

London Borough of Hillingdon

Pension Fund

Statement of Accounts for the year to 31 March 2015



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LONDON



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Pension Fund Accounts and Net Asset Statement

	Notes	31 March 2015 £000's	Restated 31 March 2014 £000's
Contributions	5	37,383	35,099
Transfers In from other pension funds	6	1,164	750
Less: Benefits	7	(34,448)	(34,748)
Less: Leavers	8	(1,365)	(2,890)
Less: Management expenses	9	(6,834)	(5,981)
Net additions/(withdrawals) from dealings with members		(4,100)	(7,770)
Investment income	10	16,887	15,546
Profit and losses on disposal of investments and changes in value of investments	11	62,982	35,715
Taxes on income		(5)	(7)
Net return on investments		79,864	51,254
Net Increase in the fund during the year		75,764	43,484
Net Assets at start of year		726,536	683,052
Net Assets at end of year		802,300	726,536

		31 March 2015 £000's	31 March 2014 £000's
Investment Assets	11	800,969	725,110
Investment Liabilities	12	(1,209)	(649)
Current Assets	13	3,191	2,802
Current Liabilities	14	(651)	(727)
TOTAL NET ASSETS		802,300	726,536

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
September 2015

Notes To Pension Fund Accounts

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 2014/15 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 (Miscellaneous Amendments) Regulations 2014
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory career average revalued earnings (CARE) scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the London Borough of Hillingdon 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 the 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 (Miscellaneous Amendments) Regulations 2014 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and an automatic lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered by CAPITA Employee Benefits, on behalf of 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 Employers, Pension Fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

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

Admitted Bodies:

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

Scheduled Bodies:

Barnhill Academy	Nanak Sar Primary School
Belmore Academy	Northwood Academy
Bishop Ramsey Academy	Pinkwell School - New in 2014/15
Bishopshalt Academy	Pentland Field School - New in 2014/15
Charville Academy	Queensmead Academy
Coteford Academy	Rosedale Hewens Academy
Cranford Park Academy	Ruislip High School - New in 2014/15
Douay Martyrs Academy	Ryefield Primary School - New in 2014/15
Eden Academy	Stockley Academy
Guru Nanak Sikh Academy	Swakeleys Academy
Harefield Academy	Willows Academy
Haydon Academy	Uxbridge College
Hillingdon Primary School - New in 2014/15	Uxbridge Academy
John Locke Academy - New in 2014/15	Vyners Academy
Lake Farm Park Federation - New in 2014/15	Wood End Academy
LBDS Frays Academy Trust	
London Housing Consortium	

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2015 there were 8,046 active employees contributing to the fund, with 6,051 in receipt of benefit and 6,278 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	40	33
Number of employees in scheme		
London Borough of Hillingdon	5,809	6,002
Other employers	2,237	1,522
Total	8,046	7,524
Number of Pensioners		
London Borough of Hillingdon	5,541	5,505
Other employers	510	498
Total	6,051	6,003
Deferred pensioners		
London Borough of Hillingdon	4,927	4,980
Other employers	1,351	1,331
Total	6,278	6,311

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, Barings Asset Management (Defunded 31 October 2014) GMO Investments, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle

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 2014/15:

Pensions Committee

Cllr Philip Corthorne (Chairman)

Cllr Michael Markham (Vice-Chairman)

Cllr David Simmonds

Cllr Raymond Graham

Cllr Richard Mills

Cllr Tony Eginton

Cllr Beulah East

Cllr John Morse

Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

Mr John Holroyd (Pensioner/Deferred Scheme Member Representative)
(Non Voting)

Pensions Board

From 01 April 2015, a local Pensions Board has been created.

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 2014/15 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009 (as amended). 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 for on a cash basis. Group transfers are accounted for under the agreement which they are made.

Notes To Pension Fund Accounts

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 2015 was £35,275k (£37,146k at 31 March 2014).

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 2015 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 £35,757k. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

4. PRIOR PERIOD ADJUSTMENTS AND CHANGES IN ACCOUNTING POLICIES

Prior period adjustments have been made to the Pension Fund 2014/15 published financial statements in relation to the following:

Accounting for Scheme Management Expenses

In 2014/15 CIPFA, through the Code of Practise on Local Authority Accounting in the United Kingdom introduced the financial accounting framework to ensure all costs associated with the management of LGPS assets are captured and reflected in the financial statement in one form or another (through either the fund accounts or changes in values in the net assets statement). The main drivers of the changes by the framework were the needs for comparable data, consistency of reported costs and transparency of costs reporting across all LGPS funds. To this end, three cost categories, Investment Management Expenses, Oversight and Governance and Pension Administration were introduced.

One of the main requirements of the revised code of practise in relation to fund expenses is the reporting of pooled fund expenses. Practitioners are expected to disclose all expenses incurred both at partnership and fund of funds level. This prompted the need to seek information from all pooled fund managers engaged by the fund in relation to total fees and expenses charged to the fund at both levels and comparative figures for prior year was requested for completeness. The information received indicated fees and expenses for both private Equity managers engaged by the London Borough of Hillingdon Pension Fund were understated for prior year (2013/14), hence the relevant restatements were made to the fund accounts and notes to both comply with the three new management expenses categories and provide comparative figures for prior year.

Restatement of Pension Fund Accounts

	Published 31 March 2014 £000's	Restatement £000's	Restated 31 March 2014 £000's
Contributions	35,099		35,099
Transfers In from other pension funds	750		750
Less: Benefits	(34,748)		(34,748)
Less: Leavers	(2,890)		(2,890)
Less: Administrative expenses	(610)	610	
Less: Management expenses		(5,981)	(5,981)
Net additions/(withdrawals) from dealings with members	(2,399)	(5,371)	(7,770)
Investment income	15,546		15,546
Profit and losses on disposal of investments and changes in value of investments	34,113	1,602	35,715
Taxes on income	(7)		(7)
Investment management expenses	(3,769)	3,769	
Net return on investments	45,883	5,371	51,254
Net Increase in the fund during the year	43,484	0	43,484
Net Assets at start of year	683,052		683,052
Net Assets at end of year	726,536		726,536

Notes To Pension Fund Accounts

5. CONTRIBUTIONS

	31 March 2015 £000's	31 March 2014 £000's
Employers		
Normal	23,621	21,098
Deficit funding	4,576	5,160
Members		
Normal	8,410	8,133
Additional contributions	776	708
	37,383	35,099

Deficit Funding:- At the 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%.

Schedule of contributions by body

	31 March 2015 £000's	31 March 2014 £000's
Employers		
LB Hillingdon	20,827	20,733
Scheduled Bodies	7,081	5,250
Admitted Bodies	289	275
Members		
LB Hillingdon	7,151	6,983
Scheduled Bodies	1,938	1,765
Admitted Bodies	97	93
	37,383	35,099

6. TRANSFERS IN

	31 March 2015 £000's	31 March 2014 £000's
Individual transfers in from other schemes	1,164	750

7. BENEFITS

	31 March 2015 £000's	31 March 2014 £000's
Pensions	(29,862)	(28,114)
Commutations and lump sum retirement benefits	(4,521)	(6,105)
Lump sum death benefits	(65)	(529)
	(34,448)	(34,748)

Schedule of benefits by employer

	31 March 2015 £000's	31 March 2014 £000's
LB Hillingdon	(33,985)	(34,205)
Scheduled Bodies	(416)	(450)
Admitted Bodies	(47)	(93)
	(34,448)	(34,748)

Notes To Pension Fund Accounts

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2015 £000's	31 March 2014 £000's
Individual transfers out to other schemes	1,365	2,890
	1,365	2,890

9. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2015 as follows:

	31 March 2015 £000's	Restated 31 March 2014 £000's
Administrative Costs	534	525
Investment Management Expenses	5,995	5,242
Oversight and Governance	305	214
	6,834	5,981

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management costs.

10. INVESTMENT INCOME

	31 March 2015 £000's	31 March 2014 £000's
Dividends from equities	6,672	6,668
Income from fixed interest Securities	107	40
Income from index-linked securities	205	334
Income from pooled investment vehicles	1,833	1,818
Interest on cash deposits	83	157
Other (for example from stock lending or underwriting)	7,987	6,529
	16,887	15,546

11. INVESTMENT ASSETS

	Value 1 April 2014 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2015 £000's
Equities	148,058	29,090	(44,510)	3,684	136,322
Index-linked securities	41,191	36,172	(21,355)	8,826	64,834
Pooled investment vehicles	516,357	130,560	(124,264)	47,380	570,033
	705,606	195,822	(190,129)	59,890	771,189
Other investment balances	1,131			4,130	913
Fund managers' cash	18,373			(1,038)	28,867
Total Investment Assets	725,110			62,982	800,969

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 £218k (£539k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Notes To Pension Fund Accounts

11. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2015 £000's	Market Value 31 March 2014 £000's Restated
Adams Street Partners	22,988	21,199
AEW UK	24,623	0
Barings Global Asset Management (Defunded 31 October 2014)	0	63,046
GMO	65,729	0
JP Morgan Asset Management	38,447	77,397
Kempen International Investments	87,276	77,307
LGT Capital Partners	12,769	15,945
M&G Investments	32,965	25,822
Macquarie Infrastructure	13,886	5,270
Newton Asset Management	27,173	23,618
Permira Credit Solutions	4,029	0
Ruffer LLP	94,758	84,447
State Street Global Advisors	161,566	143,802
UBS Global Asset Management (Equities)	104,844	115,829
UBS Global Asset Management (Property)	64,119	54,368
UBS TAA	31,742	12,768
Other*	12,846	3,643
Total	799,760	724,461

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

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	11,410	(11,496)	(86)	13/01/2015	17/04/2015
Northern Trust JPY - GBP	2,485	(2,482)	3	22/01/2015	17/04/2015
Northern Trust JPY - GBP	3,352	(3,368)	(16)	30/01/2015	17/04/2015
Northern Trust JPY - GBP	4,349	(4,383)	(34)	02/02/2015	17/04/2015
Northern Trust GBP - JPY	1,546	(1,582)	(36)	16/02/2015	17/04/2015
Northern Trust GBP - USD	20,492	(21,044)	(552)	11/02/2015	15/05/2015
Northern Trust GBP - USD	461	(478)	(17)	02/03/2015	15/05/2015
Northern Trust GBP - EUR	2,216	(2,224)	(8)	09/03/2015	12/06/2015
Total unrealised gains	46,311	(47,057)	(746)		

As at 31 March 2015 eight forward foreign exchange contracts were in place for £47,057k with unrealised loss of £746k. 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 2015 £000's	31 March 2014 £000's
Equities		
UK quoted	108,883	121,335
Overseas quoted	27,439	26,723
	136,322	148,058
Index Linked Securities		
UK Public Sector quoted	17,642	14,006
Overseas Public Sector Quoted	47,192	21,357
	64,834	35,363
Pooled Investment Vehicles		
UK Managed funds - other	351,510	364,199
UK Unit Trusts - property	87,738	50,427
Overseas Unit Trusts - other	95,028	70,413
Private Equity	35,757	37,146
	570,033	522,185
Other Investment balances		
Forward foreign exchange unrealised gain	0	288
Amount due from brokers	3	0
Outstanding dividend entitlements and recoverable withholding tax	910	843
	913	1,131
Cash deposits		
Sterling	28,867	18,373
	28,867	18,373
	800,969	725,110

Notes To Pension Fund Accounts

11. 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, which 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 2015 was £6,488k and as at 31 March 2014 £6,444k (2013/14 restated to include bonus of £1,410k). Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 5.

12. INVESTMENT LIABILITIES

	31 March 2015 £000's	31 March 2014 £000's
Amount outstanding to brokers	(463)	(649)
Forward foreign exchange unrealised loss	(746)	0
	(1,209)	(649)

13. CURRENT ASSETS

	31 March 2015 £000's	31 March 2014 £000's
Employers' contributions due	391	197
Employees' contributions due	111	65
Debtor: London Borough of Hillingdon	0	266
Debtor: Other Entities	0	7
Cash balances	2,689	2,267
	3,191	2,802

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 2015 £000's	31 March 2014 £000's
Creditor: Other Entities	(394)	(721)
Creditor: London Borough of Hillingdon	(257)	(6)
	(651)	(727)

NB: The total of £394k other entities is due to bodies external to government, namely investment managers.

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

	31 March 2015 £000's	31 March 2014 £000's
Financial Assets		
Fixed Interest Securities	57,833	35,363
Equities	136,322	148,058
Pooled Investments	439,607	429,343
Pooled Property Investments	87,743	50,427
Private Equity/Infrastructure	49,684	42,415
Derivative Contracts	0	288
Cash	28,867	18,373
Debtors	913	843
	800,969	725,110
Financial Liabilities		
Derivative Contracts	(746)	0
Creditors	(463)	(649)
	(1,209)	(649)
	799,760	724,461

b) Net Gains and Losses on Financial Instruments

	31 March 2015 £000's	Restated 31 March 2014 £000's
Financial Assets		
Fair Value through profit and loss	63,742	35,427
Financial Liabilities		
Fair Value through profit and loss	(746)	288
	62,996	35,715

c) Fair Value of Financial Instruments and liabilities

	31 March 2015 Fair Value £000's	31 March 2015 Carrying Value £000's	31 March 2014 Fair Value £000's	31 March 2014 Carrying Value £000's
Financial Assets				
Fair Value through profit and loss	771,189	771,189	705,606	705,606
Loans and receivables	29,780	29,780	19,504	19,504
Total Financial assets	800,969	800,969	725,110	725,110
Financial Liabilities				
Fair Value through profit and loss	(1,209)	(1,209)	(649)	(649)
Loans and receivables	0	0	0	0
Total Financial Liabilities	(1,209)	(1,209)	(649)	(649)

Notes To Pension Fund Accounts

15. FINANCIAL INSTRUMENTS (CONTINUED)

d) Valuation of financial instruments carried at fair value

Values as at 31 March 2015	Quoted	Using Observable	With Significant	Totals
	Market Price	Inputs	unobservable inputs	
	Level 1	Level 2	Level 3	
	£000's	£000's	£000's	£000's
Financial assets at fair value through profit and loss	596,838	87,716	86,635	771,189
Loans and Receivables	16,183	8,527	5,070	29,780
Total Financial Assets	613,021	96,243	91,705	800,969
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	(1,209)	0	0	(1,209)
Total Financial Liabilities	(1,209)	0	0	(1,209)
Net Financial Assets	611,812	96,243	91,705	799,760

Values as at 31 March 2014	Quoted	Using Observable	With Significant	Totals
	Market Price	Inputs	unobservable inputs	
	Level 1	Level 2	Level 3	
	£000's	£000's	£000's	£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

16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) undertook 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 were 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.

Notes To Pension Fund Accounts

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	10.20%
Overseas quoted equities	7.93%
UK Public Sector quoted Index-Linked Securities	8.26%
Overseas Public Sector quoted Index-Linked Securities	8.26%
Corporate Bonds	4.10%
UK Managed funds - other	10.20%
UK Unit Trusts - property	3.16%
Overseas Unit Trusts - other	7.93%
Private Equity/Infrastructure	4.57%

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:

Notes To Pension Fund Accounts

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

Asset type	Value as at	Percentage Change	Value on Increase	Value on Decrease
	31 March 2015			
	£000's	%	£000's	£000's
Cash and Cash equivalents	28,867	0.01	29,156	28,578
Investment Assets				
UK quoted equities	108,883	10.20	119,989	97,777
Overseas quoted equities	27,439	7.93	29,615	25,263
UK Public Sector quoted Index-Linked Securities	17,642	8.26	19,099	16,185
Overseas Public Sector quoted Index-Linked Securities	47,192	8.26	51,090	43,294
UK Managed funds - Equities	101,728	10.20	112,104	91,352
UK Managed funds - Bonds	67,314	4.10	70,074	64,554
UK Unit Trusts - property	87,738	3.16	90,511	84,965
Overseas Unit Trusts - Equities	223,217	7.93	240,918	205,516
Overseas Unit Trusts - Bonds	40,352	4.10	42,006	38,698
Private Equity/Infrastructure	49,684	4.57	51,955	47,413
Net Derivative assets	(746)	0.00	(746)	(746)
Investment income due	910	0.00	910	910
Amounts receivable for sales	3	0.00	3	3
Amounts payable for purchases	(463)	0.00	(463)	(463)
Total Assets Available to pay benefits	799,760		856,221	743,299

Asset type	Value as at	Percentage Change	Value on Increase	Value on Decrease
	31 March 2014			
	£000's	%	£000's	£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	44,711	40,121
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

Notes To Pension Fund Accounts

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 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2015 £000's	31 March 2014 £000's
Cash	28,867	18,373
Fixed Interest Securities	172,500	173,064
Total	201,367	191,437

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 2015	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
Cash	28,867	289	(289)
Fixed Interest Securities	172,500	1,725	(1,725)
Total change in assets available	201,367	2,014	(2,014)

Asset Type	Carrying amount as 31 March 2014	Change in the net assets available to pay benefits	
		1%	-1%
	£000's	£000's	£000's
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)

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 2015 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period ending 31 March 2014.

Notes To Pension Fund Accounts

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

Currency exposure by asset type

	Asset value 31 March 2015	Asset value 31 March 2014
	£000's	£000's
Overseas quoted Securities	36,181	26,723
Overseas Corporate Bonds	31,869	69,294
Overseas Index-linked Bonds	40,191	21,357
Overseas managed funds	228,144	136,622
Private Equity/Infrastructure	49,684	42,415
	386,069	296,411

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 6.03%, based on the data provided by WM. A 6.03% 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 6.03% 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 2015	Change in the net assets available to pay benefits	
		+6.03%	-6.03%
	£000's	£000's	£000's
Overseas quoted Securities	36,181	38,363	33,999
Overseas Corporate Bonds	31,869	33,791	29,947
Overseas Index-linked Bonds	40,191	42,615	37,767
Overseas managed funds	228,144	241,901	214,387
Private Equity/Infrastructure	49,684	52,680	46,688
	386,069	409,349	362,789

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

Notes To Pension Fund Accounts

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 2015 was £2,689k (31 March 2014: £2,267k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2015 £000's	Rating	Balances as at 31 March 2014 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAm	1,700	AAAm	200
Bank current accounts				
Natwest (Capita)	A-	838	A-	949
HSBC Plc	AA-	151	AA-	1,118
Total		2,689		2,267

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 (£2,689k). 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 2015 these assets totalled £596,838k, with a further £28,867k held in cash by fund managers.

Notes To Pension Fund Accounts

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 2015 % P.a.	31 March 2014 % P.a.
Inflation /Pensions Increase Rate	2.4%	2.8%
*Salary Increase Rate	3.3%	3.6%
Discount Rate	3.2%	4.3%

*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 2015 by Hymans Robertson LLP with the following results:

Description	31 March 2015 £000's	31 March 2014 £000's
Present Value of Promised Retirement Benefits	1,308,000	1,102,000
Assets	802,485	726,536
Deficit	505,515	375,464

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.

Notes To Pension Fund Accounts

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There were two members of the pension fund committee who were deferred members of the pension fund. These members are Cllr Philip Corthorne (Chairman) and Cllr David Simmonds. 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 2015 £000's	Accrued pension 31 March 2014 £000's
Corporate Director of Finance	1,241	1,128
Deputy Director - Strategic Finance	741	672

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 2015, securities worth £12,588k were on loan by Northern Trust from our portfolio and collateral worth £13,757k was held within the pool including Hillingdon. In the same period, a net income of £24k 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 2014/15.

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2015 totalled £56,975k (31 March 2014: £61,506k). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure, secondary property (AEW) and Credit solutions (Permira) 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

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

No Post Balance Sheet events to report for 2014/15