Pension Fund
Annual Report & Accounts
for the year to 31 March 2014

HILLINGDON

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PART A – MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme Management and Advisers as at 31 March 2014

Administering Authority: London Borough of Hillingdon

Pension Fund Committee Members as at 31 March 2014:

Cllr Philip Corthorne (Chairman)	Cllr Michael Markham (Vice-Chairman)
Cllr Paul Harmsworth	Cllr Raymond Graham
Cllr David Simmonds	Cllr Janet Duncan

John Holroyd(Pensioner/Deferred Member Rep)
Andrew Scott (Active Member Rep)

Corporate Director of Finance: Paul Whaymand

Strategic Investment Consultant: Hymans Robertson LLP

Independent Investment Adviser: Scott Jamieson

Fund Managers:	Macquarie Investment
Adam Street Partners	M&G Investments (Direct Investment)
Barings Asset Management	Newton Investment Management
JP Morgan Asset management	Ruffer LLP
Kempen International Investments	State Street Global Advisors
LGT Capital Partners	UBS Global Asset Management

Actuary: Hymans Robertson LLP

Administration: Capita Employee Benefits

Legal Services: Raj Alagh, Borough Solicitor LBH

Auditor: Deloitte LLP

Banker: HSBC Bank Plc
Natwest Plc

Custodian for Fund Assets: Northern Trust Company

AVC Provider: Prudential Assurance Company

Officer Support:
Nancy le Roux, Deputy Director - Strategic Finance
Ken Chisholm, Corporate Pensions Manager
Tunde Adekoya, Pension Fund Accountant

2. Management Report

(a) Introduction

London Borough of Hillingdon is the administering authority for the London Borough of Hillingdon Pension Fund, which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters are overseen by the Pensions Committee.

The day to day management of the investment of the funds is undertaken by independent Fund managers. The Pensions Administration of the scheme is performed by Capita Employee Benefits (CEB) on behalf of the London Borough of Hillingdon.

During the year Pensions Committee meet formally on four occasions and the Investment sub-committee also meet four times per year between main committee meetings and on an ad hoc basis as required.

b) Membership

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the Fund unless they elect otherwise. Over the last few years total membership of the Fund has grown as shown in the table below. There has been a large increase in the number of active scheme members in the last year, which is due to the L B Hillingdon and other scheme employers undergoing auto-enrolment.

5 Year Analysis of Fund Membership

Membership type	2009/10	2010/11	2011/12	2012/13	2013/14	5 year movement
Active	6,235	6,039	5,948	6,213	7,524	+20.67%
Pensioner	4,991	5,187	5,378	5,498	6,003	+20.28%
Deferred	4,772	4,890	5,492	5,883	6,311	+32.25%
Total Membership	**15,988**	**16,116**	**16,818**	**17,594**	**19,838**	**+24.08%**

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

Type of Retirement	2009/10	2010/11	2011/12	2012/13	2013/14
Redundancy or Efficiency	21	26	65	23	50
Ill Health	15	13	12	6	3
Total	**36**	**39**	**77**	**29**	**53**

The age and membership profile as at 31 March 2014 is shown below-

Age Band	Active	Deferred	Pensioner/Dependent	Total
0 - 5	0	0	1	1
6 – 10	0	0	0	0
11 – 15	0	0	19	19
16 – 20	123	6	21	150
21 – 25	353	176	13	542
26 – 30	521	434	0	955
31 – 35	690	583	1	1,274
36 – 40	789	655	2	1,446
41 – 45	1,090	927	15	2,032
46 – 50	1,372	1,224	35	2,631
51 – 55	1,234	1,197	93	2,524
56 – 60	841	871	312	2,024
61 – 65	386	175	1,112	1,673
66 – 70	107	47	1,380	1,534
71 – 75	18	10	966	994
76 – 80	0	6	884	890
81 – 85	0	0	660	660
86 – 90	0	0	335	335
91 – 95	0	0	131	131
96 – 100	0	0	20	20
Over 100	0	0	3	3
Total	**7,524**	**6,311**	**6,003**	**19,838**

(c) Key Performance Data

All LGPS Funds measure performance against key industry performance indicators. Targets are set and agreed at the start of each year. Pensions Committee receive a quarterly report on performance which addresses any concerns in relation to performance. The table below details CEB's performance against target for the year to 31 March 2014.

Performance Indicator	Hillingdon Target	2012/13 Performance %	2013/14 Performance %
Letter detailing transfer in quote	10 days	98.81	87.18
Letter detailing transfer out quote	10 days	99.31	78.38
Process refund & issue payment	5 days	97.22	81.64
Letter notifying estimate of benefit	10 days	97.85	80.07
Letter notifying actual benefit	5 days	95.21	78.14
Letter acknowledging death	5 days	99.48	82.77
Letter notifying amount of dependant’s benefit	5 days	100.00	50.50
Calculate & notify deferred benefits	10 days	95.65	78.70

(d) Employer Contributions

In addition to Hillingdon Council, there are several other employers who have been admitted to the London Borough of Hillingdon Pension Fund. Their employer rate of contributions is set as part of the triennial valuation of the fund. Their current employer contribution rates and the total contributions paid by each Employer in 2013/14 are shown in the table below.

Employer	Total Contributions £	Employer Contribution Rate %
Barnhill Community School	297,877.77	23.40
Belmore Primary School	137,074.11	22.80
Bishop Ramsey School	172,984.05	26.30
Bishopshalt School	230,273.35	29.60
Charville Academy	148,436.27	34.50
Coteford Junior School	187,442.26	27.40
Cranford Park School	210,748.07	28.00
Douay Martyrs School	193,365.12	30.30
Eden Academy	560,338.02	25.10
Genuine Dining Ltd	40,820.00	21.00
Greenwich Leisure	83,784.40	16.80
Guru Nanak Academy	292,011.18	21.20
Harefield Academy	141,111.70	19.00
Haydon School	283,708.07	22.20
Heathrow Travel care	19,896.25	18.90
Hewens Academy	188,396.67	24.50
Hillingdon & Ealing Citizens Advice	37,397.22	19.10 + £12,000.00
LBDS Frays Academy	190,552.73	24.80
London Housing Consortium	98,975.11	21.00
Mitie Cleaning	25,205.72	21.00
Mitie Facilities Management	66,616.08	21.00
Nanaksar Primary School	14,738.48	15.30
Northwood School	79,160.68	21.70
Queensmead School	130,919.62	24.30
Stag Security Services	1,537.32	20.60
Stockley Academy	169,413.94	19.40
Swakeleys Academy	136,174.83	24.00
Uxbridge College	792,071.13	17.80
Uxbridge High School	181,248.55	21.50
Vyners Academy	180,161.17	28.70
Willows Academy	43,060.08	27.20
Wood End Park School	204,784.43	24.50
Total	**5,540,284.38**	

(e) Impact of Contributions received and Benefits paid on cash flow

Total contributions and transfers In received during the year were £35.8m, an increase of £3.6m over 2012/13, this was primarily due to the increased number of scheme members, and the number of transfers In received. The total benefits and transfers out, in 2013/14 amounted to £37.6m, an increase of £4.2m on last year. The overall deficit between income and expenditure was £2.4m, an increase of £0.6m over 2012/13.

(f) Administrative expenses

Administration expenses increased over the year by £21k due to the additional actuarial costs associated with the triennial valuation as at 31 March 2013.

3. Risk Management

As part of the governance arrangements of the Pension Fund, it is a requirement to recognise and monitor the key risks facing the Pension Fund. These risks fall under several categories – financial, demographic, regulatory, and administrative and governance risks.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated monthly and reported to Pension Committee on an exception basis. A brief narrative description of each risk is set out below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement in Section F of this report.

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

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

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

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

PART B – INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT COMMENTARY FOR THE YEAR TO 31 MARCH 2014

Equity markets in the UK, Euro zone and North America performed strongly over the year, albeit with some unsettled periods when share prices fell. Investor confidence was supported, in the main, by record low short-term interest rates.

In late May 2013, there was a distinct, if short lived, change in the prevailing bullish market sentiment, when the US central bank hinted it might begin scaling back its programme of asset purchases. Signs of a potential credit crunch in China, reduced forecasts for economic growth in the Euro zone and an uncertain outlook in the UK added to the sense of unease. Equity markets responded with sharp falls, particularly in Asia Pacific and Emerging markets. In the UK, Europe and US, there was some recovery over the summer of 2013, as central banks sought to re-assure investors and to restore confidence.

In December 2013, and after much speculation, the US central bank commenced the scaling back of its monthly asset buying program. This is likely to be phased out entirely during 2014 but official guidance indicates no rise in interest rates until there is clear evidence of sustainable economic growth. In contrast to US policy, the European central bank provided further monetary easing through two cuts in short-term interest rates; one in May 2013, from 0.75% to 0.50%, and a second in November 2013, to 0.25%, as inflation in the Euro zone dipped below 1% p.a.

In the March 2014 budget, branded as a budget for ‘savers’, the Chancellor of the Exchequer announced an increase in the threshold for tax free savings and greater flexibility in the operation of defined contribution pension plans. At the same time, the Office for Budget Responsibility revised its forecast for UK economic growth in 2014, from 2.4% to 2.7%. On this basis, the economy will surpass its pre-crisis peak later this year. Despite the more optimistic tone of published economic data, a number of commentators expressed concerns over the strength and breadth of the recovery and whether it is sufficient to resolve problems of a more structural nature. Consequently, further austerity measures remain on the agenda.

Key events over the 12 month period were:

Global Economy

- Forecasts of UK economic growth for 2014 & 2015 were revised upwards by the Office for Budget Responsibility;
- Short-term interest rates were unchanged in UK and US and reduced, in two stages, from 0.75% to 0.25%, in the Euro zone;
- The Euro zone emerged from recession after four consecutive quarter of economic contraction but growth remained very subdued;
- The European Commission allowed some member states to slow the pace of austerity measures. In the UK, the government’s deficit reduction plans remained on course;
- UK inflation (CPI) fell to a four year low of 1.7% (v. target of 2%) in February 2014;
- Euro zone inflation fell to 0.5% in March 2014 (the lowest rate since November 2009);
- Japan reported a record trade deficit in 2013, as a weak Yen pushed up the cost of imports.

Equities

- The best performing sectors relative to the 'All World' Index were Technology (+8.1%) and Health Care (+7.6%); the worst were Basic Materials (-9.8%) and Consumer Goods (-5.2%);
- Barclays Bank announced a £5bn rights issue (and a £2bn bond issue) to meet new capital requirements (July 2013);
- Vodafone sold its 45% stake in Verizon for $130bn (September 2013).
- The UK government announced plan to sell further shares in Lloyds Banking Group, to bring its holding down to 25% (March 2014).

Bonds

- UK government bonds yields rose (prices fell), reflecting optimism about the economic outlook;
- Corporate bonds outperformed their government counterparts by a comfortable margin;
- Argentinian devaluation in January 2014 caused sharp fluctuations in other emerging market currencies.

Linda Selman May 2014, for and on behalf of Hymans Robertson LLP

INVESTMENT STRATEGY

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

During 2013/14 several changes to the Fund's asset allocation were agreed and implemented:

- Transition of assets totalling £61m from both UBS Equities and Ruffer portfolios was implemented in April 2013 to fund the new Barings Dynamic Asset Allocation strategy, as decided by the Pensions Committee in March 2013.

- Following a review of the Fund's asset allocation and style risk profile, committee decided to reduce the Fund's exposure to UK Equities and lock-in some gains from the outperformance of the UBS Equities portfolio through 2013/14 and to increase exposure to Emerging markets where the Fund was underweight. As a result £29m was disinvested from the UBS Equity Portfolio and the same amount was invested in the Kempen Global Higher Dividend Fund.

- The Fund concluded arrangements to action the final part of commitment to Infrastructure investments by committing $10m to the Macquarie Infrastructure Programme III (MIP III), the North American offering to fully diversify investments in infrastructure as planned at its inception.

- A decision was taken to defund the JP Morgan Corporate Bonds portfolio for reasons associated with very low, though positive, returns achieved and the likely lack of offsetting performance on any decline in equities, although the movement of funds would only be made once new opportunities were identified and agreed.

- Subsequently a further £15m was committed to M&G as part of its' Debt Opportunities Fund II offering to exploit the lack of credit in the financial market and take advantage of the generous IRR offered by the new offering from M&G.

- Additionally, £15m was committed to secondary property through the AEW UK Core Property Fund, to further enhance the diversified nature of the Fund's assets. (Deployment of the divested funds from JP Morgan (£30m) will be on a draw-down basis when required by the fund managers to fund investment opportunities. In the interim, JP Morgan will continue to manage the remaining funds as originally agreed.)

The allocation of Fund assets among the managers' mandates as at 31 March 2014 was as follows:

Manager	UK equity %	Overseas equity %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.93	
Barings	2.10	6.60				
JP Morgan			10.69			
Kempen	1.41	9.26				
LGT					2.18	
M&G						3.56
Macquarie						0.73
Newton	0.32	2.94				
Ruffer	2.12	4.64	3.92			0.16
State Street	8.70	7.20	3.96			
UBS Equities	15.34			0.01		
UBS Property				6.97		
UBS TAA			1.77			
Total	**29.99**	**30.64**	**20.34**	**6.98**	**5.11**	**4.45**

(A cash holding of 2.49% is not included in the above table.)

FUND MANAGERS

State Street

State Street manages Fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently.

UBS (UK equities)

UBS manages UK equities using a value style. The prevalent market environment in the year ended 31 March 2014 was conducive to their investment style and contributed to their outperforming the benchmark from one year, three years, and five years and since inception categories.

UBS Property

The property mandate managed by UBS changed a number of years ago. Previously, the assets were managed in a pooled fund under the exclusive control of UBS (UBS Triton). This mandate was changed to a Fund of Funds arrangement with the assets managed in several pooled property Funds managed by several managers, but with UBS responsible for selecting the pooled funds. Following the successful restructure of the UBS Triton part of the Property portfolio, performances have been relatively better even though still behind benchmark in all categories.

Private equity
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 5.1% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several Funds launched in different years in order to provide time diversification.

Ruffer
Ruffers is an Absolute Return manager and have delivered on their brief by preserving capital and delivering growth with returns in excess of the benchmark over one year and since inception.

Macquarie
The allocation to infrastructure is likely to take a number of years before it is fully in place. During Macquarie's tenure however, progress has been steady with an allocation to a fund focused in India already in place. The China fund has begun drawdown of commitments as well and is expected to increase in the coming year. The last part of infrastructure investments through Macquarie was formalised in April 2014, with the commitment of $10 million to Macquarie Infrastructure Programme III (MIP III), the North American fund and fully diversifying investments with Macquarie.

M&G
The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The Fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. During the financial year under review, commitments to M&G Funds were increased with an investment of a further £15 million in the Debt Opportunities Fund II. This Fund specifically targets distressed companies in which M&G already has vested interest and offer rescue packages at much discounted rates.

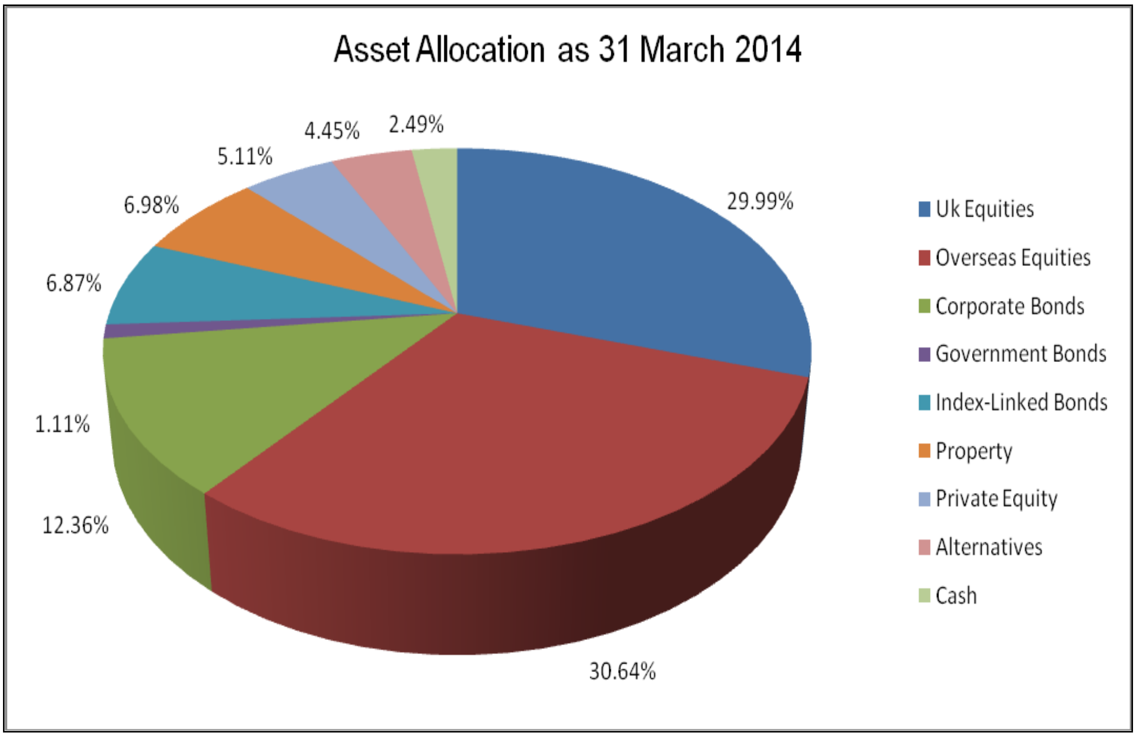
JP Morgan
JP Morgan mandate has been in place for just over 21/2 years and has been deemed to have performed below expectations by underperforming with a relative return of (0.30%) over one year. However, since inception, the portfolio outperformed the benchmark with a relative return of 1.02%.

Newton
Newton was appointed in January 2013 to manage about £22 million of the Fund's assets with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable outstripping contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate any assets.

Kempen
Kempen's appointment was based on the same strategy employed with Newton, but has a slightly different style bias to the latter. Again, their strategy is predominantly geared towards income generation through high dividend payments with possible deficit in "members Dealings" payments/receipts redress the main motive for their appointment.

Barings
Barings were appointed in April 2013 as an absolute returns manager to reduce the style risk with a considerable amount of the Fund's assets under Ruffer. Again, though Barings are an absolute returns manager, their style bias does complement Ruffer rather than mirror its' style.

Fund Value and Asset allocation as at 31 March 2014
At 31 March 2014 the total value of the Pension Fund investment assets was £724,461k. The following diagram identifies the allocation, by asset class, as at 31 March 2014.



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a result of both market gains and revised asset allocation during the year.

The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2014.

INVESTMENT MANAGER	31 March 2014		31 March 2013	
	£'000	%	£'000	%
Adams Street Partners	22,459	3.10	23,366	3.44
Barings Global Asset Management	63,046	8.70	-	-
JP Morgan Asset Management	77,397	10.68	74,981	11.03
Kempen International Investments	77,356	10.68	46,884	6.90
LGT Capital Partners	17,257	2.38	18,215	2.68
M&G Investments	25,912	3.58	16,351	2.41
Macquarie Infrastructure	5,858	0.81	8,536	1.26
Newton Asset Management	23,618	3.26	22,819	3.36
Ruffer LLP	84,447	11.66	131,368	19.33
State Street Global Advisors	143,802	19.85	142,038	20.90
UBS Global Asset Management	115,829	15.99	135,737	19.97
UBS Property	54,368	7.50	48,574	7.15
UBS TAA	12,873	1.78	-	-
Other*	239	0.03	10,683	1.57
Total	**724,461**	**100.00**	**679,552**	**100.00**

*Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), Schedule 1, sets out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance.

The largest five holdings in the Fund as at 31 March 2014 were:

Top 5 Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
JP Morgan Strategic Bond Shares	77,397	10.68%
Kempen Int'l Funds	77,307	10.67%
SSgA Equity Index	63,114	8.71%
Baring Alpha Fund DAA	63,046	8.70%
BNY Mellon Newton Global Higher Income Fund	23,618	3.26%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value 31 March 2014 £000s	Percentage of Fund Value
BP	12,538	1.73%
Royal Dutch Shell	11,842	1.63%
Lloyds Banking Group	6,039	0.83%
Rio Tinto	5,978	0.83%
GlaxoSmithKline	5,958	0.82%
Barclays	4,765	0.66%
HSBC	4,277	0.59%
Vodafone Group	3,691	0.51%
3I Group	3,556	0.49%
BAE Systems	3,191	0.44%

Investment Performance

Over the year, on investment performance, there was an annual return of 6.78%. All but one Fund manager, Macquarie produced positive returns over the year. Relative performance between the underlying managers was however, quite negative with all but three outperforming their benchmarks. Total Fund out-performance was helped by positive relative returns by UBS, M&G and Ruffer, which offset the below par returns by the rest of the Fund's managers and contributed to the relative outperformance of the plan benchmark by 0.32%.

As a result of the Fund restructuring over the last few years a full complement of returns is not available for all managers. JP Morgan, Kempen and Newton are yet to accrue three years worth of performance returns, whilst Barings have only been appointed for just under a year of the period under review.

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
JP Morgan	3.22	3.53	(0.30)	-	-	-	4.75	3.70	1.02
Kempen	0.76	11.21	(9.39)	-	-	-	5.75	16.52	(9.24)
Macquarie	(0.97)	3.53	(4.35)	(6.36)	3.74	(9.74)	(6.92)	3.75	(10.28)
M&G	5.41	4.54	0.84	5.65	4.74	0.86	5.03	4.75	(0.27)
Newton	3.50	8.88	(4.93)	-	-	-	10.11	13.58	(3.05)
Ruffer	0.68	0.52	0.16	5.52	0.75	4.74	5.83	0.74	5.05
SSgA	5.82	6.01	(0.17)	7.96	7.98	(0.02)	12.91	12.90	0.01
UBS	19.65	8.81	9.96	13.63	8.81	4.43	10.52	9.09	1.31
UBS (Property)	11.76	11.87	(0.10)	5.77	6.23	(0.44)	0.56	1.21	(0.64)
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Over the financial year under review, the fund grew by 6.78% equating to 32 basis points ahead of the benchmark figure of 6.44%. For a 3 year period to 31 March 2014, the Fund has outperformed with a relative return of 0.79% pa. Also, since inception in September 1995 the returns come to 6.78% just 5 basis points better than the benchmark.

Performance	1 Year			3 Year			Since Inception		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	16.44	8.81	7.63	12.24	8.81	3.43	3.85	8.41	(4.56)
Overseas Equity	3.12	6.21	(3.09)	3.96	6.64	(2.68)	5.68	6.64	(0.96)
Government Bonds	(15.50)	(2.56)	(12.94)	0.22	5.49	(5.27)	1.80	4.46	(2.66)
Corporate Bonds	1.28	1.55	(0.27)	7.89	7.35	0.54	10.97	8.78	2.19
Index Linked Gilts	(4.59)	(3.80)	(0.79)	6.36	7.79	(1.43)	6.79	8.02	(1.23)
Property	12.53	11.87	0.66	6.51	6.14	0.37	7.95	7.64	0.31
Total Portfolio	**6.78**	**6.44**	**0.32**	**7.52**	**6.68**	**0.79**	**6.78**	**6.73**	**0.05**

Custody

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

Responsible Investing

The Fund supports the principle of socially responsible investment within the requirements of the law and the need to give high priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee are committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly concerning certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the Fund managers and reported to Committee on a quarterly basis. Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

The Council supports the Stewardship Code issued by the Financial Reporting Council. However in practice the Fund's policy is to apply the code through its Fund managers. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

PART C – SCHEME ADMINISTRATION

SCHEME ADMINISTRATION REPORT

Overview
The Administration of the Local Government Pension Scheme (LGPS) was outsourced to Capita Employee Benefits (CEB) 1 April 2012. London Borough of Hillingdon joined a pan-London Framework Agreement for LGPS Administration lead by the London Borough of Hammersmith and Fulham. Currently there are 4 London Boroughs signed up to the framework. They are London Borough of Hammersmith and Fulham, London Borough of Brent, London Borough of Hillingdon and The Royal Borough of Kensington and Chelsea. The Framework covers the full range of administration services for both current, former employees and pensioners of the London Borough of Hillingdon Fund including:

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

The performance of CEB is reported quarterly to Pensions Committee and monitored on a daily basis by pension's officers of London Borough of Hillingdon.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits and redundancy and compensation benefits for non-teaching employees.

The pensions administration service at CEB can be contacted by telephoning 0208 972 6050 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Operations Manager at CEB and at stage two to the Corporate Pensions Manager or a Senior Officer of the Council not previously involved in the case.

Review of 2013/14
The latest available Government SF3 statistics (for 2012/13) indicate the cost per member for all English Authorities was £27.02 compared with an outer London average of £44.83 per scheme member. The cost in 2013/14 for the London Borough of Hillingdon was £30.74, (a decrease of £3.28 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average "cost per member" when compared to all outer London Boroughs.

Every 3 years all LGPS Funds must undergo a formal valuation. This exercise took place as at 31 March 2013. As part of the triennial valuation, employer contributions rates are agreed for the following 3 years.

During 2013/14 a communications exercise was undertaken to inform scheme members of the changes to the benefit structure as a result of the introduction of the new Local Government Pension Scheme 2013, operative from 1 April 2014. This involved communicating with all current scheme members and making them aware of the changes. A number of workplace seminars were arranged and in total over 800 scheme members attended at least one session. Together with the Council's Communications team, information was sent out in the form of emails and articles in the Council's in house publications to all staff to highlight the main scheme changes. The Council's Pensions Website also included details of the changes due, and links were inserted to give further in-depth information of scheme changes.

Occasionally disagreements between members and scheme administrators arise. When disagreements do occur we do all we can to try to resolve them informally and reach an agreement. Where this is not possible the scheme provides a formal way for disagreements to be resolved. The Local Government Pension Scheme Regulations set out how disputes must be handled, and on our website we include our Internal Dispute Resolution Procedure (IDRP). Under the procedure initial complaints are heard by the Director of Operations at CEB at stage 1. If a complainant still has a dispute this may then be referred at stage 2 to the Corporate Pensions Manager at London Borough of Hillingdon or a Senior Officer of the Council, who has no previous involvement with the case. After this a further referral is available to the Pensions Ombudsman. In the year 2013/14, there were 2 stage 1 appeals, neither of which progressed to stage 2. No cases have been referred to the Pensions Ombudsman.

PART D - ACTUARIAL REPORT

London Borough of Hillingdon Pension Fund Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

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:

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

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £683 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £266 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 31 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.7 years	24.7 years
Future Pensioners*	24.3 years	26.9 years

*Currently aged 45

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation. The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen FFA, Fellow of the Institute and Faculty of Actuaries,
For and on behalf of Hymans Robertson LLP
15 May 2014

PART E - Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2014 £000's	31 March 2013 £000's
Contributions	*4*	35,099	31,871
Transfers In	*5*	750	284
Less: Benefits	*6*	(34,748)	(31,424)
Less: Leavers	*7*	(2,890)	(1,957)
Less: Administrative expenses	*8*	(610)	(589)
Net additions from dealings with members		**(2,399)**	**(1,815)**
Investment income	*9*	15,546	14,054
Changes in market value of investments	*10*	34,113	61,904
Taxes on income		(7)	(19)
Investment management expenses	*12*	(3,769)	(3,922)
Net return on investments		**45,883**	**72,017**
Net Increase in the fund during the year		**43,484**	**70,202**
Net Assets at start of year		**683,052**	**612,850**
Net Assets at end of year		**726,536**	**683,052**

		31 March 2014 £000's	31 March 2013 £000's
Investment Assets	*10*	725,110	682,984
Investment Liabilities	*11*	(649)	(3,432)
Current Assets	*13*	2,802	4,358
Current Liabilities	*14*	(727)	(858)
TOTAL NET ASSETS		**726,536**	**683,052**

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Pension Fund Annual Report and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
29 September 2014

Pension Fund Accounts and Net Asset Statement

1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:
- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

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 the scheme. But since 1 February 2013 all new employees of the Council are automatically enrolled, with option to opt out of the scheme within three months of auto enrolment.

FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Council, 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 Council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

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

Admitted Bodies:

Genuine Dining Ltd
Greenwich Leisure
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Mitie Cleaning
Mitie FM
Stag Security Services

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Coteford Academy
Cranford Park Academy
Douay Martyrs Academy
Eden Academy
Guru Nanak Sikh Academy
Harefield Academy
Haydon Academy
LBDS Frays Academy Trust
London Housing Consortium
Nanak Sar Primary School
Northwood Academy
Queensmead Academy
Rosedale Hewens Academy
Stockley Academy
Swakeleys Academy
Willows Academy
Uxbridge College
Uxbridge Academy
Vyners Academy
Wood End Academy

Pension Fund Accounts and Net Asset Statement

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2014 there were 7,524 active employees contributing to the fund, with 6,003 in receipt of benefit and 6,311 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2014	31 March 2013
Number of employers with active members	33	32
Number of employees in scheme		
London Borough of Hillingdon	6,002	5,225
Other employers	1,522	988
Total	**7,524**	**6,213**
Number of Pensioners		
London Borough of Hillingdon	5,505	5,047
Other employers	498	451
Total	**6,003**	**5,498**
Deferred pensioners		
London Borough of Hillingdon	4,980	4,671
Other employers	1,331	1,212
Total	**6,311**	**5,883**

The pension fund investments are managed externally by fund managers: Adams Street Partners, Barings Global Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, Newton Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by the Pensions Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2013/14:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr David Simmonds
Cllr Raymond Graham
Cllr Paul Harmsworth
Cllr Janet Duncan
Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)
Mr John Holroyd (Pensioner/Deferred Scheme Member Representative) (Non Voting)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority accounting in the United Kingdom 2013/14 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis. Group transfers are accounted for under the agreement which they are made.

3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period. Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) 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.

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

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) 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.

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

j) 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.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2014 was £37,146k (£39,617k at 31 March 2013).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £37,146k. There is a risk that this investment may be under- or overstated in the accounts.

Pension Fund Accounts and Net Asset Statement

4. CONTRIBUTIONS

	31 March 2014 £000's	Restated 31 March 2013 £000's
Employers		
Normal	21,098	20,054
Deficit funding	5,160	3,673
Members		
Normal	8,133	7,920
Additional contributions	708	224
	35,099	**31,871**

Deficit Funding:- At the actuarial valuation on 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

Employers Normal and Deficit Funding has been restated from the published accounts to reflect a change in calculation methodology. The impact of the restatement was that, a) Deficit Funding was overstated by £3m and Normal contributions was understated by same amount. b) The overall net effect was nil.

NOTE:- At the latest actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%. This is further detailed in Note 18 and is effective from 01 April 2014.

Schedule of contributions by body	31 March 2014 £000's	31 March 2013 £000's
Employers		
LB Hillingdon	20,733	19,118
Scheduled Bodies	5,250	4,286
Admitted Bodies	275	323
Members		
LB Hillingdon	6,983	6,639
Scheduled Bodies	1,765	1,400
Admitted Bodies	93	105
	35,099	**31,871**

5. TRANSFERS IN

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers in from other schemes	750	284

6. BENEFITS

	31 March 2014 £000's	31 March 2013 £000's
Pensions	(28,114)	(26,818)
Commutations and lump sum retirement	(6,105)	(4,496)
Lump sum death benefits	(529)	(110)
	(34,748)	**(31,424)**

Schedule of benefits by employer	31 March 2014 £000's	31 March 2013 £000's
LB Hillingdon	(34,205)	(30,950)
Scheduled Bodies	(450)	(380)
Admitted Bodies	(93)	(94)
	(34,748)	**(31,424)**

Pension Fund Accounts and Net Asset Statement

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2014 £000's	31 March 2013 £000's
Individual transfers out to other schemes	2,890	1,957
	2,890	**1,957**

8. ADMINISTRATIVE EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration and processing	525	545
Audit fee	18	21
Actuarial fee	67	23
	610	**589**

9. INVESTMENT INCOME

	31 March 2014 £000's	31 March 2013 £000's
Dividends from equities	6,668	6,662
Income from fixed interest Securities	40	0
Income from index-linked securities	334	396
Income from pooled investment vehicles	1,818	1,988
Interest on cash deposits	157	118
Other (for example from stock lending or underwriting)	6,529	4,890
	15,546	**14,054**

10. INVESTMENT ASSETS

	Value 1 April 2013 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2014 £000's
Equities	193,554	180,724	(218,069)	(8,151)	148,058
Index-linked securities	42,174	35,215	(32,170)	(9,856)	35,363
Pooled investment vehicles	415,149	85,467	(28,229)	49,798	522,185
	650,877	**301,406**	**(278,468)**	**31,791**	**705,606**
Other investment balances	3,048			2,542	1,131
Fund managers' cash	29,059			(220)	18,373
Total Investment Assets	**682,984**			**34,113**	**725,110**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £539k (£357k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2014 £000's	Market Value 31 March 2013 £000's
Adams Street Partners	22,459	23,366
Barings Global Asset Management	63,046	0
JP Morgan Asset Management	77,397	74,981
Kempen International Investments	77,356	46,884
LGT Capital Partners	17,257	18,215
M&G Investments	25,912	16,351
Macquarie Infrastructure	5,858	8,536
Newton Asset Management	23,618	22,819
Ruffer LLP	84,447	131,368
State Street Global Advisors	143,802	142,038
UBS Global Asset Management (Equities	115,829	135,737
UBS Global Asset Management (Property	54,368	48,574
UBS TAA	12,873	0
Other*	239	10,683
Total	**724,461**	**679,552**

* Other includes transition assets, pending trades and recoverable tax

Forward Foreign Exchange Contracts

Counterparty and Currency	Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust GBP - JPY	14,206	14,060	146	13/01/2014	14/04/2014
Northern Trust JPY - GBP	1,675	1,679	(4)	17/01/2014	14/04/2014
Northern Trust JPY - GBP	3,381	3,441	(60)	24/01/2014	14/04/2014
Northern Trust JPY - GBP	1,655	1,664	(9)	05/03/2014	14/04/2014
Northern Trust JPY - GBP	1,755	1,779	(24)	17/03/2014	14/04/2014
Northern Trust GBP - EUR	23,781	23,661	120	06/02/2014	13/05/2014
Northern Trust GBP - USD	7,701	7,598	103	11/02/2014	15/05/2014
Northern Trust GBP - EUR	1,808	1,792	16	10/03/2014	13/06/2014
Total unrealised gains	**55,962**	**55,674**	**288**		

As at 31 March 2014 eight forward foreign exchange contracts were in place for £55,674k with unrealised gain of £288k. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class	31 March 2014 £000's	31 March 2013 £000's
Equities		
UK quoted	121,335	147,385
Overseas quoted	26,723	46,169
	148,058	**193,554**
Index Linked Securities		
UK Public Sector quoted	14,006	21,428
Overseas Public Sector Quoted	21,357	20,746
	35,363	**42,174**
Pooled Investment Vehicles		
UK Managed funds - other	364,199	260,800
UK Unit Trusts - property	50,427	46,465
Overseas Unit Trusts - other	70,413	68,267
Private Equity	37,146	39,617
	522,185	**415,149**
Other Investment balances		
Forward foreign exchange unrealised gain	288	0
Amount due from brokers	0	1,615
Outstanding dividend entitlements and recoverable withholding tax	843	1,433
	1,131	**3,048**
Cash deposits		
Sterling	18,373	29,059
	18,373	**29,059**
	725,110	**682,984**

NB: There are no investments that are more than 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. 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, the fund's AVC provider, value of assets under management as at 31 March 2014 was £5,035k and as at 31 March 2013 £5,298k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

11. INVESTMENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Amount outstanding to brokers	(649)	(3,351)
Forward foreign exchange unrealised loss	0	(81)
	(649)	**(3,432)**

12. INVESTMENT MANAGEMENT EXPENSES

	31 March 2014 £000's	31 March 2013 £000's
Administration, management and custody	(3,704)	(3,796)
Performance measurement services	(10)	(12)
Other advisory fees	(55)	(114)
	(3,769)	**(3,922)**

13. CURRENT ASSETS

	31 March 2014 £000's	31 March 2013 £000's
Employers' contributions due	197	157
Employees' contributions due	65	56
Debtor: London Borough of Hillingdon	266	215
Debtor: Other Entities	7	4
Cash balances	2,267	3,926
	2,802	**4,358**

NB: The current assets all relate to amounts due from local government bodies with the exception of cash balances which is held with bodies external to government.

14. CURRENT LIABILITIES

	31 March 2014 £000's	31 March 2013 £000's
Creditor: Other Entities	(721)	(849)
Creditor: London Borough of Hillingdon	(6)	(9)
	(727)	**(858)**

NB: The total of £721k other entities is due to bodies external to government, namely investment managers.

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fixed Interest Securities	35,363	42,174
Equities	148,058	193,554
Pooled Investments	429,343	321,011
Pooled Property Investments	50,427	46,465
Private Equity/Infrastructure	42,415	47,673
Derivative Contracts	288	0
Cash	18,373	29,059
Debtors	843	3,048
	725,110	682,984
Financial Liabilities		
Derivative Contracts	0	(81)
Creditors	(649)	(3,351)
	(649)	(3,432)
	724,461	**679,552**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2014 £000's	31 March 2013 £000's
Fair Value through profit and loss	33,366	61,985
Financial Liabilities		
Fair Value through profit and loss	288	(81)
	33,654	**61,904**

c) Fair Value of Financial Instruments and liabilities

Financial Assets	31 March 2014 £000's Fair Value	31 March 2014 £000's Carrying Value	31 March 2013 £000's Fair Value	31 March 2013 £000's Carrying Value
Fair Value through profit and loss	705,606	705,606	650,877	650,877
Loans and receivables	19,504	19,504	32,107	32,107
Total Financial assets	**725,110**	**725,110**	**682,984**	**682,984**
Financial Liabilities				
Fair Value through profit and loss	(649)	(649)	(3,432)	(3,432)
Loans and receivables	0	0	0	0
Total Financial Liabilities	**(649)**	**(649)**	(3,432)	(3,432)

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2014	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	586,941	50,427	68,238	705,606
Loans and Receivables	12,316	3,940	3,248	19,504
Total Financial Assets	**599,257**	**54,367**	**71,486**	**725,110**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(649)	0	0	(649)
Total Financial Liabilities	**(649)**	**0**	**0**	**(649)**
Net Financial Assets	**598,608**	**54,367**	**71,486**	**724,461**

Values as at 31 March 2013	Quoted Market Price	Using Observable Inputs	With Significant unobservable inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Totals £000's
Financial assets at fair value through profit and loss	540,671	46,465	63,741	650,877
Loans and Receivables	27,270	2,109	2,728	32,107
Total Financial Assets	**567,941**	**48,574**	**66,469**	**682,984**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(3,432)	0	0	(3,432)
Total Financial Liabilities	**(3,432)**	**0**	**0**	**(3,432)**
Net Financial Assets	**564,509**	**48,574**	**66,469**	**679,552**

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) have undertaken a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation processes are rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

17. 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 Pension Fund 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.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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. Possible losses from shares sold short is 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 movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	11.73%
Overseas quoted equities	9.97%
UK Public Sector quoted Index-Linked Securities	6.73%
Overseas Public Sector quoted Index-Linked Securities	6.73%
Corporate Bonds	4.11%
UK Managed funds - other	11.73%
UK Unit Trusts - property	2.38%
Overseas Unit Trusts - other	9.97%
Private Equity	5.41%

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Pension Fund Accounts and Net Asset Statement

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Asset type	**Value as at 31 March 2014 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
Cash and Cash equivalents	18,373	0.00	18,373	18,373
Investment Assets				
UK quoted equities	121,335	11.73	135,568	107,102
Overseas quoted equities	26,723	9.97	29,387	24,059
UK Public Sector quoted Index-Linked Securities	14,006	6.73	14,949	13,063
Overseas Public Sector quoted Index-Linked Securities	21,357	6.73	22,794	19,920
UK Managed funds - Equities	155,020	11.73	173,204	136,836
UK Managed funds - Bonds	68,407	4.11	71,219	65,595
UK Unit Trusts - property	50,427	2.38	51,627	49,227
Overseas Unit Trusts - Equities	136,622	9.97	150,243	123,001
Overseas Unit Trusts - Bonds	69,294	4.11	72,142	66,446
Private Equity/Infrastructure	42,415	5.41	44,710	40,120
Net Derivative assets	288	0.00	288	288
Investment income due	843	0.00	843	843
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(649)	0.00	(649)	(649)
Total Assets Available to pay benefits	**724,461**		**784,698**	**664,225**

Asset type	**Value as at 31 March 2013 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
Cash and Cash equivalents	29,059	0.00	29,059	29,059
Investment Assets				
UK quoted equities	147,385	12.90	166,398	128,372
Overseas quoted equities	46,169	11.80	51,617	40,721
UK Public Sector quoted Index-Linked Securities	21,428	6.50	22,821	20,035
Overseas Public Sector quoted Index-Linked Securities	20,746	6.50	22,094	19,938
UK Managed funds - Equities	100,447	12.90	113,405	87,489
UK Managed funds - Bonds	53,742	4.00	55,892	51,592
UK Unit Trusts - property	46,465	2.30	47,534	45,396
Overseas Unit Trusts - Equities	94,622	11.80	105,787	83,457
Overseas Unit Trusts - Bonds	72,200	4.00	75,088	69,312
Private Equity/Infrastructure	47,673	4.70	49,913	45,432
Net Derivative assets	(81)	0.00	(81)	(81)
Investment income due	1,433	0.00	1,433	1,433
Amounts receivable for sales	1,615	0.00	1,615	1,615
Amounts payable for purchases	(3,351)	0.00	(3,351)	(3,351)
Total Assets Available to pay benefits	**679,552**		**739,224**	**620,419**

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2014 £000's**	**31 March 2013 £000's**
Cash equivalents	0	2,488
Cash	18,373	26,571
Fixed Interest Securities	173,064	168,117
Total	**191,437**	**197,176**

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

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

Asset Type	**Carrying amount 31 March 2014**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash Equivalents	0	0	0
Cash	18,373	184	(184)
Fixed Interest Securities	173,064	1,730	(1,730)
Total change in assets available	**191,437**	**1,914**	**(1,914)**

Asset Type	**Carrying amount as 31 March 2013**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash Equivalents	2,488	25	(25)
Cash	26,571	266	(266)
Fixed Interest Securities	168,117	1,681	(1,681)
Total change in assets available	**197,176**	**1,972**	**(1,972)**

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

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2014 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period ending 31 March 2013.

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value 31 March 2014	Asset value 31 March 2013
	£000's	£000's
Overseas quoted Securities	26,723	46,169
Overseas Corporate Bonds	69,294	72,200
Overseas Index-linked Bonds	21,357	20,746
Overseas managed funds	136,622	94,622
Private Equity/Infrastructure	42,415	47,673
	296,411	**281,410**

Currency risk sensitivity analysis - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 4.32%, based on the data provided by WM. A 4.32% fluctuation in the currency is considered reasonable based on WM'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. A 4.32% 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:

Currency exposure by asset type

	Asset value 31 March 2014	Change in the net assets available to pay benefits	
		+4.32%	-4.32%
	£000's	£000's	£000's
Overseas quoted Securities	26,723	27,877	25,569
Overseas Corporate Bonds	69,294	72,288	66,300
Overseas Index-linked Bonds	21,357	22,280	20,434
Overseas managed funds	136,622	142,524	130,720
Private Equity/Infrastructure	42,415	44,247	40,583
	296,411	**309,216**	**283,606**

Currency exposure by asset type

	Asset value 31 March 2013	Change in the net assets available to pay benefits	
		+5.6%	-5.6%
	£000's	£000's	£000's
Overseas quoted Securities	46,169	48,754	43,584
Overseas Corporate Bonds	72,200	76,243	68,157
Overseas Index-linked Bonds	20,746	21,908	19,584
Overseas managed funds	94,622	99,921	89,323
Private Equity/Infrastructure	47,673	50,343	45,003
	281,410	**297,169**	**265,651**

17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

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

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

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 HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAm rated Northern Trust Money Market Fund ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2014 was £2,267k (31 March 2013: £16,046k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2014	Rating	Balances as at 31 March 2013
Money Market Funds		**£000's**		**£000's**
Northern Trust Global Sterling Fund A	AAAm	200	AAAm	10,832
SSgA Sterling Liquidity Fund Sub-Fund	AAAm	0	AAAm	2,488
Bank current accounts				
Natwest (Capita)	A-	949	A-	1,169
HSBC Plc	AA-	1,118	AA-	1,557
Total		2,267		16,046

Liquidity Risk - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.
The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,267k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2014 these assets totalled £586,941k, with a further £18,373k held in cash by fund managers.

18. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%

Funding Basis Discount Rate - 4.60%

Pay Increases - 3.30%

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

Description	31 March 2014 % P.a.	31 March 2013 % P.a.
Inflation /Pensions Increase Rate	2.8%	2.8%
*Salary Increase Rate	3.6%	5.1%
Discount Rate	4.3%	4.5%

*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2014 by Hymans Robertson LLP with the following results:

Description	31 March 2014 £000's	31 March 2013 £000's
Present Value of Promised Retirement Benefits	1,102,000	1,066,000
Assets	726,536	683,052
Deficit	375,464	382,948

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions 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.

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 officers or Pension committee member had any interest with any related parties to the pension fund.

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There were five members of the pension fund committee who were active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension 31 March 2014 £000's	Accrued pension 31 March 2013 £000's
Corporate Director of Finance	1,128	1,107
Deputy Director - Strategic Finance	672	622

21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2014, securities worth £17,302k were on loan by Northern Trust from our portfolio and collateral worth £18,715k was held within the pool including Hillingdon. In the same period, a net income of £36k was received.

22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2013/14.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2014 totalled £61,506k (31 March 2013: £45,175k).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure and secondary property parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

25. CONTINGENT ASSETS

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

26. POST BALANCE SHEET EVENTS

AEW UK Investment Ltd was appointed on 02 April, 2014 to manage about £15 million of the fund's assets in secondary property allocations. This was part of the fund's strive to increase returns and consequently improve funding position. On the same day, a further £15 million was committed to the M&G Debt Opportunities Fund II in addition to the previous £30 million already committed to two existing M&G funds. Funding for the cumulative £30 million allocation to AEW and M&G Debt Opportunities Fund II are to be derived from divestment from JP Morgan Asset Management Fund currently valued at £77 million. Due to the nature of the two new investments, the funds will be drawn-down by the two fund managers when required. As such, there is no need for transition management, as the JP Morgan fund is traded daily with a four day notice period for cash redemptions.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. Council's Responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Corporate Director of Finance);

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- To approve the statement of accounts.

2. The Corporate Director of Finance

The Corporate Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

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;

- Complied with the Code of Practice on Local Authority Accounting;

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Hillingdon Fund of the Local Government Pension Scheme as at 31 March 2014 and its income and expenditure for the year then ended.

Paul Whaymand

Corporate Director of Finance

29 September 2014

Pension Committee Certificate for the Approval of the Annual Report (excluding financial statements)

I confirm that this report was considered by the Pensions' Committee at its meeting In September 2014, and approved by the Chairman on 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

Councillor Philip Corthorne

CHAIRMAN (PENSIONS COMMITTEE)

23 September 2014

Audit Committee Certificate for the Approval of the Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 23 September 2014.

Signed on behalf of the London Borough of Hillingdon

CHAIRMAN (AUDIT COMMITTEE)

23 September 2014

PART F - POLICY STATEMENTS

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

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2014. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Statement of Investment Principles

An updated Statement of Investment Principles (SoIP) was agreed by Committee in March 2014, and has been added to the website. The latest SoIP can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was approved by Committee in March 2014. It can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/media.jsp?mediaid=6411&filetype=pdf

PART G - SCHEME BENEFITS

SCHEME BENEFITS

Introduction

The Local Government Pension Scheme (LGPS) is a comprehensive scheme providing a wide range of benefits for members and their families. This summary does not give details of all the benefits provided by the Scheme or of all the specific conditions that must be met before these benefits can be obtained. More detailed information can be obtained from our pensions administrator Capita Employee Benefits, telephone 0208 972 6050 or email Hillingdon.pensions@capita.co.uk .Further general scheme information regarding the LGPS is available from the website: www.hillingdon.gov.uk

Normal Retirement Age

65 for both men and women (earlier voluntary retirement allowed from age 60 but benefits are reduced if minimum service conditions are not met).

On retirement, both a pension and a lump sum retirement grant are payable for service up to 31 March 2008. For service from 1 April 2008 only a pension is payable, with no automatic lump sum. A member has the option to convert within limits, pension to lump sum. Pension and lump sum are related to length of service and final pay.

Pension (Normal)

The calculation of pension is based on the average pensionable pay for the last year of service or the better of the two previous years if this gives a higher figure. Also from 1 April 2008 members who experience a reduction in their pensionable pay in the last 10 years can base benefits on the average of any three consecutive years in the last 10 years. Pensions are calculated on a fraction of 1/80th for each year of membership of the scheme for service before 31 March 2008 and on 1/60th for service after 1 April 2008.

Pension (Ill Health)

The ill health pension is based on average pensionable pay for the last year of service and the split of 80ths and 60ths accrual. Three tiers of ill health benefits depending on whether a member can carry out any employment up to age 65.

First tier: If there is no reasonable prospect of obtaining gainful employment before age 65 the employee's LGPS service is enhanced by 100% of potential service to age 65.

Second Tier: If it is likely that the employee will not be to obtain gainful employment within three years of termination of employment or age 65 if earlier, the employee's LGPS service is enhanced by 25% of potential service to age 65.

Third Tier: If it is likely that the employee will be able to obtain any gainful employment within 3 years of leaving employment the employee receives the payment of benefits built up to the date of leaving with no enhancement. There is an ill health review after benefits have been paid for eighteen months, and the benefits may be stopped, continued for a further maximum period of eighteen months or the level of ill health may be increased to Tier 2 from date of the review.

Lump Sum Retirement Grant

The lump sum retirement grant is based on the average pensionable pay for the last year of service and the total service in the scheme, with appropriate enhancement in respect of ill health. For service prior to 31 March 2008, lump sum retirement grant is calculated as 3/80ths for each year of service. For service after this date there is no automatic lump sum however pension can be converted to lump sum at the rate of £1 of pension for £12 of lump sum retirement grant. A maximum lump sum of 25% of the capital value of the benefits accrued in the scheme can be taken.

Death Grant

(i) Death in Service
A lump sum death grant usually equal to three times pensionable pay would be payable to the member's spouse, or nominee.

(ii) Death after Retirement
A death grant is payable in certain circumstances where death occurs after retirement. Retirement pensions are guaranteed for ten years and where death occurs within that period and the pensioner dies before age 75, a death grant is payable. **This provision only applies to a pensioner member who has a period of active membership in the Scheme on or after 1 April 2008. For pensioners prior to this date the guarantee is still five years.**

(iii) Death of a member with Preserved benefits
A lump sum death grant of 3 times the preserved annual pension (for leavers prior to 31 March 2008) or 5 times for leavers after this date is payable to the member's spouse, or nominee.

Spouses, civil partners and nominated cohabiting partner's Pension

Any surviving spouse, nominated cohabiting partner or civil partner is entitled to a pension based on 1/160 of the member's final pay, for each year of service, at the date of death.

Only members of the scheme, who were active after 31 March 2008, will be able to nominate cohabiting partners.

The pension available to civil partners and nominated cohabiting partners is based on post April 1988 membership only.

Children's Pension

Each child under age 17, or still in full-time education and under age 23, will receive a proportion of the spouse's or civil partner's pension depending on the number of eligible children and whether or not a spouse's or civil partner's pension is payable.

Partner with one child: Child's pension is 1/320th of member's service, multiplied by the final pay.

Partner with more than one child: Child's pension is 1/160th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares.

No partner and one child: Child's pension is 1/240th of the member's service, multiplied by the final pay.

No partner and more than one child: Child's pension is 1/120th of the member's service, multiplied by the final pay. The total children's pension payable is divided by the number of children who are entitled to equal shares

Pension Increases

Pensions are increased in accordance with the Pensions (Increase) Act 1971. All pensions paid from the scheme are protected against inflation, rising in line with the Consumer Price Index.

Contracting Out Status (with effect from 1 April 2002)

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that members pay reduced National Insurance contributions and that they do not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership or and between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue 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 the Prudential as the nominated provider for this purpose. Further details are available from the Prudential Pensions Connection Team on 0845 6070077.

REGULATIONS

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
- The Local Authority (Discretionary Payments) Regulations 1996

PART H - AUDITORS' REPORT

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

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

This report is made solely to the members of London Borough of Hillingdon Pension Fund, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of the Corporate Director of Finance’s Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority’s full annual statement of accounts describes the basis of our opinions on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Heather Bygrave (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
St Albans, United Kingdom
29 September 2014