management of climate-related financial risks, the London CIV has also now expanded the dedicated Responsible Investment ("RI") team to three members of staff to lead climate risk engagements with investment managers. The RI team monitors climate performance across key exposure and impact metrics and meets with fund managers on a quarterly basis to monitor compliance with London CIV's Climate Policy and Stewardship Policy. These efforts are further supported by an outsourced Voting and Engagement service provider.



> The Responsible Investment Reference Group has been a critical platform for Client Funds to provide feedbacks and collaborate to enhance ESG practices. It provides a level of assurance to ensure London CIV's actions align with clients' views.

Councilor Robert Chapman

Chair of Hackney Pensions Committee, Cabinet Member for Finance at London Borough of Hackney, Vice Chair of the Local Authority Pension Fund Forum (LAPFF), Shareholder Committee Member, Chair of the RIRG at London CIV

Clapham Common

Strategy

Strategy

The TCFD's recommendations call on asset owners to describe how climate-related risks and opportunities are factored into investment strategies.

The London CIV's vision is to be the best-in-class asset pool delivering value for client funds and their beneficiaries through long-term sustainable investment strategies. LGPS funds have long-term investment horizons and allocate capital across a wide range of asset classes and sectors. Given the prolonged timeframes during which climate risks could materialize, client funds are acutely vulnerable to the systemic disruptions that climate change will cause in ecosystems, societies, and economies. Addressing climate-related financial risks therefore forms a critical part of their fiduciary duty.

For instance, the interplay between transition and physical risks highlights the importance for trustees to adopt climate scenario analysis models within risk management practices. This can help inform projected fund performance into the short, medium, and long-term of various scenarios of warming or climate transition. In turn, these results can help to build climate-resilient strategies and ensure defined members' benefits are delivered over these timescales.

As significant asset owners, we also have a key role to play in accelerating the transition to a net-zero economy. This is because systemic risks associated with climate change seriously threaten the long-term socio-economic stability of the world in which our beneficiaries live. Mitigating climate-related financial exposure in our clients' portfolios by investing in line with the 1.5°C objectives of the Paris agreement is therefore entirely consistent with our clients' fiduciary duty.

The Intergovernmental Panel on Climate Change ("IPCC") Special Report on the impacts of global warming of 1.5°C has clearly indicated that faster CO2 reductions wherein "CO2 emissions decline from 2020 to reach net zero in 2040 will result in a higher probability of limiting warming to 1.5°C"[5]. Accordingly, we committed to net zero GHG emissions by 2040, becoming the first Local Authority pension pool to do so. To achieve this, the progress which will be made over the next ten years is critical. We have set interim targets which require an average carbon intensity reduction of 35% by 2025 (relative to 2020), and of 60% by 2030 across funds invested via the London CIV Fund range. Of course, we recognise that the targets of our client funds may vary. As such, our role as a local authority pension pool is to provide investment solutions which help our 32 clients meet their own net-zero or climate objectives.

> It was evident from the January 2022 General Meeting that London CIV has made positive steps in increasing the numbers of funds which meet shareholder funds' needs to invest responsibly, particularly with net zero commitments in mind, and have started to develop an engagement capacity which can influence the companies in which funds are invested in more impactful ways.

Cllr Rishi Madlani
London CIV Shareholder Committee Chair

Millennium Bridge

5 IPCC Special Report on the impacts of global warming of 1.5°C

Strategy continued

A. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

The effects of climate change pose considerable and far-reaching risks to the global economy. As highlighted in the 2017 guidelines of the TCFD, these can be divided into two major categories (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change.

Physical risks associated with climate change can either be event driven (acute) or result from longer-term shifts (chronic) in climate patterns. While company exposure to acute and chronic physical impacts varies greatly depending on geographical asset positioning and relative degree of vulnerability, both may result in financial losses such as damage to assets, interruption of operations and disruption to supply chains.

Businesses also face risks associated with the transition to a low-carbon economy, including policy changes designed to discourage carbon-intensive activities, technological changes, shifts in consumer demand, investor sentiment, and disruptive business model innovation. For instance, measures to increase the costs of carbon emitting activities are transforming the underlying economics to favour lower carbon technologies and products across all sectors. Depending on the nature, speed, and focus of these regulatory changes, transition risks may produce varying levels of financial exposure for organisations. Conversely, inaction will result in the exacerbation of climate change along with the physical risks to assets, operations, and supply chains.

Risks and opportunities identified by the London CIV using the TCFD framework are listed in Table 1.

Our exposure to this set of climate risks and opportunities has been assessed across multiple scenarios and time horizons (short, medium, and long-term). The assessment has highlighted the importance of in-depth asset and company-level risk analysis as most holdings do not conform to clear patterns of exposure. Although physical risk can be determined by the geographic location of company operations, and industries with high carbon emissions are generally more vulnerable to climate-related regulatory developments, this level of analysis is not sufficient alone to inform risk management strategies.

Climate change related financial risks result from a complex interplay between company-specific characteristics, as well as transition and physical risks under a range of different climate change scenarios. Strong action to reduce emissions and limit climate change may avoid the worst physical impacts of climate change but presents significant market, technology, and regulatory transition risks for market participants. Conversely, failure to adequately reduce greenhouse gas emissions may limit transition risks but will result in increasing climate change and associated physical risks.

Table 1: Climate-related risks and opportunities

Category	Type
Transition Risks	Policy/Legal Developments
	Technology Transition and Innovation
	Market Adjustments
	Reputational Risks
Physical Risks	Water Stress
	Floods
	Heatwaves
	Coldwaves
	Hurricanes
	Wildfires
	Sea Level Rise
Opportunities	Resource Efficiency Improvements
	Renewables and Clean-tech Exposure
	Substitution to Low-carbon Products/Services
	Market Access and Incentives
	Resilience to Climate-Related Physical Impacts

London CIV will continue to review potential risks and will work to measure their impact on future company valuations.

Case Study:
LCIV Passive Equity Progressive Paris Aligned Fund ("PEPPA")

The objective of the PEPPA Fund is to track the performance of the S&P Developed Ex-Korea LargeMidCap Net-Zero 2050 Paris Aligned ESG Index (GBP). It launched on 1st December 2021 with £520m seed investment from London Borough of Havering and London Borough of Lewisham. The PEPPA Fund has been designed for investors who wish to be at the forefront of the transition towards a low carbon economy by seeking alignment with the ambitious targets of the Paris Agreement, which aims to limit global warming to 1.5°C above pre-industrial levels. The Index is progressive, as it is updated in line with any changes to the minimum standards of EU Paris-Aligned Benchmarks. Stewardship and Engagement is a critical part of the Fund's core strategy. London CIV consolidates all its votes in PEPPA, sets key priorities at a high level and is also guided by Client Funds' priorities and the Local Authority Pension Fund Forum's guidelines. Our voting provider Hermes EOS executes our votes and provides expertise and guidance to ensure our votes support our stewardship priorities. London CIV appointed State Street Global Advisors Limited ("SSGA") to manage PEPPA and track the Index. S&P Dow Jones Indices ("S&P DJI") is the index provider. London CIV worked in collaboration with Client Funds via Seed Investment Groups ("SIG") on the design of PEPPA.

Strategy continued

B. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.

London CIV has developed a three-step strategy to mitigate the risks associated with climate change. It is structured as follows:

1. Integration:
Embedding responsible investment into investment decision and design

2. Engagement:
Collaboration with companies, managers, peers and participants

3. Disclosure:
transparent reporting in line with best practice

Climate change issues are dynamically integrated within each of these stages and are underpinned by a set of governance principles to ensure accountability and strategic responsibilities are clearly defined within the organisation. The London CIV Climate Policy details how we manage climate-related risks throughout the investment process and sets objectives to ensure these can be monitored and measured over time.

Recognising the range of climate impacts across different funds, our overall investment portfolio must be resilient under a range of climate scenarios and support our client funds climate change mitigation objectives. Over the past year, we have launched four products which directly support decarbonization objectives - the LCIV Renewables Infrastructure Fund, the LCIV Global Alpha Growth Paris Aligned Fund, the LCIV Passive Equity Progressive Paris-Aligned Fund (PEPPA), and the Alternative Credit fund. We have also enhanced existing products to include climate objectives. For instance, the LCIV Global Bond Fund now does not invest in companies with revenues derived from coal extraction, distribution, and power generation.

However, while responsible investment is a key part of our manager selection process, we do not systematically stipulate minimum levels of climate ambition in the design of our funds. This can be left at the discretion of our investment managers, which enables them to tender with optimal strategies, contingent upon the nature and requirements of the fund mandates as defined by London CIV and its investors.

There are also challenges associated with managing climate-risks within multi-asset funds. This will depend in large part on the availability of "sustainable options" across different asset classes. For instance, alternative asset classes (Real Assets, Commodities, Derivatives) are often regarded as more difficult to manage from an ESG perspective. London CIV understands the importance of displaying a strategic asset allocation that minimises short-term risks through diversification. So rather than excluding asset classes which are "problematic" in terms of ESG integration, London CIV has committed to work closely with its fund managers by reviewing leading Responsible Investment ("RI") practices and improving processes on a best-efforts basis.

London CIV's strategy is also underpinned by the understanding that investee companies with robust governance structures are better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies with exposure to climate-related risks and weak governance. Thus, we adopt a policy of risk monitoring and active engagement to positively influence company behaviour and enhance stakeholder value, influence that would be lost through a divestment approach. We extend the principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external investment managers who are at an early stage of developing their RI approach. London CIV believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. This extends to other LGPS pools and other public and private investors.

For more information, please consult the 2022 Stewardship outcomes report.

Case Study:
LCIV Renewable Infrastructure Fund

The LCIV Renewable Infrastructure Fund focuses on renewable energy infrastructure assets, investing in greenfield and brownfield assets. This includes generation, transmission, distribution and enabling assets. To date London CIV have made investments in four funds managed by; BlackRock Investment Management; Foresight: Group and Quinbrook Infrastructure Partners.

The Fund was seeded in March 2021 with £435m of investment from an initial five Client Funds. A further five Client Funds invested at the second close on taking the total assets committed to the Fund to £682.5m and following the end of the financial year a further 3 Client Fund investments took the total to £853m.

The product supports London CIV's and client funds commitment to ESG integration and managing climate risks, so it the investment by thirteen Client Funds a total of in sustainable opportunities was a welcome step. The Fund is one of the most successful London CIV fund launches to date.

Photo credit: BlackRock - Glens of Foudland

Strategy continued

C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

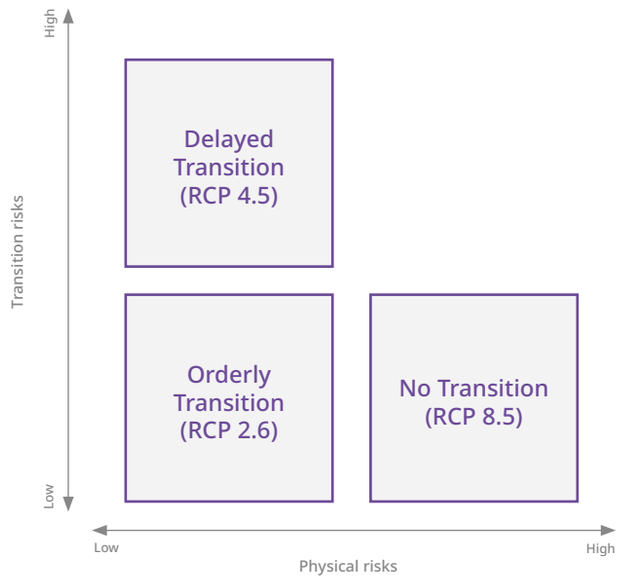
The TCFD's final report highlighted that the most significant effects from climate change are likely to emerge over the medium to long term. However, the precise timing and magnitude these impacts may have on company financial performance is highly uncertain.

To better understand these risks, we conducted a climate scenario analysis covering all listed equity and corporate fixed income instruments included across our funds. This analysis combines two climate datasets developed by S&P Global Trucost: (1) The Carbon Earnings at Risk analytics, which reflects regulatory transition risks by evaluating the impact of rising carbon prices on corporate and portfolio earnings; (2) and the Climate Change Physical Risk analytics, which evaluates corporate exposure to climate change hazards at the asset level. These datasets draw upon climate models from leading research groups, data providers, and academic research papers.

The three scenarios used are based on IPCC Representative Concentration Pathways ("RCP") and informed by the TCFD technical guidelines. They include:

1. **No transition (RCP 8.5):** Continuation of business as usual with emissions at current rates. This scenario is expected to result in warming in excess of 4 degrees Celsius by 2100, causing severe physical risks and irreversible impacts like sea-level rise.
2. **Delayed transition (RCP 4.5):** Strong mitigation actions to reduce emissions to half of current levels by 2080. This scenario assumes that policies will be implemented to reduce greenhouse gas emissions and limit climate change to 2 degrees Celsius in the long term, but with action delayed in the short term.
3. **Orderly transition (RCP 2.6):** Aggressive mitigation actions to halve emissions by 2050. This scenario corresponds to the implementation of policies that are considered sufficient to reduce greenhouse gas emissions in line with the Paris Agreement. It is likely to result in warming of less than 2 degree Celsius by 2100. Both physical and transition risks are relatively subdued.

Figure 3: Modelled Climate Scenarios (Source: London CIV based on S&P Global Trucost)



Whilst we recognize some of the methodological limitations associated with these estimation models, we believe that they can produce decision-useful information. The financial risks of dangerous climate change to beneficiaries' pension savings, and the opportunity to contain physical risks means that the financial sector cannot wait until it has 'perfect' data before it starts putting it to use. Our analysis is aligned with the recommendations made by the UK Department of Work & Pensions consultation on implementing Scenario analysis and TCFD recommendations for Pension fund trustees[6].

The section as follows summarises the results of the climate scenario analysis, in an effort to provide insight into the potential resilience of investment strategies that may be affected by future climate change.

6 Department for Work and Pensions (26 August 2020): Taking action on climate risk: improving governance and reporting by occupational pension schemes.

Case Study:
LCIV Global Alpha Growth Paris Aligned Fund

The LCIV Global Alpha Growth Paris Aligned Fund launched on 13 April 2021 with £485m seed investment from two Client Funds.

The Fund provides the opportunity for London CIV Client Funds to align their assets with the objectives of the Paris Agreement and is a lower carbon variant of the existing LCIV Global Alpha Growth Fund, which has been on the London CIV ACS platform since April 2016.

The active equity fund is managed by Baillie Gifford and subject to a quantitative screening process to remove companies with particular levels of revenue exposure to fossil fuels, including revenue from exploration, production, and service provision to the sector, and qualitative screening to other companies to explore the balance between vital and discretionary emissions, potential emission reduction pathways, and management's appetite to adopt a low carbon transition.

The Fund is part of London CIV's role in navigating a pathway to net-zero emissions through alternative investment approaches, which includes holding companies to higher standards of accountability and transparency. The introduction of the LCIV Global Alpha Growth Paris Aligned Fund reflects London CIV's efforts to provide long-term, sustainable investment solutions to our Client Funds whilst addressing key socio-economic issues and contributing towards the long-term goals of the Paris Agreement.

Photo credit: © REUTERS/Lefteris Karagiannopoulos

Strategy continued

Scenario Analysis – Transition and Physical risks

a. Transition risks

Carbon pricing mechanisms are an essential policy tool to reduce GHG emissions and redirecting capital towards lower-carbon solutions. S&P Global Trucost have developed a dataset of scenario based future and current carbon prices based on present emission trading schemes, carbon and fossil fuel taxes. Integral to this analysis is the quantification of the carbon risk premium – the difference between what a company pays for emitting carbon today and what it may pay in the future. The Carbon Price Risk Premium varies by geography due to government policy differences, and by sector due to the differential treatment of sectors in many climate change policies. Calculating such a risk premium allows to determine the future costs of carbon faced by companies. This helps to inform us of the potential financial impact of carbon prices at fund level under a range of scenarios. The results presented in table 2 have been calculated according to all three scenarios of carbon prices using 2030 as a reference year.

$$\text{Future carbon costs}_i = \textit{Carbon footprint}\ (tCO2e)_i * \textit{Risk premium}_i$$

Table 2: Carbon Earnings at Risk – Financial Impacts

Metric	LCIV Consolidated	MSCI World
EBITDA at Risk		
Orderly Transition	1.14%	1.60%
Delayed Transition	2.54%	3.32%
No Transition	4.51%	6.16%
EBITDA Margin Reduction		
Orderly Transition	-0.25%	-0.39%
Delayed Transition	-0.54%	-0.78%
No Transition	-0.96%	1.47%
Weight with >10% EBITDA at Risk		
Orderly Transition	2.68%	3.25%
Delayed Transition	4.62%	6.63%
No Transition	6.40%	10.91%
Weight with Negative Margins		
Orderly Transition	0.00%	0.02%
Delayed Transition	0.07%	0.24%
No Transition	0.22%	0.99%

Source: LCIV based on S&P Global Trucost

The EBITDA (earnings before interest, taxes, depreciation and amortization) at risk is the share of a portfolio's earnings exposed to a carbon price increase. It provides a useful indication of fund vulnerability against an increase in carbon prices. The indicator has been calculated as the weighted average of company future carbon costs divided by earnings (EBITDA).

$$\text{EBITDA ar risk} = \sum_i^n \left[\frac{\textit{Future carbon costs}_i}{\textit{EBITDA}_i}\right] * \textit{Weight}_i$$

According to the analysis, the share of earnings at risk within a 'No Transition' carbon pricing scenario for the consolidated LCIV pool amounted to 4.51% against 6.16% for the MSCI World.

b. Physical risks

Physical risks resulting from climate change can be acute (driven by an event such as a flood or storm) or chronic (arising from longer term shifts in climate patterns) and may have financial implications for organizations such as damage to assets, interruption of operations and disruption to supply chains. S&P Global Trucost Climate Change Physical Risk Analytics offer an asset level approach to the assessment of physical risk at the company and portfolio level, and in the future, modelling of the magnitude of the potential impact of such risks on financial performance. These assets are assessed based on their exposure and vulnerability to seven physical risks (water stress, fires, floods, heat waves, cold waves, hurricanes and rising water levels).

Companies are rated from 1 to 100 for each of the seven risks in all three scenarios. The lowest rating is 1, while a rating of 100 indicates the highest possible level of risk exposure. Scores are adjusted for the potential materiality of the events they are exposed to (Table 3). The average of the seven scores is then calculated to obtain a composite physical risk score at company level.

Strategy continued

Table 3: Physical Risk - Sensitivity factors and impacts (Source: S&P Global Trucost)

Sensitivity Indicator	Risk Type	Business Impact	Rationale
Water Intensity	• Drought	• Input Scarcity • Increased Operating Expenses • Stranded Assets	Businesses with high water dependency are more likely to be impacted by water scarcity
Capital Intensity	• Flood • Costal Flood • Wildfire • Hurricane	• Asset Impairment • Lost Inventory • Production Disruption • Critical Infrastructure Damage	Businesses with high capital intensity are more likely to be impacted by risk types that cause physical damage
Labour Intensity	• Heatwave • Coldwave	• Productivity Losses	Businesses with high labour intensity are more likely to be impacted by the impairment of optimal working conditions

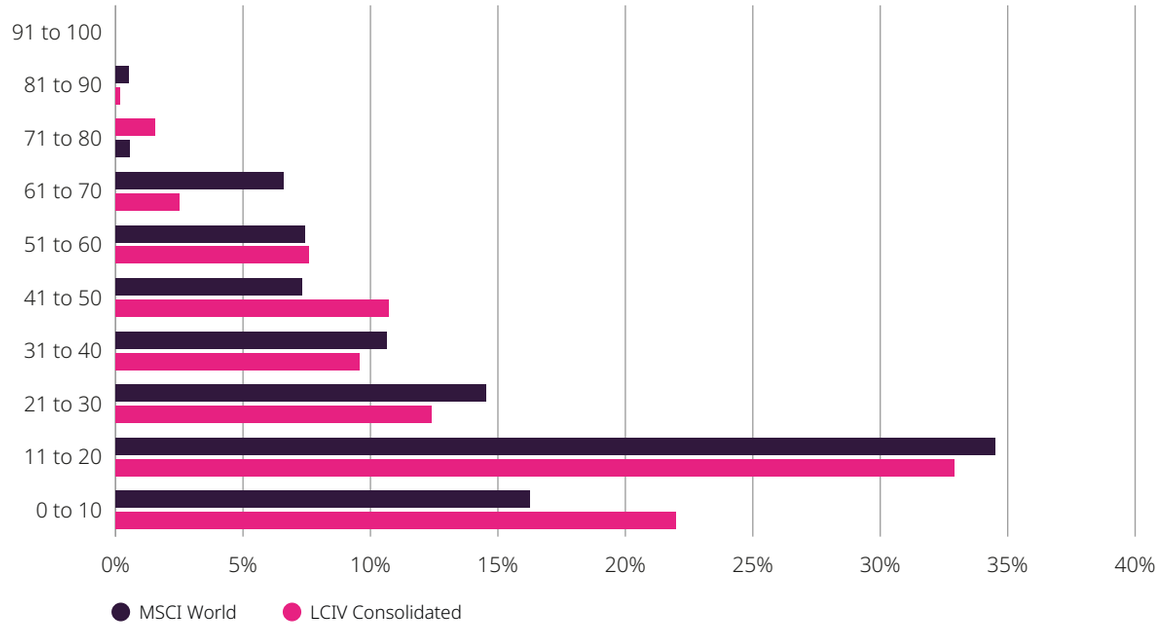
The figure to the right (Figure 4) provides a breakdown of sensitivity adjusted composite physical risk scores by decile. The scores have been calculated using the 'No transition' scenario, with 2050 as the reference year. They can be interpreted as follows:

- Score between 1 and 33: Low risk
- Score between 34 and 66: Medium risk
- Score between 67 and 100: High risk

The analysis shows that the majority of companies within the consolidated LCIV pool have a low exposure to physical risk events – i.e. 22% of companies have received a score between 0 and 10.

Over the past year, we have also worked with our investment managers to improve our financial resilience to climate change by reducing the climate-related risk exposure of existing investment products and increasing the range of offerings that contribute to climate mitigation and adaptation objectives. We will continue to develop products in collaboration with our clients to consolidate our resilience to climate change under a range of climate scenarios, whilst helping beneficiaries to meet their own climate goals.

Figure 4: Weight per Sensitivity Adjusted Composite Score Decile (London CIV based on S&P Trucost data)



Londin Borough of Greenwich

Risk Management

Risk Management

The TCFD recommendations calls on asset owners to describe the processes in place to identify and manage climate-related risks.

A. Describe the organisation's process for identifying and assessing climate-related risks.

Investment managers review exposure to climate risks during pre-investment and post-investment analysis. Both involve the application of risk modelling tools based on historical and forward-looking climate datasets, and qualitative due diligence. The accuracy of the climate risk metrics is contingent upon the quality of the data available and the rigour of the analytical approaches employed. For instance, climate risks associated with alternative asset classes such as Real Assets, Commodities, Derivatives, and Non-listed Corporate issuers are often regarded as more challenging to measure. Depending on the nature of the asset class and the precision of the data available, risks may also be reviewed either at the security, issuer, or sector-level. Investment managers are ultimately responsible for developing their own climate risk assessment tools and reviewing leading practice to improve processes on a best-efforts basis.

To enhance the understanding of climate risks and identify specific areas of exposure, London CIV has also developed in-house risk-assessment tools leveraging data from third-party providers. All climate impact and exposure metrics calculated by London CIV have been developed in line with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the Partnership for Carbon Accounting Financials (PCAF). Climate-risk analysis covering corporate equity and fixed income instruments is conducted across all London CIV sub-funds on a quarterly basis, and the results from such assessments are used for monitoring levels of climate risk exposure and engaging with corporate issuers.

B. Describe the organisation's process for managing climate-related risks.

Managing risks associated with climate change is a fundamental part of our investment strategy. To reflect their importance, they have been integrated into all stages of our engagement with investment managers as well as the design, selection and management of our investment decisions. This approach was established in partnership with the RIRG and supported by oversight of the Board's IOC and CARCO.

All investment managers must be able to clearly demonstrate their approach to identifying and mitigating exposure to climate risk and articulate how their investment objectives support the transition to the low carbon economy. This is assessed based on sub-fund climate policies and their set of responses to the London CIV ESG Due Diligence questionnaire. Contractual agreements with external managers also include climate-related clauses such as disclosure in line with the TCFD, and stewardship commitments in line with the UN Principles for Responsible Investment ("PRI"). Moreover, we meet with our investment managers on a quarterly basis to assess their climate performance across key risk exposure and impact metrics. We may also challenge managers to provide case studies or examples of investment decisions that were influenced by the integration of climate factors in decision-making.

London CIV also recognises that accurate and timely disclosure of climate-related financial information is central to the development of effective risk-mitigation strategies. For instance, corporate issuers continue to report their greenhouse gas emissions to varying degrees of quality and detail. Some disclosures are made in accordance with global reporting standards and verified by external parties, but others are fragmentary and prone to errors. We aim to address this by encouraging investee companies to improve the quality of their climate-data disclosures in alignment with the TCFD recommendations or the Sustainability Accounting Standards Board ("SASB"). These efforts may be supported by our fund managers, direct dialogue, or through membership in industry associations such as ClimateAction100+. This year we established a partnership with Hermes EOS to strengthen our engagement and voting capabilities.

C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.

The London CIV Risk Management Framework ("RMF") establishes the three core pillars of its risk management defense model, including (1) Roles and Responsibilities (2) Key risk management tools and processes, and (3) Reporting requirements and governance. The RMF is used to identify threats to London CIV and outlines the process for mitigating those risks. Climate change considerations are embedded within each of the three lines of defense. This ensures that they are adequately compensated for throughout our investment lifecycle.

We also have an established set of principles that underpin the way we invest. Our duty of care as well as our commitment to responsible investing and sound risk management are enshrined in our Investment Beliefs.

Hyde Park

Metrics and Targets

Metrics and Targets

A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

London CIV considers both forward-looking and historical metrics to inform internal risk management and investment strategies. These have all been produced in line with the TCFD recommendations. This climate-risk analysis covers 74% of the consolidated pool's AUM[7].

Table 4: Climate-related exposure and impact metrics

Data Provider	Asset Class	Indicators
Trucost, part of S&P Global	Listed Equity	**Historical Performance** • Carbon Footprint Metrics • Fossil Fuel & Stranded Assets Exposure Metrics **Forward-Looking Metrics** • Two-Degree Alignment: GHG Transition Pathway Assessment • Transition Risks: Unpriced Carbon Costs • Physical Risks: Raw and Sensitivity Adjusted Scores
	Corporate Fixed Income	

Private Markets

London CIV works with its private markets fund managers to incorporate ESG and climate considerations into investment due diligence and decision-making. For instance, infrastructure has an essential role to play in mitigating and adapting to climate change as well as achieving the SDGs. Supporting investments into renewable energy generation, transmission, and distribution assets forms a critical part of our Net Zero Investment Strategy.

The LCIV Infrastructure Fund which was launched in 2019 was designed with a minimum of 25% of commitment in renewable energy exposure. Currently, the fund has exceeded its target by having a total of 39% of commitment in renewables. In 2021 the London CIV has also launched a standalone Renewable Infrastructure Fund. Across these two funds, more than £838 million have been committed towards renewable energy infrastructure. This corresponds to 5.7% of London CIV's AUM[8]. Last year, the allocation towards renewable energy infrastructure assets amounted to 1.44% of our total AUM.

This year, we have also worked with the managers our Renewable Infrastructure Fund to estimate the avoided emissions resulting from the displacement of conventional power generation sources by these assets. The results indicate that the fund commitments towards renewable energy infrastructure will contribute towards 3,552,630 tCO2e of avoided emissions during the project lifetimes. Based on this assessment London CIV concluded that the investments contributed to 5 of the 17 SDGs (Figure 3).

During the year, London CIV has also worked to formalise its ESG and climate monitoring processes across property and private debt investments. This included the assessment of all managers' responsible investment policies, the formulation of due diligence questionnaires, and reviews of GP track records of ESG and climate assessments. Some of the expectations outlined to the managers include: (1) Enhanced reporting on ESG data and disclosures in line with the TCFD; (2) Greater focus on embodied carbon in the development pipeline; (3) Establishment of a net zero pathway.

Figure 5: Contribution to the United Nations Sustainable Development Goals

7 Covers the following asset classes (1) Listed Equity, (2) Fixed Income - Corporate. Uncalled capital from Private markets funds commitments have been excluded.

8 As of the 31-12-2021, the LCIV Infrastructure has committed more than 155 mGBP to renewable energy. As of the 31-12-2021, total fund commitments for the Renewable Infrastructure Fund amounted to 682.5 mGBP.

Metrics and Targets continued

B. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas ("GHG") emissions, and the related risks. Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.

1. Carbon Footprint

Carbon audits allow for a systematic assessment of the carbon related impacts within the consolidated pool at a given point in time. Emissions associated with investee companies may range from those generated by direct operations, to those generated throughout the entire value chain. These emissions may then be 'normalised' by a financial indicator (such as annual revenues) to provide a measure of carbon intensity . The TCFD recommended weighted average carbon intensity metric is an appropriate measure of carbon risk exposure. It is calculated by summing the product of each holding's weight in the fund with the company level carbon to revenue intensity. The metric provides an indication of exposure to carbon intensive companies and countries and circumvents the need for apportioning ownership of carbon or revenues to individual holdings.

$$\text{Weighted Average Carbon Intensity} = \sum_{i}^{n} \left[\frac{Emissions\ issuer_i}{Revenues\ issuer_i} * weight_i \right]$$

Gaps in data can create undesirable reallocations of climate risk. For example, focusing on Scopes 1 and 2 emissions (which are widely reported by companies) but discarding Scope 3 can reallocate carbon risk along the value chain.

The figure on the next page displays the weighted average carbon intensity of all funds on the LCIV ACS platform according to two sets of emission scopes.

Figure 6: London CIV Climate Risk Analysis Coverage (Source: London CIV based on S&P Global Trucost data)

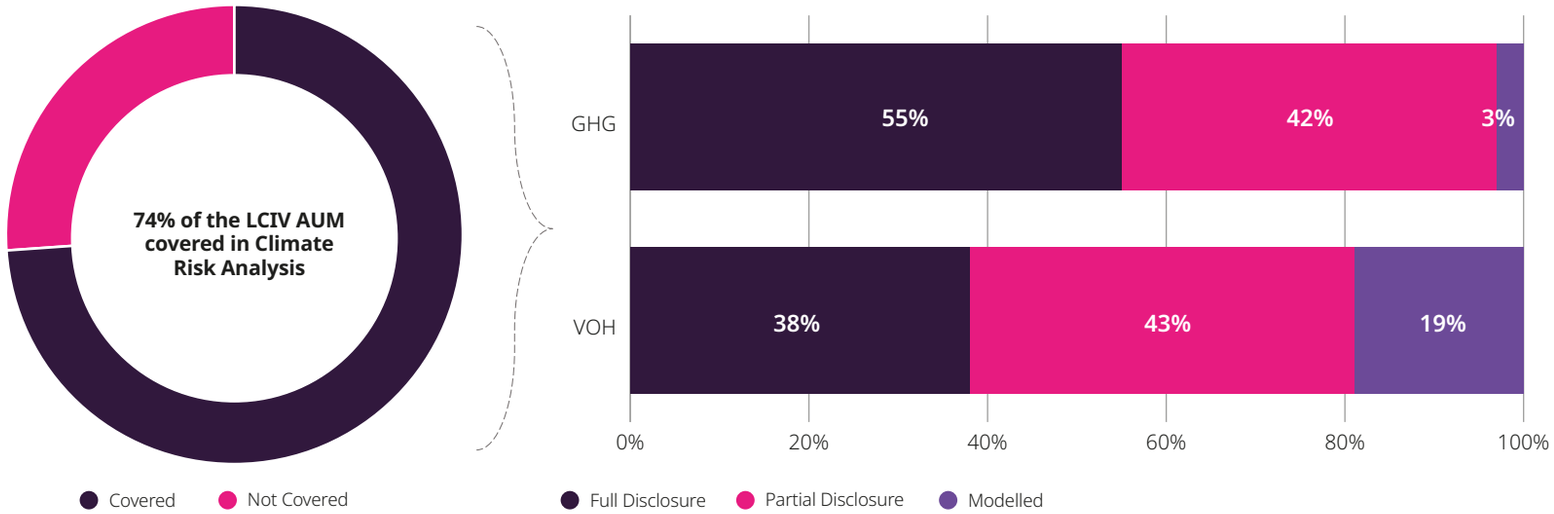
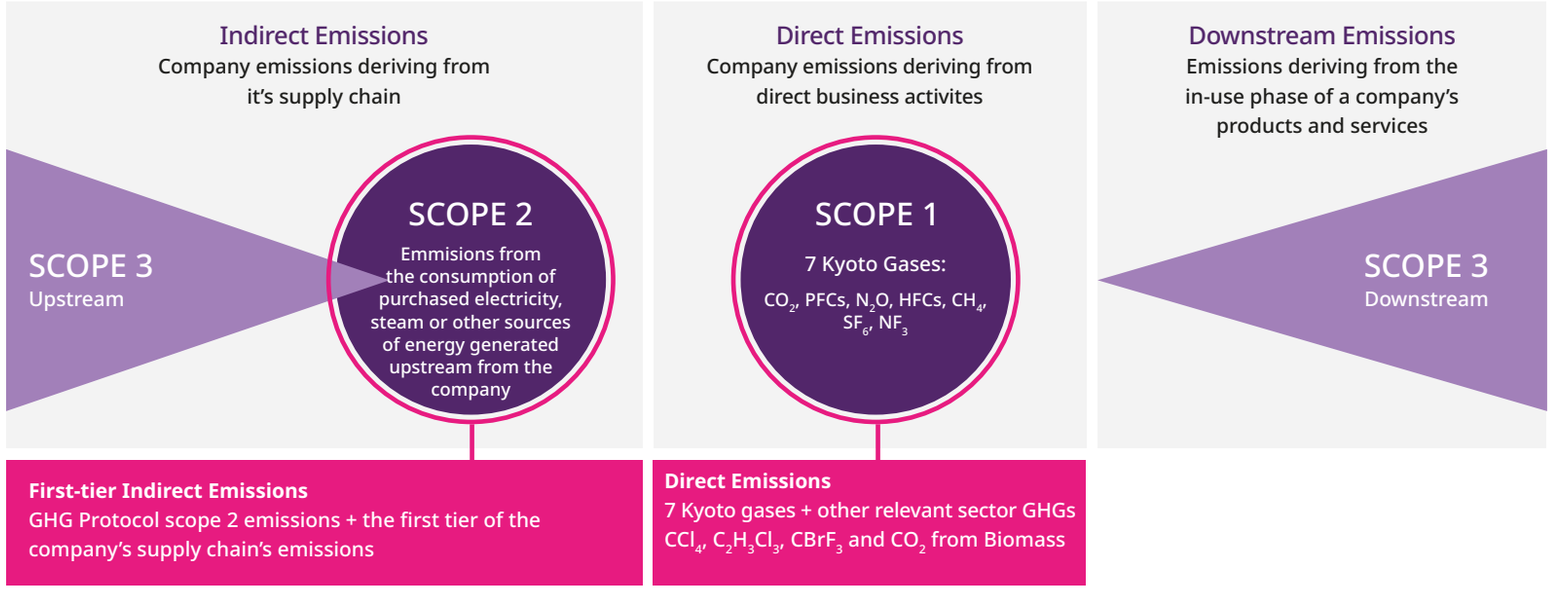


Figure 7: Carbon Emission Scopes



Metrics and Targets continued

Figure 8: Weighted Average Carbon Intensity – Direct + First-Tier Indirect emissions (Source: London CIV based on S&P Global Trucost data)

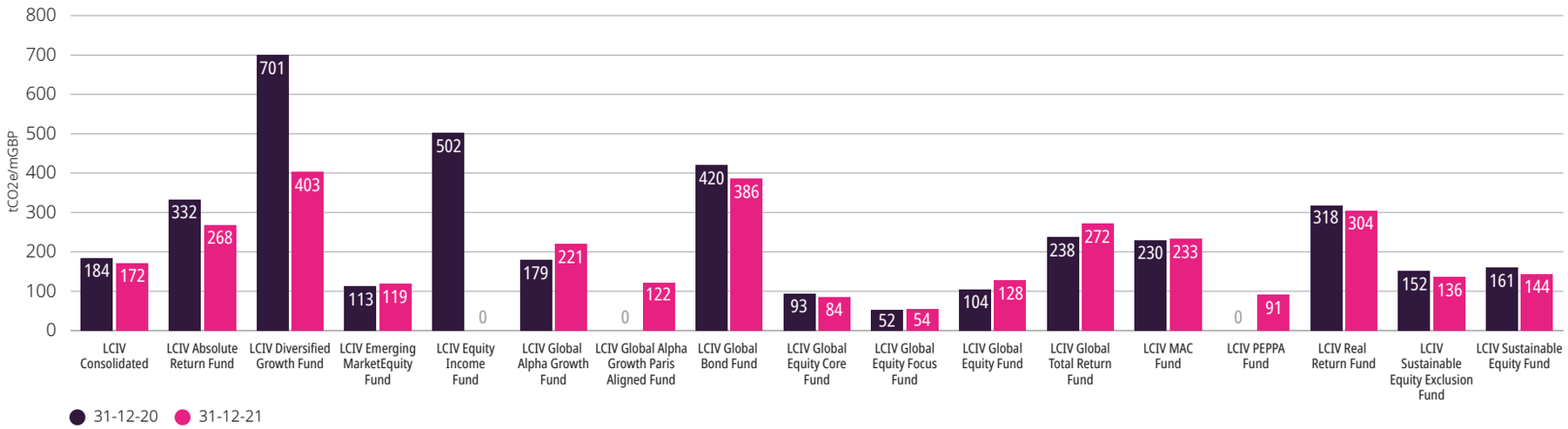
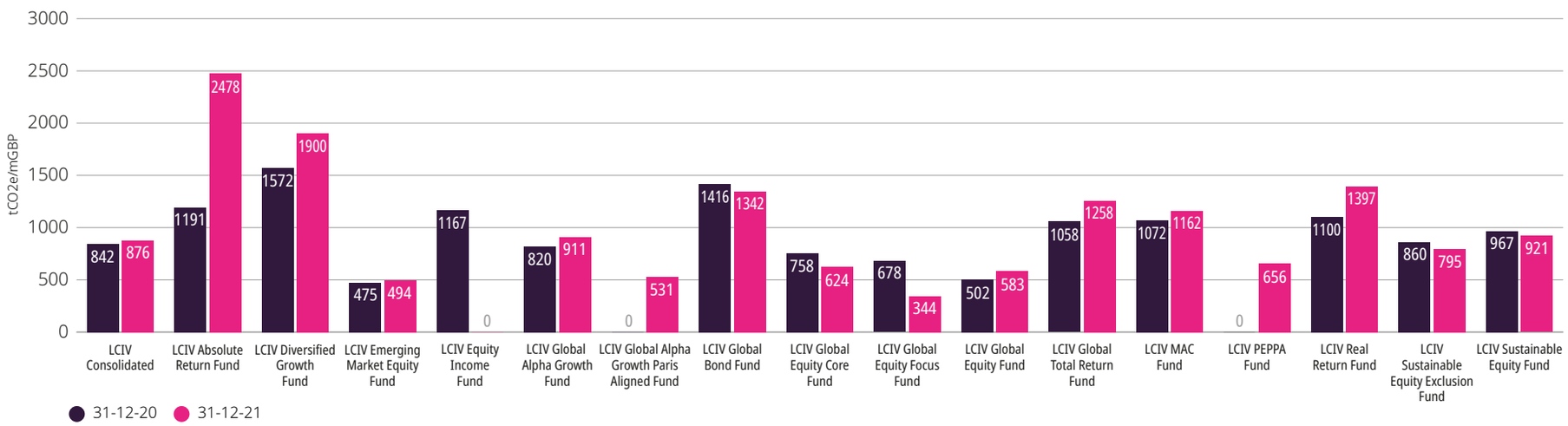


Figure 9: Weighted Average Carbon Intensity – Scope 1-2-3 emissions (Source: London CIV based on S&P Global Trucost data)



Metrics and Targets continued

2. Fossil Fuels & Stranded Assets

Future emissions from fossil fuel reserves far outweigh the allowable carbon budget that will limit global warming to 2°C above pre-industrial levels. Industry experts refer to assets that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities as stranded assets. London CIV assesses exposure to such assets by showing the combined value of holdings with business activities in either fossil fuel extraction or fossil fuel energy generation industries. This helps us to identify potential stranded assets that may become more apparent as economies move towards a low carbon economy.

Exposure to potential stranded assets was assessed by based on two indicators:

1. The sum of the weights of the companies in the portfolio exposed to such assets (expressed as % of holdings value). The given indicator is calculated by summing up the weights of holdings in companies that have a revenue dependency on the sectors in question.

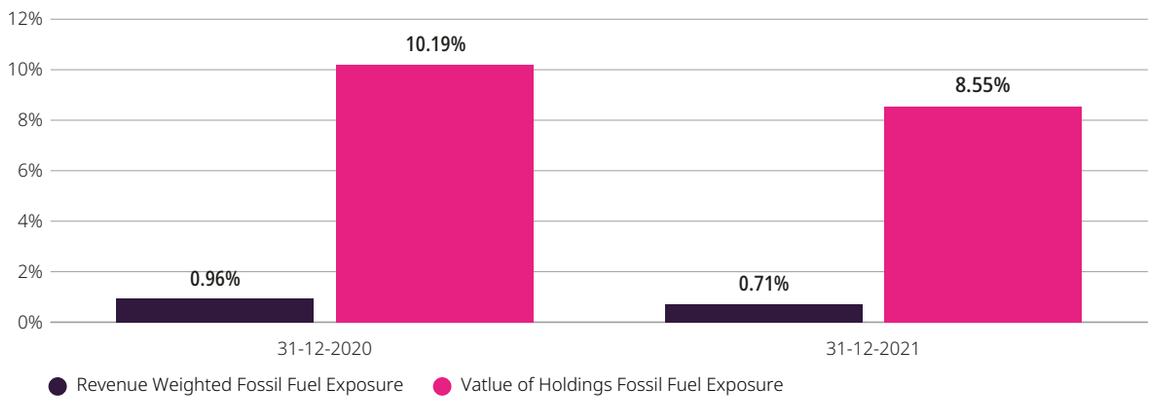
$$\text{Value of Holdings Exposure} = \sum_{i}^{n} [Weight_i]$$

2. The proportion of the revenues of the companies involved in the mentioned activities (expressed as a % of the revenues).

$$\text{Revenue Weighted Exposure} = \sum_{i}^{n} \left[\frac{Fossil\ Fuel\ revenues\ issuer_i}{Total\ Revenues\ issuer_i} * weight_i\right]$$

The results of the analysis indicate that the consolidated LCIV pool has reduced its fossil fuel exposure according to both set of metrics (Figure 10).

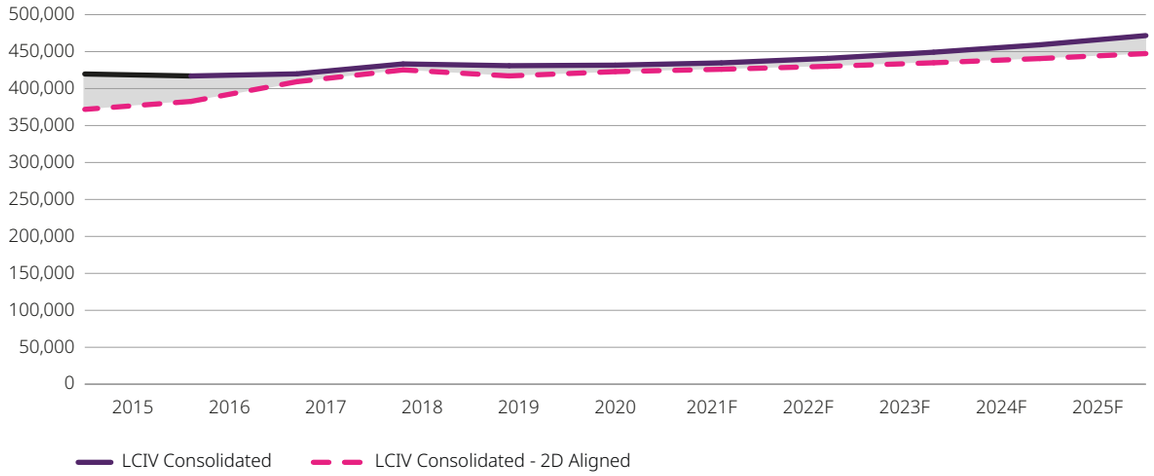
Figure 10: Exposure to Fossil Fuel Activities (Source: London CIV based on S&P Global Trucost data)



3. Paris Alignment

The Paris Agreement calls for coordinated efforts ensuring global temperature rise as a result of GHG emissions is limited to 1.5°C or below. The consolidated LCIV pool was evaluated by Trucost on the basis of their alignment with the objectives defined by the Paris Agreement. The approach employed by Trucost can be described as an assessment of a company's transition trajectory, i.e. an analysis of the adequacy between each company's emission reductions and the reductions required to achieve a given scenario. The analysis takes into account historical carbon data as well as future carbon footprints based on scope 1 and scope 2 emissions.

Figure 11: Emissions Trajectory (Source: London CIV based on S&P Global Trucost data)



The results of the analysis have indicated the consolidated LCIV pool shows a transition path which is not compatible with a warming below 2°C. Emissions are approximately 4.25% higher than the emissions allowed for a 2°C carbon balance. This confirms that positive progress has been made over the last year but a significant level of decarbonisation is still required by investee companies across the consolidated LCIV pool to be in alignment with 1.5°C of warming[9].

The breakdown at fund level has been provided for in the Appendix.

9 As at the 31-12-2020, emissions were approximately 11.5% higher than the emissions allowed for a 2°C carbon balance.

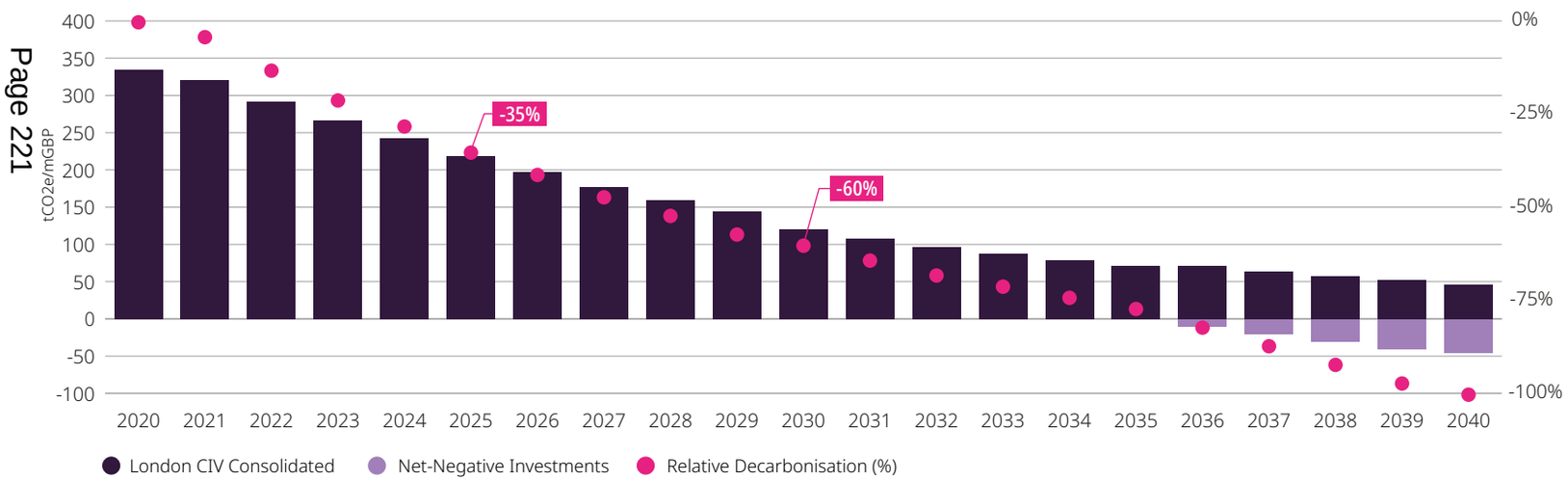
Metrics and Targets continued

C. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

London CIV has committed to become a Net Zero entity by 2040 in line with the Paris Agreement objectives to limit global temperature rise below 1.5°C. It will also become a Net Zero Company across operational and supply chain emissions as early as 2025.

Alongside its main commitment, London CIV has set interim targets for its investments including a 35% carbon intensity reduction by 2025 (relative to 2020), and 60% by 2030 across funds invested via the London CIV Fund range worth £12.9bn in total. London CIV plan to achieve its goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching Low-Carbon and Paris-Aligned funds and eventually contributing to negative emissions (Figure 12).

Figure 12: London CIV Net-Zero decarbonization Pathway (Source: London CIV)



Carbon Intensity is calculated by summing up the proportionate carbon emissions of portfolio companies based on ownership share.

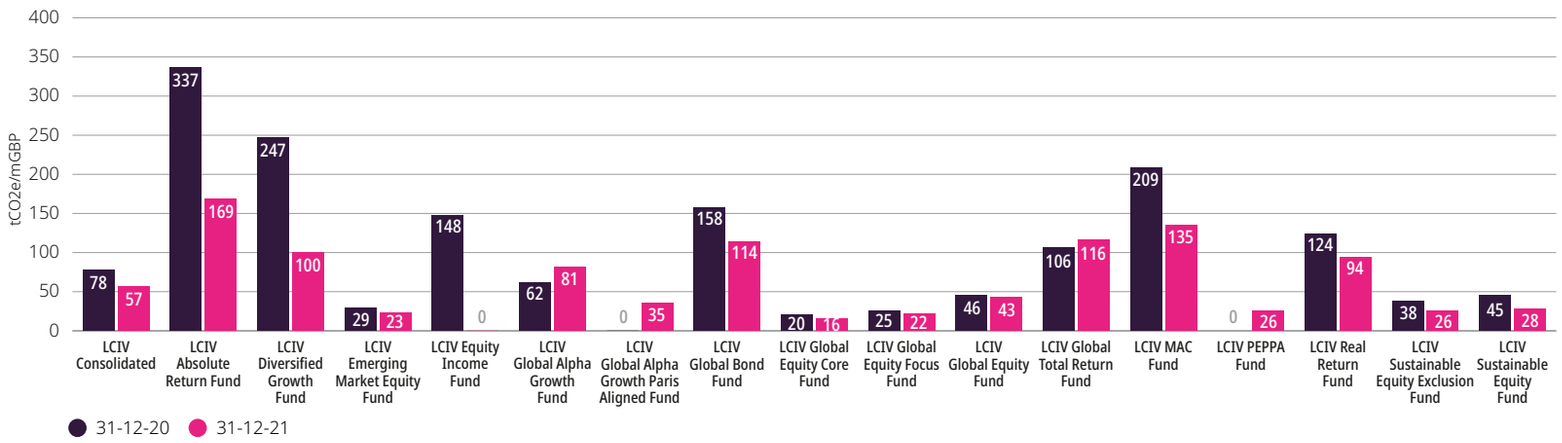
$$\text{Carbon to Value intensity} = \frac{\sum_i^n \left[\frac{Value\ of\ Investment_i}{EVIC_i} * Emissions\ issuer_i\right]}{\sum_i^n [Total\ fund\ value_i]}$$

This provides a better indication of the London CIV's contribution to global carbon emissions compared with weight-based carbon intensity metrics. Using EVIC (Enterprise Value including cash) as a denominator for the carbon intensity also allows for the applicability of the methodology to both equity and/or fixed income investments and does not bias for or against any particular sector. EVIC is closely linked to the financing sources of companies, hence directly linked to the role of investors. This logic can also be applied to real assets like real estate and infrastructure.

> Lambeth is one of the largest investors in the London CIV with £1.1bn of assets pooled in the vehicle, and the Committee feels strongly hat we should support the goals and ambitions of the pool by aligning our net zero targets.
>
> **Councillor Anna Birley**
> Lambeth Pensions Committee

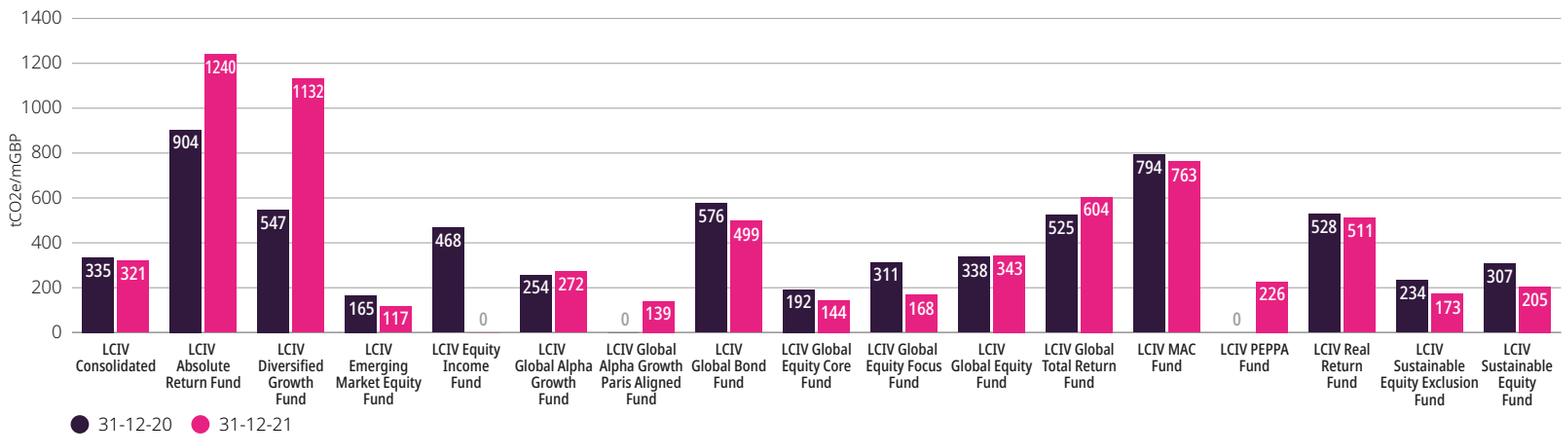
Metrics and Targets continued

Figure 13: London CIV decarbonisation progress (Direct + First-Tier Indirect Emissions) (Source: London CIV)



On the basis of Direct + First-tier indirect emissions, the London CIV has decarbonised by 38% over the past year. This progress is a direct result of the carbon intensity reductions achieved by funds of the platform and the launch of investment products which directly support decarbonisation objectives -the LCIV Global Alpha Growth Paris Aligned Fund, the LCIV Passive Equity Progressive Paris-Aligned Fund (PEPPA), and the Alternative Credit fund. We have also enhanced existing products to include climate objectives. For instance, the LCIV Global Bond Fund now excludes companies with revenues derived from coal extraction, distribution, and power generation.

Figure 14: London CIV decarbonisation progress (Scope 1-2-3) (Source: London CIV)

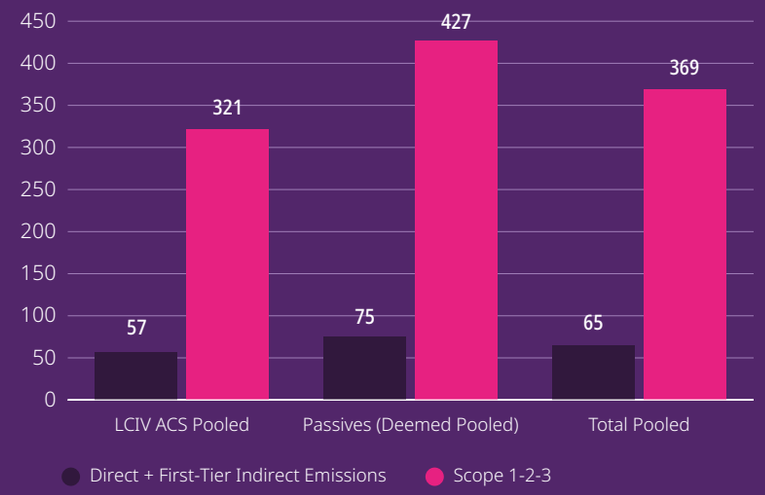


On the basis of Scope 1-2-3 emissions, the London CIV decarbonised by 4.5%. Whilst we recognize limitations associated with Scope 3 data, we encourage our fund managers to incorporate Scope 3 emissions data in line with best practice. Over the past year we have engaged with all our fund managers to understand whether they have a plan to track and decarbonise across all emission scopes.

Treatment of funds managed passively through LGIM and Blackrock

London CIV clients are currently invested passively across 18 different Blackrock funds and 34 LGIM funds, worth £12.7bn. As part of this year's TCFD report, we completed a climate footprint of these funds[10] (Figure 15).

Figure 15: London CIV Carbon Footprint 31-12-2021 (Source: London CIV based on Trucost part of S&P Global Data)



London CIV has no control over these passive funds. While some of them have a low-carbon mandate through exclusions, none currently have a clear direction of travel which complicates the decarbonisation exercise. However, given the significant size of the mandates, we do endeavour to integrate these funds as part of our Net-Zero Investment strategy. As a first step we have calculated the climate footprint of the passive funds to understand where efforts could be focused and expect to provide an update on this soon

10 This analysis covers the following asset classes (1) Listed Equity, (2) Fixed Income – Corporate. The coverage rate amounts to 71% of the consolidated passive pool investments.

Appendix:

Products – ACS Pooling Structure

Fund	Coverage (%AUM)	Direct + First Tier GHG WACI (tCO2e/mGBP revenues)	Scope 1-2-3 GHG WACI (tCO2e/ mGBP revenues)	Revenue-weighted Fossil Fuel Exposure (%)	Implied Temperature (°C)[11]
Global Equities					
LCIV Emerging Market Equity Fund	96%	119 tCO2e/mGBP	494 tCO2e/mGBP	0.0%	**>3°C**
LCIV Global Alpha Growth Fund	96%	221 tCO2e/mGBP	911 tCO2e/mGBP	0.4%	**<3°C**
LCIV Global Alpha Growth Paris Aligned Fund	95%	122 tCO2e/mGBP	531 tCO2e/mGBP	0.0%	**<3°C**
LCIV Global Equity Core Fund	98%	84 tCO2e/mGBP	624 tCO2e/mGBP	0.0%	**>3°C**
LCIV Global Equity Focus Fund	98%	54 tCO2e/mGBP	344 tCO2e/mGBP	0.0%	**<3°C**
LCIV Global Equity Fund	99%	128 tCO2e/mGBP	583 tCO2e/mGBP	0.3%	**<3°C**
LCIV PEPPA Fund	99%	91 tCO2e/mGBP	656 tCO2e/mGBP	0.1%	**<1.75°C**
LCIV Sustainable Equity Exclusion Fund	99%	136 tCO2e/mGBP	795 tCO2e/mGBP	0.1%	**<2°C**
LCIV Sustainable Equity Fund	99%	144 tCO2e/mGBP	921 tCO2e/mGBP	0.1%	**<2°C**
Fixed Income					
LCIV Global Bond Fund	66%	386 tCO2e/mGBP	1342 tCO2e/mGBP	3.2%	**<3°C**
LCIV MAC Fund	21%	233 tCO2e/mGBP	1162 tCO2e/mGBP	3.0%	**<2°C**
Multi Asset					
LCIV Absolute Return Fund	41%	268 tCO2e/mGBP	2478 tCO2e/mGBP	5.0%	**>3°C**
LCIV Diversified Growth Fund	41%	403 tCO2e/mGBP	1900 tCO2e/mGBP	1.9%	**<1.75°C**
LCIV Global Total Return Fund	37%	272 tCO2e/mGBP	1258 tCO2e/mGBP	2.0%	**>3°C**
LCIV Real Return Fund	68%	304 tCO2e/mGBP	1397 tCO2e/mGBP	2.4%	**<2°C**

11 Implied Temperature Metrics were calculated by LCIV by leveraging the Trucost Transition Pathway dataset. They do not necessarily reflect whether a fund is "Paris Aligned". For more information, please consult the following link.

Appendix:

Products – Private Markets (EUUT and SLP)

Fund	Fund Managers	Description	Climate Metrics
Infrastructure			
LCIV Infrastructure Fund	Stepstone	The Fund invests in brownfield and greenfield infrastructure assets. The largest exposure by sector is to renewable energy. The Investment Manager has been a signatory of TCFD since 2019 and became a member of the IIGCC in 2021. The Fund is currently comprised of six primary funds invested in through 6 different General Partners (GPs). All but one are signatories to the TCFD[12]. Three GPs also participate in the annual GRESB Infrastructure assessment but only one has completed the assessment for a primary fund to which LCIV is exposed to[13].	Not currently reported
LCIV Renewable Infrastructure Fund	BlackRock	The Fund invests in brownfield and greenfield renewable energy infrastructure assets. This includes generation, transmission, and distribution assets. All selected fund managers are signatories to the TCFD, and three are signatories of the Net Zero Asset Managers Initiative. Only a single fund manager participates in the GRESB Infrastructure Assessment[14].	Lifetime avoided Emissions: **3,493,850 tCO2e[15]**
	Quinbrook		Lifetime avoided Emissions: **55,506 tCO2e**
	Stonepeak		Lifetime avoided Emissions: **3,274 tCO2e**
	Foresight		Not currently reported
Property			
The London Fund	LPPI	The Local Pensions Partnership Investments and the London CIV have jointly set up "The London Fund" to help access investment opportunities in Greater London across real estate, infrastructure, and growth capital opportunities. The Fund has a secondary objective to invest in projects with sustainable outcomes that address social needs in Greater London such as job creation, area regeneration and a positive environmental impact. As of the 31-12-2022, the fund is 100% exposed to a primary commitment of £50m in DOOR[16] which gives the portfolio exposure to a mix of private rental sector, student accommodation and affordable housing. These assets are held within Get Living, a Real Estate Investment Trust which has achieved a 5-star GRESB rating in 2020 and was named first among UK build-to-rent sector peers (UK Residential Multi-Family).	Not currently reported
LCIV Inflation Plus	Aviva	The Fund aims to deliver secure, predictable and inflation-protected cashflows by investing into a high-quality portfolio of real assets, including long-lease property, commercial ground rents and private debt. It does not explicitly focus on ESG in its investment objectives, however ESG is embedded throughout the investment process.	Not currently reported
Private Debt			
LCIV Private Debt Fund	Churchill	The Fund invests into two underlying funds managed by Pemberton Asset Management, and Churchill Asset Management which make loans to European and North American middle market companies, respectively. Both managers integrate ESG issues as part of their investment process when underwriting loans. Pemberton is a member of the Net Zero Asset Manager's Initiative and has also introduced ESG Margin Ratchets for borrowers which comply with six distinct ESG requirements as certified by a 3rd party assessment[17].	Not currently reported
	Pemberton		Not currently reported

12 The LCIV Infrastructure Fund has been designed to invest a minimum of 25% into the Renewable Energy sector. As of the 31-12-2021, 40% of the Infrastructure Fund commitments were allocated towards Renewable Energy. Basalt Infrastructure Partners is the only GP that hasn't formally signed up to the TCFD.

13 Arcus has completed the GRESB fund assessment questionnaire for AEIF2 for the third time in Q2 2021. It scored 82 out of 100 possible points (compared to 86/100 in 2020). Capital Dynamics and Macquarie Infrastructure & Real Assets also report to GRESB.

14 Foresight is not a signatory to the Net-Zero Asset Managers Initiative. The BlackRock Global Renewable Power Fund III achieved the maximum 'Management' score achieved representing 100%. Ranked joint 1st Place out of 149 Funds.

15 (1) BlackRock Global Renewable Power Fund III ("GRP III"): 3,156,404 tCO2e avoided. (2) BlackRock UK Renewable Income Fund ("RI UK"): 337,446 tCO2e avoided.

16 DOOR owns a 39% stake in a portfolio of stabilised operational private rental sector (PRS) assets and developments asses, together with the associated management and lettings platform, Get Living.

17 This includes a requirement to demonstrate net zero carbon dioxide emissions or a reduction in carbon dioxide emissions of at least 20% YoY. As of the 31-12-2021, ESG Margin Ratchets had been implemented on investments representing approx. 60.7% of total commitments.

Glossary

Acronyms and Terms	Definition
CARCO	Compliance Audit and Risk Committee.
CEO	Chief Executive Officer.
CIO	Chief Investment Officer.
COP26	The 26th UN Climate Change Conference of the Parties to be held in Glasgow in November 2021.
EcoInvent	EcoInvent is a not-for-profit association. The EcoInvent database provides well documented process data for thousands of products, helping you make truly informed choices about their environmental impact.
ESG	Environment, social and governance are issues that are identified or assessed in responsible investment processes. Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems. Social factors are issues relating to the rights, well-being and interests of people and communities. Governance factors are issues relating to the governance of companies and other investee entities.
FSB	Financial Stability Board.
GHG	Greenhouse gas.
HRI	Head of Responsible Investment.
IOC	Investment Oversight Committee.
IPCC	Intergovernmental Panel on Climate Change
LE & CFI	Listed Equity and Corporate Fixed Income
LGPS	Local Government Pension Scheme.
mGBP	Million Great British Pounds.
QIR	The Quarterly Investment Report is a report sent to all London CIV Client Funds detailing the financial and ESG performance of London CIV funds on a quarterly basis.
RI	Responsible Investment.
RIRG	The Responsible Investment Reference Group – is a working group including representatives from Client Funds, London CIV, and the appointed ESG Champion from the Board.
RMF	Risk Management Framework.
Scope 1, Scope 2, Scope 3 Emissions	Greenhouse gas emissions broken down into three categories by the Greenhouse Gas Protocol to set clear boundaries and understand the source of emissions. Scope 1 refers to all direct emissions from activities under an organisation's control. Scope 2 refers to indirect emissions from electricity purchased and used by an organisation. Scope 3 refers to all other indirect emissions from activities of the organisation.
TCFD	Financial Stability Board's Task Force on Climate Related Financial Disclosures ("TCFD") was established with the goal of developing a set of voluntary climate-related financial risk disclosures which can be adopted by companies so that those companies can inform investors and other members of the public about the risks they face related to climate change.
tCO2e	Tonnes of carbon dioxide equivalent.
UN-backed PRI	UN Principles for Responsible Investment - A set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance factors. Organisations follow these principles to meet commitments to beneficiaries while aligning investment activities with the broader interests of society.

London CIV

Getting in touch with the team

If you have any questions or comments about this report please email at RI@LondonCIV.org.uk.

London CIV

22 Lavington Street
London
SE1 0NZ

Important information

London CIV

Responsible Investment Policy 2022

Contents

Introduction 2

About London CIV 2

Investment Principles 3

Investment Beliefs 3

Policy Purpose 3

Our Approach 4

1. **Integration** 4
2. **Engagement** 4
3. **Disclosure** 5

Asset class considerations 5

Stewardship 5

1. **Prioritisation** 5
2. **Implementation** 6
3. **Collaboration** 6

Our Priorities 6

Climate Change 6

Human Rights and Diversity & Inclusion 7

Tax and Cost Transparency 7

Governance of this policy 7

Other Documents 8

Getting in Touch 8

Introduction

About London CIV

The London LGPS CIV Limited (London CIV) was authorised in 2015 to provide pooling solutions to the 32 Local Government Pension Scheme (LGPS) Funds ("the Client Funds") in London valued at £44bn (3/21) collectively. As of 31 December 2021, the total pooled assets were £27bn, split between £14bn active investments and £13bn in passive investments managed by Legal & General Investment Management and Blackrock but invested following fee negotiations conducted by London CIV on behalf of Client Funds.

Our clients are also our shareholders and we work collaboratively to deliver our agreed purpose which is: "To be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements".

We would like to acknowledge the continued support from our Clients on responsible investment, stewardship and climate change. Our shared commitment to minimising the financial and social risks of ESG factors enables us to generate sustainable returns and drive change together.

Investment Principles

London CIV Statement of Investment Beliefs

Our Investment Beliefs direct our investment practices in alignment with London CIV's purpose and vision, specifically to collaborate with Client Funds and help them achieve their pooling requirements and deliver value for Londoners through long-term and sustainable investment strategies.

The Beliefs help us define how we create value for Client Funds in the context of future uncertainty, risk and opportunity. They also help us make practical decisions about the suitability of investment strategies, selection and monitoring of investment managers and pooled funds, performance objectives and the integration of best practice in sustainable investment and active ownership.

Recognising how important all stakeholders are in translating beliefs into practice, we have worked together to develop the Investment Beliefs and ensure they are aligned to our cultural values. Working with external investment managers to achieve delivery of these Beliefs is central to our role.

1. Long term investors earn better returns net of costs.
2. Careful calibration of risk against objectives, together with robust risk management, leads to better risk-adjusted returns.
3. Responsible Investment improves outcomes, mitigates risks and creates opportunities through:
   a. Good corporate governance
   b. Active stewardship and collective engagement
   c. Effective management of climate change risk
   d. Promoting diversity and inclusion
4. Providing value for money is critical and it is essential to manage fees and costs.
5. Collaboration, clear objectives, robust research and evidence-based decision-making adds value.
6. Targeting opportunities across the public and private asset markets is aligned to the needs of Client Funds.

Policy Purpose

The purpose of the Responsible Investment Policy ("the Policy") is to detail the framework governing London CIV's Responsible Investment approach. The policy structures our overarching responsible investment process and provides a reference point for the mechanisms in place to manage ESG risks and opportunities throughout our investment process. This policy should be read in conjunction with our Climate Policy, Stewardship Policy and Voting Guidelines for specific area guidance.

This document is written for London CIV's stakeholders including our clients, members of staff, and underlying fund managers. This policy was approved by the Investment Oversight Committee (IOC). London CIV's Responsible Investment team is responsible for the implementation and maintenance of this policy.

Our Approach

London CIV believe responsible investment is not only a **moral imperative** but an **economic necessity**. We believe that in order to safeguard the interest of our clients and members, we must acknowledge that climate-related risks and broader ESG factors are a source of financial risk. We strive to integrate ESG considerations into our investment decisions and active ownership and support a data-led and transparent process. Our vision is to be a best-in-class asset pool that delivers value for Londoners through long-term sustainable investment strategies. London CIV further define ESG factors as the following:

- **Environmental -** Issues related to the conservation of the natural world and ecosystems, namely: carbon emissions and climate crisis, pollution of air and water, biodiversity, deforestation, energy efficiency, waste management, and water risks.
- **Social -** Issues related to people and the society, such as: human rights, inequality, human capital management, digitalisation, health and wellbeing.
- **Governance -** Issues related to standards for running a company, such as: tax, board composition, diversity and inclusion, renumeration, cyber security, anti-bribery, and corruption.

London CIV's responsible investment approach is pinpointed by three key steps.

1. Integration

We believe that by integrating responsible investment into investment decisions and our product designs, we can mitigate potential ESG risks and enhance portfolio resilience. We seek to design products that most importantly meet our duty of care by delivering the right risk-adjusted returns but can also deliver positive climate and social benefits. Integration of ESG considerations is introduced during the product development process to ensure ESG risk is factored in at both the product and portfolio level. ESG questionnaires are sent to managers before the selection process where the approach of the manager and their own corporate governance are assessed to indicate how advanced the manager's approach to ESG integration is. Due diligence meetings are conducted prior to appointment and quarterly meetings are held once managers have been selected as detailed in our Stewardship Policy.

2. Engagement

We expect companies in our portfolio to demonstrate their resilience against climate change and their responsibility for social considerations in their value chain. As a member of Local Authority Pension Fund Forum ("LAPFF"), London CIV works with our fund managers to ensure that they

exercise our rights in line with our responsible investment and engagement policies and in accordance with LAPFF guidelines. To further strengthen our voting and engagement process, we work with our voting and engagement partner Hermes EOS (EOS) to use our shareholder rights to maximise shareholder value. Our strategy is engagement over exclusion, we believe rather than excluding companies and sectors which are deemed problematic, we can use our influence to improve a company's ESG performance. We have introduced an escalation strategy as detailed in our Stewardship Policy.

3. Disclosure

London CIV have developed and implemented a robust monitoring and accountability mechanism to enhance transparency and reporting quality. We believe accurate and timely ESG disclosure is central to the effective implementation of commitments set out in this policy. London CIV is currently reporting on the following:

ESG Disclosures	Frequency
Quarterly Investment Reports[1] - ESG commentaries, voting and climate metrics at fund level	Quarterly
Stewardship Outcomes Report	Annually
TCFD Report	Annually
SRD II	Annually
UN PRI	Annually

Asset class considerations

Our responsible investment responsibilities extend to all funds held by London CIV. We recognise asset classes such as private markets and infrastructure can be more challenging due to limitation in ESG data and access. Recognising this, we have tailored our approach to each asset class which is detailed in our Stewardship Policy.

Stewardship

London CIV take a collaborative and collective approach to stewardship through engagement with investment managers, companies, regulators, peers, and market participants. We believe active ownership is a vital mechanism in managing risk and maximising triple bottom line (investment, social and environmental outcomes) returns. We have published our Stewardship Policy [Link] which details of our active stewardship approach. Our Stewardship Policy is designed to govern our approach to setting stewardship priorities and use of active ownership to drive real-world outcomes at scale. This policy is intended to inform our managers and suppliers about our main concerns and expectations across all ESG factors. As a signatory of the FRC's UK Stewardship Code and the UN PRI we are committed to following guidance of best stewardship practices. Our stewardship approach is summarised below:

1. Prioritisation

We believe we must prioritise stewardship themes that are the most material to our portfolio while acknowledging emerging themes. We identify and prioritise our key stewardship themes in five ways:

[1] Report is only available to investors of each fund

1. Identifying **global drivers** including macro risks, policy and regulation as well as stakeholder priorities.
2. Assessing **company drivers** unique to London CIV including asset specific risk, client priorities, our holdings and investments as well as where we can have influence.
3. Recognising **social materiality** in terms of which issues will have the biggest impact on the world around us.
4. Calculating **financial materiality** in terms of which issues will have the biggest impact on our returns.
5. Responding **reactively** to unforeseen events after a specific and significant incident. Where an issue is prioritised based on our exposure and the probability of a successful outcome.

2. Implementation

As active stewards, we seek to utilise the rights and position of ownership to influence the activities and behaviour of investee companies. We believe voting and engagement practices are interlinked and feed into each other; one can be the initiator or the complementary tool of the other, both should be used as effective tools to support long-term value creation. We have published our **Voting Guidelines** [insert link] which encapsulates our position in key ESG themes. We work with Hermes EOS to consolidate and harmonise our voting activities and to ensure LAPFF alignment. For engagement, we take a collaborative approach which will be summarised in the next section.

3. Collaboration

We believe collaborating with other like-minded institutional investors and service providers is an effective way to pool knowledge and information as well as share costs and risks to influence corporate management. By working with our fund managers, companies, our voting and engagement manager, clients and peers we are able to:

1. **Build knowledge and skills:** through collective expertise on highly complex issues, enabling us to approach companies operating in challenging environments or covering a range of economic, regulatory, and cultural markets.
2. **Increase efficiency**: to avoid duplication of effort by sharing tasks and responsibilities.
3. **Enhance power and legitimacy:** through the collective reputation, size and weight of members which are difficult for companies to ignore

By engaging companies with a unified voice, we can more effectively communicate our concerns to corporate management. The result is typically a more informed and constructive dialogue.

Our Priorities

By utilising our prioritisation methodology highlighted in our **Stewardship Policy** London CIV have identified the below three key stewardship themes for engagement. These priorities were selected due to the financial impact these issues pose and the influence we believe we can have.

Climate Change

Due to the materiality of climate change risk, London CIV have a standalone **Climate Change Policy,** which details our objectives and expectations on companies. London CIV have also committed to become a net zero entity by 2040 in line with the Paris Agreement objectives to limit global

temperature rise below 1.5°C. In line with our ambition, we are committed to becoming a net zero company operationally as early as 2025. Addressing climate change is major part of our duty of care to clients and a strategic investment priority for London CIV. As all companies are subject to physical, transition risks or both, we expect all companies to report on climate change risks in line with the Task Force on Climate Related Financial Disclosures ("TCFD") and at least disclose their carbon footprint. We calculate our own climate risk working with our partner S&P Trucost and support the Transition Pathway Initiative using both resources to engage with our material holdings.

Human Rights and Diversity & Inclusion

As institutional investors, London CIV have a responsibility to respect human rights as formalised by the UN and the Office of Enforcement and Compliance Assurance ("OECA") in 2011. Increasing visibility and urgency around many human rights issues coupled with a better understanding of our role and responsibility in shaping real-world outcomes across our investment activities has increased expectations on the protection of human rights. Our approach to managing human rights issues applies to all our themes relating to people. We believe that by meeting international standards and preventing and mitigating actual and potentially negative outcomes for people leads to better financial risk management and helps to align activities with the evolving demands of beneficiaries, clients and regulators.

Under the same umbrella of People, Diversity and Inclusion is a basic component of human rights. It is an essential element of sound corporate governance, critical to a well-functioning organisation and needed to attract and retain a quality workforce. Companies with strong gender and ethnic diversity outperform peers when measured by return on equity and other traditional financial metrics. Diversity also helps to reduce company-specific risk in the long term, leading to a lower cost of capital. As a result of we expect companies to disclose information on diversity. We are a member of the Diversity Project, Asset Owners Diversity Working Group and Investor Alliance for Human Rights.

Tax and Cost Transparency

Rising inequality has increased scrutiny over tax and cost systems. London CIV promotes a fair and transparent approach as a way for corporations to contribute to the economies in which they operate and asset managers to demonstrate value for money. Tax avoidance has a serious knock-on effect on society as governments are less able to fund schools, hospitals and other vital public services. Pensioners also lose out from lower investment in services over their lifetimes. London CIV endorses the Cost Transparency Initiative ("CTI") and believe that greater cost management and cost transparency will help our clients' beneficiaries achieve a better income in retirement. Our managers are required to provide standardised cost and charges information which enables us to make clear cost comparisons across different investment platforms and challenge asset managers on cost and performance to seek better value for our clients.

Governance of this policy

This policy is developed by the Responsible Investment team and will be reviewed. The integration of ESG considerations in manager selection, monitoring and management is explicit in all roles within the Investment Team. Overall responsible investment development and operational accountability is led by the Head of Responsible Investment ("HRI") who reports to the Chief Investment Officer ("CIO") and is supported by two Responsible Investment Managers each responsible for Climate and Stewardship. This policy is recommended by the CIO. The development of this policy has been supported by key stakeholders specifically through the support of the Responsible Investment Reference Group ("RIRG"), membership of which includes representatives from Client Funds, London

CIV, and the appointed ESG Champion from the Board. The group meets monthly to discuss emerging ESG issues and priority areas.

Other Documents

Policy Framework

This document is the overarching policy which governs our:

- Voting Policy
- Stewardship Policy
- Climate Policy
- Investment Governance Document
- Investment Beliefs

Getting in Touch

If you have any questions or comments about this report please email Jacqueline Amy Jackson, Head of Responsible Investment at RI@LondonCIV.org.uk.

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Version Control

Date	Status	Summary of Change	Author
October 2018		**Document created**	
December 2020		**To include information of reviews undertaken to implement the policy.**	**RI team**
April 2022	**Current**	**Restructured to include information from Stewardship Policy, Climate Policy and other RI documents.**	**RI Team**

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London Borough of Hillingdon Pension Fund

Comparison of Responsible Investment Beliefs

Hillingdon ESG Beliefs (Responsible Investment Policy 2021)	LCIV "responsible investment approach" (Responsible Investment Policy 2022)
Management 1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee. 2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, leads to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy, where there is *clear financial rationale* for doing so. 3. The Committee is responsible for the Fund's ESG beliefs and Responsible Investment Policy but will be cognisant of the Council's wider policies and values. **Approach/Framework** 4. The Committee expects investment managers to integrate ESG considerations into their investment process and in their stewardship activities and seeks to understand how they do so. 5. The Committee believes that certain investment opportunities that provide a positive ESG impact, such as funds that support the climate transition, will perform strongly as countries transition onto more sustainable development paths. Where possible the Committee will seek to allocate to these opportunities where there is clear financial rationale for doing so.	**Integration** We believe that by integrating responsible investment into investment decisions and our product designs, we can mitigate potential ESG risks and enhance portfolio resilience. We seek to design products that most importantly meet our duty of care by delivering the right risk-adjusted returns *but can also deliver positive climate and social benefits.* Integration of ESG considerations is introduced during the product development process to ensure ESG risk is factored in at both the product and portfolio level. ESG questionnaires are sent to managers before the selection process where the approach of the manager and their own corporate governance are assessed to indicate how advanced the manager's approach to ESG integration is. Due diligence meetings are conducted prior to appointment and quarterly meetings are held once managers have been selected as detailed in our Stewardship Policy.

Hillingdon ESG Beliefs (Responsible Investment Policy 2021)	LCIV "responsible investment approach" (Responsible Investment Policy 2022)
Voting & Engagement 6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have the responsibility to engage with companies on ESG factors. 7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. 8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. *Divestment* will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results. **Collaboration** 12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up and comply with common frameworks. 13. The Fund should seek to sign up to a recognised ESG framework/s to collaborate with other investors on key issues.	**2. Engagement** We expect companies in our portfolio to demonstrate their resilience against climate change and their responsibility for social considerations in their value chain. As a member of Local Authority Pension Fund Forum ("LAPFF"), London CIV works with our fund managers to ensure that they exercise our rights in line with our responsible investment and engagement policies and in accordance with LAPFF guidelines. To further strengthen our voting and engagement process, we work with our voting and engagement partner Hermes EOS (EOS) to use our shareholder rights to maximise shareholder value. Our strategy is engagement over exclusion, we believe rather than excluding companies and sectors which are deemed problematic, we can use our influence to improve a company's ESG performance. We have introduced an escalation strategy as detailed in our Stewardship Policy.

Hillingdon ESG Beliefs (Responsible Investment Policy 2021)	LCIV "responsible investment approach" (Responsible Investment Policy 2022)
Reporting & Monitoring 9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge. 10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. The Committee will take a pragmatic view and look to evolve their approach over time. 11. The Committee will set pragmatic ESG targets based on their views, data availability, and how key ESG metrics evolve over time.	**3. Disclosure** London CIV have developed and implemented a robust monitoring and accountability mechanism to enhance transparency and reporting quality. We believe accurate and timely ESG disclosure is central to the effective implementation of commitments set out in this policy. London CIV is currently reporting on the following: Quarterly ESG commentaries Annually – Stewardship Outcomes Report, TCFD Report, SRD II (Shareholder Rights Directive?), UN PRI.

September 2022

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Pension Fund Risk Register

Committee	Pension Committee
Officer Reporting	James Lake, Finance
Papers with this report	Pension Fund Risk Register

HEADLINES

The purpose of this report is to identify to the Pension Committee the main risks to the Pension Fund and to enable them to monitor and review going forward (see Appendix). There are two risks which are red.

RECOMMENDATIONS

It is recommended that the Pensions Committee 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 12 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.

Inflation

Inflation is a key risk to the Fund and following an assessment of the portfolio in October 2021 it was agreed the investment strategy had sufficient inflation protection built in, however the situation would be continually monitored. As a result of this monitoring a further session was held in September 2022 and it was agreed to make some minor adjustments to the strategy in terms of assets rebalancing and implementation of previous agreed decisions. Overall though no major movements were required.

Separately, pension increases are based on September CPI and implemented in the following April. Based on current information the Fund has cashflow capacity to accommodate and increase of cash outflows without the need to draw on investment distributions. Therefore, no adjustment has been made to PEN04.

No changes were deemed necessary elsewhere within the register.

FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

Pension Fund Risk Register 2022/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level The latest interim valuation (Dec21) showed a level at 89.0%. This is 2.0% higher than the 2019 triennial valuation. No valuation is prepared in March of a valuation year. The triennial valuation results will be presented at September Committee. The strategy is provide to be robust in volatile market conditions and as at June 2022 the fund value was £1.174b. The current position should be viewed with caution as there is still much uncertainty relating to COVID, economic growth and inflation, however 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. Member cashflow remains positive with contributions exceeding benefits.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee 5. Officer and advisers actively monitors this risk.	A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration. The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities. In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation,. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented. Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed. Action is taken to remove under-performing managers where appropriate.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Mathers	28/09/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. 4. Covenant's are in place with security of a guarantee or bond for admission agreements. 5. Inter-valuation monitoring gives early warning. 6. Investment in index-linked bonds helps to mitigate this risk. 7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities. The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets. Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation., A PSG meeting was held on 5th October 2021 to discuss the risk, analyse potential impacts and explore mitigating actions. Currently the portfolio has an adequate allocation to inflation risk mitigating investments, however a watching brief will remain in place. A further Committee session was held 7th September 2022 to discuss various scenarios and subsequent impacts. Minor amendments were to be implemented in line with previous authorisations. Ongoing monitoring of forward indicators is in place to highlight if remedial action is required. The Fund is cashflow positive and it is expected this will remain the case if a 10% pensioner pay increase is applied. Forecasts will be monitored in terms of pay increases and cashflow capacity.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation. Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. New partnership in place with HCC. 2. Regular service meetings in place. 3. Monthly KPI reports are provided to track and monitor performance. 4. Critical errors cleared prior to transfer of valuation data to actuary. 5. Data Improvement plan will be developed and implemented in 2022.	Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place since September 2021. Regular meetings will take place between HCC & LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. Performance against KPI's and other metrics are also discussed. KPI's have been at 100% since partnership inception and all other levels of service and interaction have been positive and pro-active.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Mathers	28/09/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal. 4.Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal 5. Systems at Hillingdon and HCC are protected against viruses and other system threats 6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant.	This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board A Data Mapping exercise has been carried out to understand data transfers and risks in this area. The results and undergone an Internal Audit assessment with a reasonable assessment level applied. Recommendations from the audit have been implemented. 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 is in place. The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted. HCC has in place a number of cyber controls in place, upgraded the member portal security in December 2021 and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement. In Q1 2022 Hampshire Pension Services requested that IT Services organise and facilitate the penetration testing of the Universal Pensions Management (UPM) application provided by Civico. Testing revealed no significant remediation work was required.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters.	1. The fund have an ESG policy in place as part of the ISS. 2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world. 3. Manger selections take into account ESG policy 4. Mangers are expected to be signed up to the stewardship Code 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings 7. The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline. 8. The Fund has signed up to support TCFD.	The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is due to be updated through the Stewardship Code 2020 sign-up process. A revised policy was approved by Committee in June 2021. Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials. The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerable reduced the carbon metric of the Fund. The Fund aims to work towards UN SDG 7 & 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD. The Fund was granted UK Stewardship Code signatory status in September 2022.	Strategic risk Likelihood = Medium Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 9 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. 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 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales 4. 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.	There is a detailed cash management process in place. 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. The fund is still cashflow positive / breakeven on member dealings and is forecast to remain so in 2022/23. The Fund has sufficient liquidity should it need to draw on investments.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2** **(Static)**	James Lake / Cllr Mathers	28/09/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 10 - Failure of the pool in management of funds / access to funds	1. Quarterly review meetings held with the pool 2.Regular reporting out of the pool informing the fund of manager performance 3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. 4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool 5. Active Shareholder representation at General meeting and AGM. 6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.	LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows. Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented. The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary. LCIV continue to develop a pipeline of investment offerings based on client demand.	Strategic risk Likelihood = Low Impact = Low **Rating = E4** **(Static)**	James Lake / Cllr Mathers	28/09/22
PEN 11 - Threat of COVID 19 to Business Continuity	1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out. 2. Communication to key 3rd party providers HCC to co-ordinate business continuity plans 3.Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required. 4. Non-essential external meetings have been cancelled to reduce contact 5. Checks being done to ensure staff have facilities to work from home 6. Vulnerable staff are being kept out of the office as much as possible	Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services. Business continuity plans have been obtained from the Hampshire to ensure continuity of essential member services. Staff have been principally working from home With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has removed restrictions albeit whilst still exercising the need for caution. Service delivery has been maintained through a hybrid arrangement of actual and virtual meetings and office and home working. Officers continue to monitor and follow government and Council advice.	Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Static)	James Lake / Cllr Mathers	28/09/22
PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including: **Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements** **Failure to ensure that the Pension Board is effective in carrying out its role."**	Governance Policy Statement, reviewed every 3 years. Policies on range of issues, reviewed regularly. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills Programme of training sessions and access to external events Use of Regulator's on-line toolkit A knowledge self-assessment framework for Committee and Board members to identify training requirements The Fund's Annual Report includes details of Committee and Board members' training activities Fund Governance Adviser in place Access is provided to CIPFA K&S Framework training modules	The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board. Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee & Board with a mandatory Committee training programme in place. Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members. The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals. Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning. The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr Mathers	28/09/22

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

		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
	Attributes:	**IMPACT**			
THREATS:	Financial	up to £500k	Between £500k and £10m	Between £10m and £50m	Over £50m
	Reputation	Minor complaint, no media interest	One off local media interest	Adverse national media interest or sustained local interest	Ministerial intervention, public inquiry, remembered for years

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WORK PROGRAMME & TRAINING LOG

Committee	Pensions Committee
Officer Reporting	James Lake, 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 Pensions Committee:

1. **Note the dates for Pensions Committee meetings;**
2. **Make suggestions for future agenda items, working practices and / or reviews; and**
3. **Note Committee's training update.**

SUPPORTING INFORMATION

Meeting Date	Item
28 September 2022	• Training – Triennial valuation • Training – Inflation and portfolio resiliance • Pension Fund Annual Report 2021/22 • External Audit of Pension Fund 2021/22 • Investment update and manager review • Valuation assumptions, preliminary results and Funding Strategy Statement • Administration Report • Risk Register • 2022/23 Expense Budget • Responsible Investment • Workplan & Training Log
6 December 2022	• Training TBC • Investment update and manager review • Responsible Investment • Valuation Report, FSS & Employer Rates • Administration Report • Risk Register • 2022/23 Expense Budget • Workplan & Training Log

22 March 2023	• Training TBC • Investment update and manager review • Responsible Investment • Administration Report • Valuation Final Results • Workplan & Training Log • Funding Strategy Statement Approval • Investment Strategy Statement review • Risk Register • 2023/24 Expense Budget • Annual Report of the Board • Annual Audit Plan

Training

In line with the required competencies set out by CIPFA Knowledge and Skills Framework, Pension Committee members should have a general understanding of areas associated with their LGPS fiduciary role. Upcoming changes in legislation are expected to enforce the need for training and will make it a regulatory requirement for Pension Committee members.

To monitor progress against this requirement a log of member training is shown below. Pension Committee members are asked to complete the AON CIPFA Knowledge & Skills Framework sessions.

Pensions Committee Training Log 2022/23

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	Cllr Goddard	Cllr Banerjee
Bespoke Sessions						
9 Jun 22	Induction	✓	✓	✓	✓	✓
7 Sep 22	Inflation & Portfolio Resiliance	✓		✓	✓	✓ Part
28 Sep 22	Triennial valuation assumptions and results	✓	✓	✓	✓	✓
20 Oct 22	LGA Fundamentals Day 1		Booked			
10 Nov 22	LGA Fundamentals Day 2		Booked			
20 Dec 22	LGA Fundamentals Day 3		Booked			
Mandatory Training (AON CIPFA Knowledge & Skills Framework)						
Introduction to the LGPS		✓			*	
Pension's legislation, guidance, and governance		✓			*	
Local governance and pensions procurement and contract management		✓			*	
Funding strategy and actuarial methods, and financial, accounting and audit matters		✓			*	
Investments – Strategy, asset allocation, pooling, performance, and risk management		✓			*	
Investments - Financial markets and products		✓			*	
Pensions Administration and Communications		✓			*	

*Not applicable as completed AON training prior to 2022/23

FINANCIAL IMPLICATIONS

Continued training will incur fess dependant on the platform and events

LEGAL IMPLICATIONS

The legal implications included within the body of the report

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