London Borough of Hillingdon Pension Fund Annual Report 2015/16

HILLINGDON
LONDON

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CHAIRMAN'S FOREWORD

The 2015/16 financial year has been another busy year for the Hillingdon Pension Fund and the Fund continues to prosper. By the end of 2015/16 the Fund had grown to a record level of just over £810 million and for the three years to March 2016 the Fund returned an annualised 6.27% overall. Membership of the scheme also continued to increase with an almost 4% increase over the previous year. The scheme is however maturing with new contributions just slightly less than monies paid out in benefits. As a result a key focus for Committee over the coming months will be the Fund's cashflow.

The start of the municipal year in May 2015 brought a change to the Council's Constitution to formally establish a local Pension Board, as required by legislation. As a result membership of Pension Committee was reviewed and the Investment Strategy Committee was abolished as there was no need for three formal Pension Bodies within the Council. I retained the chairmanship of the Pensions Committee, supported by Councillors Markham, Eginton, Davis and East. The local Pension Board was established with Cllr Simmonds in the Chair, supported by Councillors Chapman and Morse, representing the employers in the Fund. Member representatives were also appointed following a recruitment process - Venetia Rogers (Active member); Andrew Scott (Active member - Uxbridge College); and Roger Hackett (Pensioner member). The Board has a guidance, advisory and scrutiny remit.

It has been a busy year with Fund developments; most notable was the clear message from central government that we need to pool our investment assets with other LGPS administering authorities. In terms of scale, the indications are that LGPS assets will be pooled into five or six large vehicles of £30-40bn each but individual funds, like Hillingdon, will retain local accountability and responsibility for setting their own investment strategies and asset allocation. This level of scale should reduce costs overall for the LGPS, including the costs associated with manager selection and turnover. Following this direction, the Council took the decision to join with the other 32 London Boroughs to form the London Collective Investment Vehicle (CIV). The CIV has been formally established as an Authorised Contractual Scheme (ACS) and the Fund has already made its first collaborative investment of £94 million. This is the first stage in the long road towards pooling of all the Fund's assets, which is expected to be achieved over the next 10 to 15 years.

Another significant change will come from the decision to terminate the contract with the scheme Administrator - Capita Employee Benefits - due to sustained poor service delivery. Instead we have made arrangements to work collaboratively with Surrey County Council, who will deliver administration services from 1 November 2016.

Monitoring the Fund's investments has kept Committee busy over the last 12, although no new opportunities for investment were identified over that period. Activity across the range of managers retained by the Fund was low over the year as most managers matched, or exceeded their benchmarks. One exception was Kempen, one of two managers (the other being Newton) tasked with managing a global equity brief that targets a resilient, market premium dividend yield. Kempen's approach has lacked the flexibility that might have allowed them to prosper in the difficult market conditions of recent years and which are likely to be sustained. As a result the decision has been taken to consolidate the programme in the Newton mandate.

The Committee and Board are fully committed to the development of its member skills and knowledge. All members are undertaking a comprehensive needs and training assessment, allowing us to tailor our training to individual Committee and Board member needs. This is in addition to the regular training we have introduced at each of the quarterly Committee and Board meetings.

Looking ahead, 2016 is the next triennial revaluation of the Fund and we will all await the results on the funding position with interest. We have arranged a meeting with Fund employers later in 2016 so that the full implications of the results can be discussed in detail. It will be a busy year as we consider further pooling investments and we finalise arrangements for the move of the administration to Surrey.

Cllr Philip Corthorne
Chairman Pensions Committee

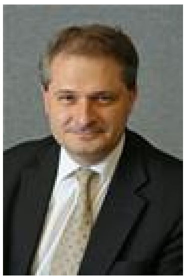
FUND GOVERNANCE and STATUTORY INFORMATION

FUND GOVERNANCE

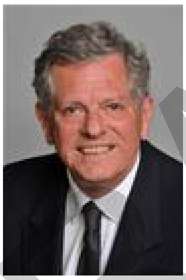
The London Borough of Hillingdon Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the regulations are set nationally, but the Fund is administered locally. As the Administering Authority, the London Borough of Hillingdon has legal responsibility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

Pension Committee

The Pension Committee consists of five Councillor Members. During 2015/16 these were:



Councillor
Philip Corthorne
(Chairman)



Councillor
Michael Markham
(Vice-Chairman)

Councillor
Peter Davis

Councillor
Tony Eginton
(Labour Lead)

Councillor
Beulah East

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

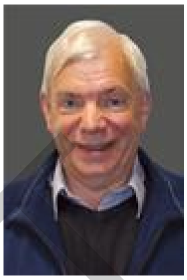
Local Pension Board

The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee meets on a quarterly basis. The members of the Board during 2015/16 were:

Employer Representatives:

Councillor
David Simmonds
(Chairman)

Councillor
Alan Chapman
(Vice-Chairman)



Councillor
John Morse

Scheme Member Representatives:

Venetia Rogers	Active Member
Andrew Scott	Active Member
Roger Hackett	Retired Member

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

Corporate Director of Finance

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

FUND MANAGEMENT and ADVISORS

The work of the Committee is supported by a number of officers, advisors and external managers.

Officers Responsible for the Fund

The Strategic Finance team ensures that both the Committee and Board receive relevant advice on investment strategy, monitoring of the performance of the fund and on administration matters, in addition to undertaking the accounting duties of the Fund.

Nancy le Roux	Deputy Director - Strategic Finance
Sian Kunert	Chief Accountant
Ken Chisholm	Corporate Pensions Manager
Tunde Adekoya	Pension Fund Accountant

Scheme Administration

Administration of the scheme is currently contracted out to Capita Employee Benefits (CEB). CEB maintain pension scheme membership records and calculate and pay benefits.

London Borough of Hillingdon Pension Fund
Capita Employee Benefits
PO Box 195
Mowden Hall
DARLINGTON
DL1 9FS

Fund Custodian and Performance Monitoring

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all 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. Additionally Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

Northern Trust
50 Bank Street
Canary Wharf
LONDON
E14 5NT

Fund Actuary

The Fund's actuary is Hymans Robertson

Catherine McFadyen FFA
Hymans Robertson LLP
20 Waterloo Street
GLASGOW
G2 6DB

Fund Managers

Day to day investment managements of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). During 2015/16 the Fund used the following external managers:

Fund Manager
UBS Global Asset Management
Ruffer LLP
Newton Investment Management
Kempen International Investments
GMO Investments
JP Morgan Asset management
State Street Global Advisors
Adam Street Partners
LGT Capital Partners
AEW UK
Permira LLP
Macquarie Investment
M&G Investments (Direct Investment)

Advisors to the Fund

The Fund's Investment Advisor is KPMG who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

David O'Hara
Director
Investment Advisory
Tax & Pensions
KPMG LLP (UK)
191 West George Street
GLASGOW
G2 2LJ

In addition the Fund has an Independent Advisor - Scott Jamieson.

The Fund has also appointed AON Hewitt to provide support on governance arrangements to the Board.

Aon Hewitt
25 Marsh Street
BRISTOL
BS1 4AQ

Legal Services

Legal support to the Fund is provided in house by the Council. The Council's Borough Solicitor is Raj Alagh.

Auditor

The Fund's external auditor, appointed by the Audit Commission is Ernst & Young

Ernst & Young LLP
Wessex House
19 Threefield lane
SOUTHAMPTON
SO14 3QB

Banker

Banking services are provided to the Fund by the Council's banker Lloyds.

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

AVC Provider

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

Prudential AVC Customer Services
Prudential
CRAIGFORTH
FK9 9UE

OVERVIEW OF THE SCHEME

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

Hillingdon is the Administering Authority for the Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place covering year end as at 31 March 2016.

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

The Pension Scheme as applying during the financial year 2015/16 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

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

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining Scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

Contracting Out Status (with effect from 1 April 2002 until 5 April 2016) - The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and that they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, 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. This is run separately to the Hillingdon Pension Fund. Further details are available from the Prudential Pensions Connection Team on 0800 032 6674.

REGULATIONS

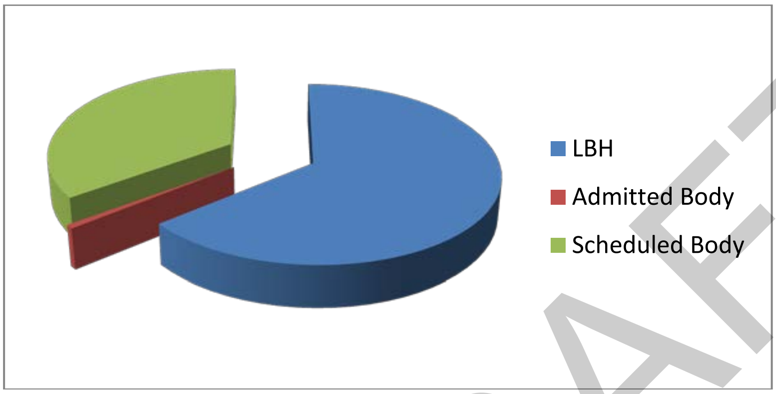
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)

FUND 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 continued to grow, as have the number of employers participating in the Fund.

Active Membership

As at 31 March 2016 there were 8,267 members actively contributing to the Fund. The diagram below shows a breakdown by employer type:

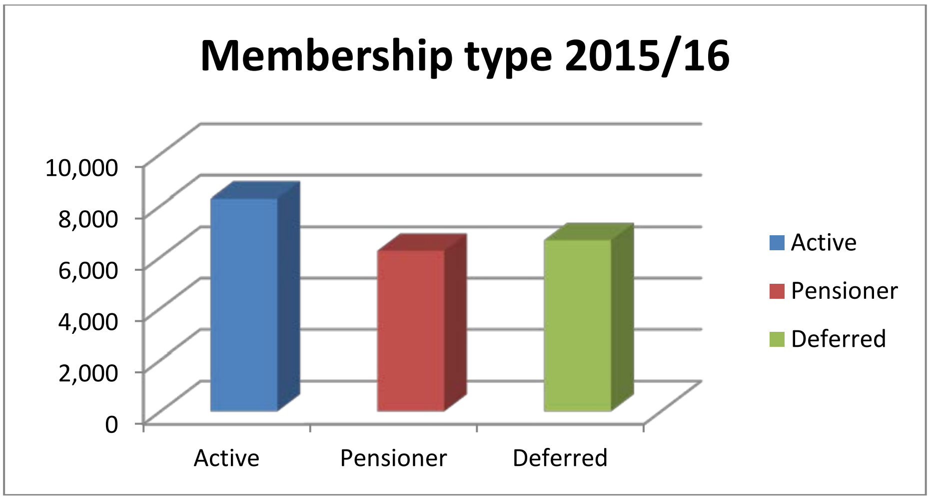


General Scheme membership

Membership of the scheme is split between

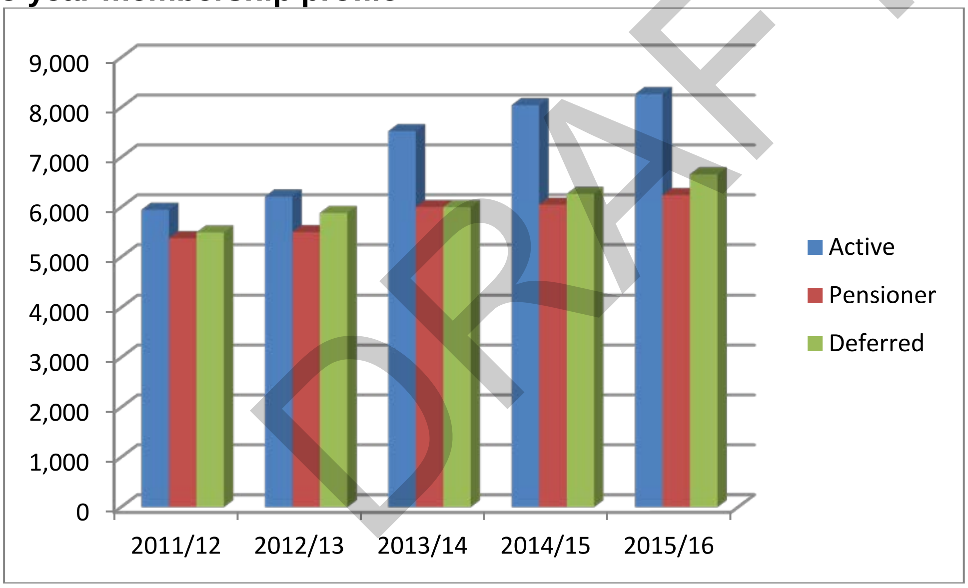
- active members - those still contributing to the scheme;
- deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme;
- and pensioner members - who are both former active members now drawing their benefits and dependents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

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



As can be seen from the following chart, active membership continued to grow over the last financial year. Active membership increased by 221 and overall scheme membership increased year on year by almost 4% to 21,169 scheme members. The membership profile over the last five years is shown below:

5 year membership profile

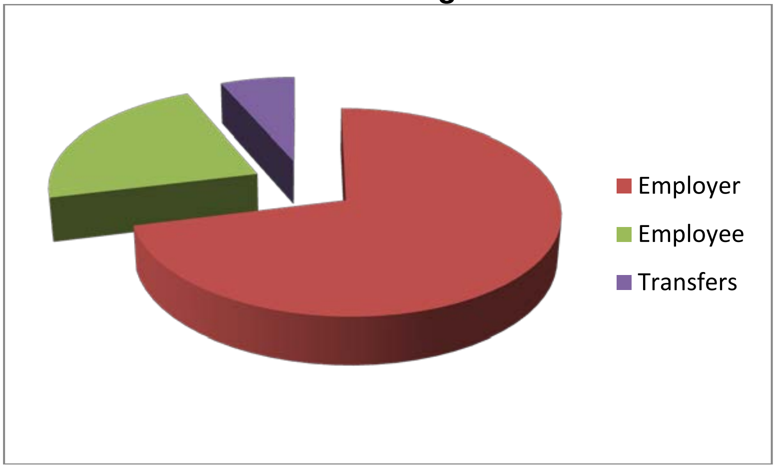


CONTRIBUTIONS

Total contributions (including transfers) into the Fund during 2015/16 amounted to £42 million compared to £38.5 million for the previous year. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund actuary and the rates that applied during 2015/16 were set from the 2013 valuation.

The chart below shows the split between employee and employer contributions and transfers. Employers contributed 71% of total contributions during 2015/16.

Contributions received during 2015/16



The current employer contribution rates and the total contributions paid by each Employer in 2015/16 are shown in the table below.

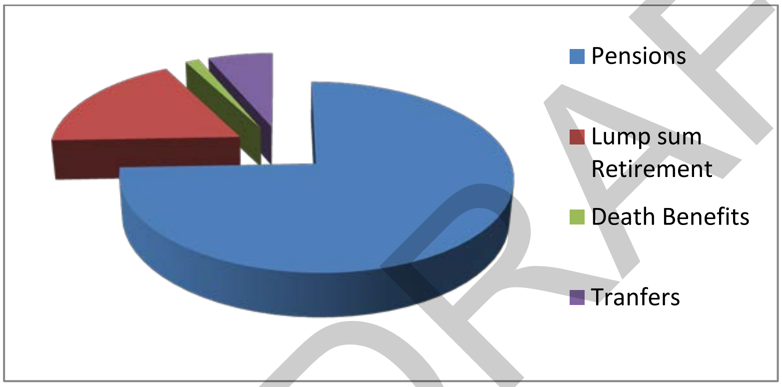
Employer	Type	Total Contributions	Contribution Rate %
Barnhill Academy	Scheduled Body	293,108.29	23.40
Belmore Academy	Scheduled Body	156, 657,86	22.80
Bishop Ramsey Academy	Scheduled Body	281,675.78	26.30
Bishopshalt Academy	Scheduled Body	295,628.78	29.60
Charville Academy	Scheduled Body	203,491.27	35.70
Coteford Academy	Scheduled Body	109,781.64	27.40
Cranford Park Academy	Scheduled Body	261,231.96	28.00
Douay Martyrs Academy	Scheduled Body	269,352.01	30.30
Eden Academy	Scheduled Body	689,711.92	25.10
Greenwich Leisure	Admitted Body	87,722.00	16.80
Guru Nanak Academy	Scheduled Body	316,814.84	21.20
Harefield Academy	Scheduled Body	203,794.09	19.00
Haydon Academy	Scheduled Body	372,399.11	22.20
Heathrow Aviation Engineering	Scheduled Body	12,468.30	22.10
Heathrow Travel Care	Admitted Body	16,642.82	18.90
Hillingdon & Ealing Citizens Advice	Admitted Body	55,471.21	19.10
Hillingdon Primary School	Scheduled Body	159,854.52	22.50
Lake Farm Park Federation	Scheduled Body	51,800.23	18.10
LBDS Frays Academy	Scheduled Body	336,345.02	24.80
London Housing Consortium	Scheduled Body	169,334.32	21.10
Mitie Cleaning	Admitted Body	13,246.56	21.00
Mitie Facilities Management	Admitted Body	48,598.02	21.00
Nanaksar Primary School	Scheduled Body	33,275.32	15.30
Northwood Academy	Scheduled Body	97,356.07	21.70
Pinkwell School	Scheduled Body	249,775.94	24.30
Queensmead Academy	Scheduled Body	225,009.77	24.30
Rosedale Hewens Academy	Scheduled Body	317,254.98	24.50
Ruislip High School	Scheduled Body	190,477.94	21.50
Ryefield Primary School	Scheduled Body	157,396.13	21.10
Servest Group Ltd	Admitted Body	1,537.32	20.60
Skills HUB	Scheduled Body	105,955.09	36.90
Stockley Academy	Scheduled Body	188,940.44	19.40

Swakeleys Academy	Scheduled Body	183,402.46	24.00
Taylor Shaw	Admitted Body	84,251.15	31.10
Uxbridge College	Scheduled Body	890,401.39	17.80
Uxbridge Academy	Scheduled Body	282,490.85	21.50
Vyners Academy	Scheduled Body	233,621.20	28.70
Willows Academy	Scheduled Body	40,640.47	27.30
Wood End Academy	Scheduled Body	227,848.67	24.50
Young Peoples Academy	Scheduled Body	104,786.19	28.60
Total		**8,019,551.93**	

BENEFITS

The benefits paid out from the Fund comprise annual pensions, lump sum retirement payments, death benefits and transfers to other funds. Total benefits paid out during 2015/16 amounted to £42.5 million, an increase of £6.6 million compared to the previous year.

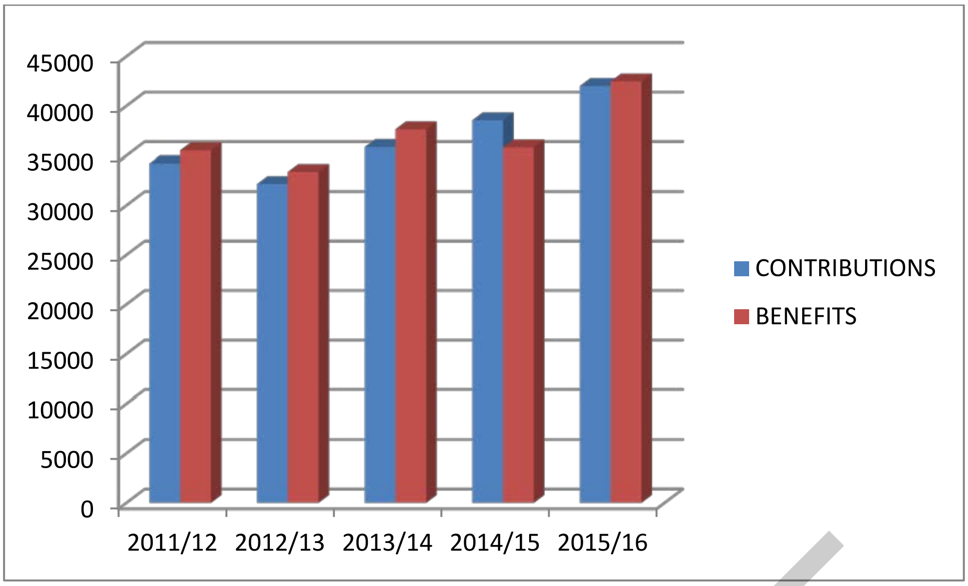
Benefits paid during 2015/16



CASHFLOW

Looking at the comparison between contributions received and benefits paid out over the last five years, it can be seen that while contributions received have continued to grow, with the exception of 2012/13, benefits payments have also continued to grow, with varying differences over the years. Over the last year there was just under half a million more paid out in benefits than received in contributions.

Contributions Received against Benefits Paid



Management Expenses

Management expenses for 2015/16 were £6.3 million, a reduction of £0.4 million compared to 2014/15, attributable to negotiated reduced fees with some fund managers and movement of more assets into pooled funds. These costs add to the negative cashflow position. However, with the considerable savings to be achieved from pooling of assets, as discussed earlier in this report, these costs should reduce going forward.

Whilst the negative cashflow is relatively minor at the moment, cashflow will become an increasing concern for the Committee in the next few years.

To mitigate concerns the council currently has a very defensive investment portfolio, including a number of income generating investments that will reduce the necessity to sell investments should there be a sustained cashflow shortfall. The ongoing strategy will continue to focus on generating income to meet cashflow requirements.

PERFORMANCE REVIEWS and REPORT of the FUND ACTUARY

INVESTMENT REVIEW

Market background for the year ended 31 March 2016

Seen over the period as a whole, returns from asset markets in the year ended March 2016 were unremarkable and, from equities, slightly disappointing. Viewed through the year, markets gyrated wildly as they adjusted to significant changes taking place in energy markets – the oil price collapsed, China – the Authorities embarked on currency devaluation, the prospect of higher official interest rates in America – marking the first increase in almost a decade and, as the period closed, the prospect of the UK voting to exit the European Union. Since the end of the Great Financial Crisis of 2008/09, asset markets have been buffeted by significant economic and political forces; the year to end Q1 2016 was no different. Expectations are the year ahead will continue in the same vein.

Central banks across the world continue to fight against the prospect of negative inflation rates (deflation) arising naturally from successive investment bubbles – in credit and property markets – and levels of debt that threaten to smother economic activity. This has seen the central banks of the Eurozone and Japan sustain policies that are unprecedented. Quantitative easing (QE) and the adoption of negative interest rates challenges the traditional, cautious approach of monetary authorities and highlight the gravity of the threats faced. Against this backdrop, the desire by the US central bank to raise its interest rate (from effectively zero) was a significant issue for investors: would the slower US economy, that might result, represent yet another headwind for weaker economies elsewhere (the majority) or would it mark the start of a return to more normal conditions? Market sentiment oscillated between both assessments generating significant volatility.

A more robust consequence was a higher value for the US$. Initially this provided welcome relief for non-US economies – which saw their international competitiveness improve, but as time passed and the $ rose it became a significant problem for the US economy itself - as it struggled with a loss of competitiveness. It also bore down heavily on emerging market economies where their currencies are either linked in the some way to the (increasingly expensive) US $ or depend on healthy US consumer demand. China bore the brunt of investor concern experiencing significant falls in their equity and property markets. Frustrated by having their currency tied to the US$, the Chinese Central Bank moved to weaken that tie and to lower the Renminbi. China has been a powerful force for lower consumer prices for many years. The prospect of Chinese goods prices moving lower (on a lower currency) saw investors worry afresh about deflation.

Years of very low interest rates have allowed companies to borrow cheaply to finance a range of activities – from genuine investment to supporting dividends. One area of activity that benefitted in particular was that of the fledgling US shale oil and gas production. Combined with apparently permanent high energy prices, investment in new productive capacity ballooned on easy credit. When this capacity came on line, the result was a glut of supply hitting a world of still anaemic economic growth and which was making progress in moving away from fossil fuel energy. Unsurprisingly energy prices tumbled. At one stage crude oil prices traded 60% lower than levels hit just a few months before and this wrought havoc within the new producers and across energy supply nations as a whole. The result has been corporate bankruptcies, a collapse in capital spending and upward pressure on corporate borrowing costs. Lower oil prices also fed through directly to slower rates of inflation.

Very low interest rates generally however have been met with weak borrowing demand from those active in the real economy. This has seen selected asset markets benefit almost by default and none more so than property. The boom in City of London property prices may be marked but it is echoed in increased prices across many major cities in the world.

The appetite for UK property from international investors has allowed the UK to operate a significant current account deficit – we import much more than we export but external demand for UK assets prevented a slide in £. This is not a new feature for the UK but came into strong focus as the period ended and as the UK threatened to vote to leave the European Union. The prospect of a *Brexit* was generally dismissed by those active in equity and bond markets but it was taken much more seriously by currency investors. The £ fell over the year – this was to prove nothing compared to the downshift that occurred after the referendum result was known.

The tone of the paragraphs above together with still low interest rates and ultra-low inflation readings provided a firm platform for government bond markets through the year.

Key asset class information

Equities: International equities, in local currency terms, returned minus 3.9% in the year to end Q1, 2016; a figure matched by the UK equity market. European and Japanese markets generated a loss of just over 10% with investors caring more about sluggish economic activity than the potential benefits of excessively easy monetary policies. The Chinese market, initially buoyed by policy-induced demand, ultimately saw prices at one stage halve; they ended the year returning a loss of 20%. Defying these trends and representing more than half of the world equity market (by value), US equities delivered a positive return of 2%. Hitherto the US economy has outperformed its major trading partners and this has been reflected in a higher level of equity valuations.

Bonds: The defensive merits of government bonds saw (10-year) yields fall over the year by around 0.15% in both the UK and US. Ordinarily such declines would have been unremarkable but they become more significant when yields are only around 1.5%. The decline was to accelerate sharply after the UK voted to leave the EU. Corporate bonds yield spreads were buffeted by the influences discussed earlier and nowhere more so than in the US high yield market (where shale gas companies typically sought funding). UK yield spreads ended the year 0.2-0.4% wider.

Property: UK property returned 12% over the year to 31 March 2016. Property markets benefited from ongoing safe-haven demand for UK based assets and the return of rental growth, with price rises continuing to be driven by the London market.

Outlook

June 23rd marked the day when much changed for the UK. The decision to leave the EU has seen £ fall sharply on the foreign exchanges and gilt yields plummet. At the time of writing the monetary policy response suggests even lower base rates and, if necessary, the return of quantitative easing. The external deficit has long been a significant weakness for the UK and one best addressed by a slower domestic economy and a lower currency. Pre-*Brexit,* these conditions were very difficult to generate (for economic and political reasons). The Referendum result has effectively catalysed a 'fast-track' process of adjustment that will initially prove painful but should ultimately restore a better balance to the economy. Whether the overall level of the economy is higher or lower will depend on myriad factors not least the 'divorce' settlement that the country eventually reaches with the EU. In the meantime one thing seems clear: the Bank of England will underwrite currency weakness and keep policy loose.

Outside the UK, the strains within the Chinese credit markets and how the authorities deal with them, remain a significant risk to global prosperity. In Europe too there are significant challenges with few of the fault-lines exposed by the Greek crisis resolved – the health of Italian banking system is the most immediate concern. Finally the current economic cycle is mature and a slowdown is perhaps inevitable; policymakers have few policy tools left to deploy. Attention will turn increasingly on Governments to loosen fiscal policy; *Brexit* may yet mark the end of the age of austerity with the UK leading the way.

Investment Strategy

The setting and maintenance of the Fund's investment strategy is undertaken through the work of the Pensions 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 dependants, 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, property, private equity and other alternative investments which are expected to deliver higher returns over the longer term.

The allocation of Fund assets among the managers' mandates as at 31 March 2016 was as follows:

Manager	UK Managed equities %	Overseas Managed equities %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.43	
AEW UK				4.56		
GMO	7.85					
JP Morgan			4.63			
Kempen		11.04				
LGT					1.38	
M&G						4.95
Macquarie						2.50
Newton	3.84					
Permira						2.61
Ruffer	2.12	3.83	4.41			
State Street (SSgA)	16.01		6.75			
UBS Equities	12.19					0.01
UBS Property				8.89		
Total	**42.01**	**14.87**	**15.79**	**13.45**	**3.81**	**10.07**

(A cash holding of £17.3m is not included in the above table.)

Fund Managers

AEW were appointed in June 2014 with a direct property mandate to complement the existing pooled property investment strategy of UBS and generate premium returns commensurate with their investment cycle and strategy. A total of £30 million has been committed and fully drawn down by the manager. AEW looks to build diversified portfolios of small lot commercial properties. Lot size is typically in the £3-5m range. Properties are located all over the UK with negligible exposure to London. The Manager seeks to find properties that are well located and subject to strong tenant demand. The Manager looks to add significant value through asset management e.g. re-positioning, refurbishing properties at lease expiry and has a bias to shorter leases because of the greater asset management opportunities that can arise.

GMO diversified growth fund manager was appointed in October 2014. The Manager aims to deliver strong real returns across a full market cycle while preserving capital. GMO adopts a longer term perspective than many of its peers and allocates to undervalued and often unpopular asset markets; this can and does lead to a more idiosyncratic performance record at odds with the general performance of peers. The approach is valuation-based and anchored in 7-year investment projections. Their portfolio construction style is to be prepared to tolerate periods of modest returns, waiting to pounce on opportunities that present the chance to generate outsized returns.

JP Morgan mandate, a corporate bond portfolio has been in place for just over 4 1/2 years and investments with the manager were switched from Strategic Bond Fund to the Global Bond Opportunities Fund, with higher rate of returns and same level of fees. The investment objective of the new fund is to achieve a return in excess of benchmark by investing in an unconstrained portfolio of debt securities and currencies, using financial derivative instruments where appropriate.

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. The Manager aims to deliver a superior return to the world equity market by focusing on those companies that have a proven record of dividend generation and where that experience is expected to persist. The key metrics are valuation, dividend sustainability and capital discipline (in company managements). Free cash flow is preferred to earnings ratios. Stocks bought must have a minimum yield (3.3%) and stocks which see their sustainable yield fall below 3% will be sold. The portfolio comprises 100 equally weighted stocks, rebalancing takes place quarterly. The Council has disinvested from Kempen in June 2016 and consolidated into the Newton mandate.

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. As at the end of March 2016, all three invested funds were fully drawn down. The pension fund is already in receipt of returns on investment from the first two funds and this should accelerate over the next year as they mature.

Macquarie - The allocation to infrastructure is likely to take a number of years before it is fully in place. The mandate spans four regional funds – Europe, China, India and the US. Macquarie tends to pursue large scale projects often directly operating the assets invariably in partnership with local asset owners, wealthy individuals.
Since Inception of the portfolio, progress has been steady with allocation to the India and China funds fully drawdown. The European partnership fund is about 75% drawn down with more allocation confirmed in the last few months. MIPIII, the American offering has made drawdown totalling about 22% of committed Capital.

Newton was appointed in January 2013 with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable in excess of 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 ant assets. The Manager seeks to deliver added value from investing in stocks which have a robust and premium yield. At purchase, stocks must have a yield at least 25% above the prevailing market yield. From the eligible subset, stocks are selected along a range of thematic lines e.g. those that should benefit from deleveraging within the broader economy. The Manager adopts an unconstrained approach to stock selection; this will lead to substantial variance against the world equity index over shorter time periods. The fund have increased the total investments managed by Newton from consolidating the global equities income manage into one, disinvesting from Kempen in June 2016.

Permira were appointed in November 2014 and aims to deliver a superior return from lending directly to corporate borrowers. The Manager will generally lend on a fully secured basis although may lend sparingly on a weaker basis. To augment the lending rate, Permira will generally secure arrangement fees in respect of each loan advanced. The manager will normally secure strong position or fully control the board of most companies it lends money. In June 2016 Pension Committee agreed to invest in a second direct lending strategy with Permira which is yet to be committed.

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 3.8% 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. The majority of the investments will be returned over the next three to five years.

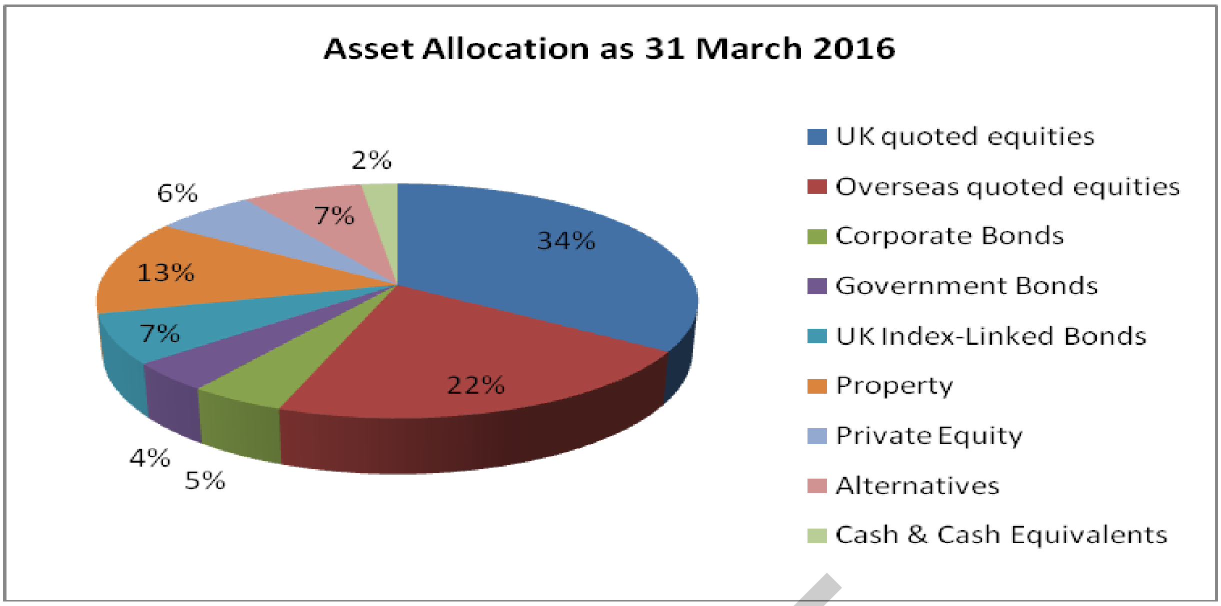
Ruffer is an Absolute Return manager and the Manager has two goals: not to lose money on a rolling 12 month basis and to grow funds at a rate higher than would be achieved by depositing in cash. The asset allocation is driven by two selections: those investments likely to deliver the required growth over the longer term ('Greed' assets) and those which should rise in response to conditions under which the Greed assets lose value ('Fear' assets). Historically Fear and Greed weightings have been broadly comparable. Under the new pooling of investments requirement, the Council's mandate with Ruffer transferred in July 2016 to assets under management by the London Collective Investment Vehicle (LCIV) as a consolidated mandate with Ruffer, where the Council benefits from reduced fees.

State Street (SSgA) 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 manages UK equities using a value approach to stock selection. The manager's core belief is that success will come from adopting a robust investment and valuation approach applied consistently across the economic and stock market cycles.

UBS Property - The property mandate managed by UBS operates a fund of funds Uk property structure. The Manager has full discretion to invest in both its own in-house pooled property fund and those of other third party fund managers. The aim is to keep the portfolio investments diversified, thus mitigating concentration risks.

Fund Value and Asset allocation as at 31 March 2016 - At 31 March 2016 the total value of the pension fund investment assets and liabilities was £808,650k. The following diagram identifies the allocation by asset class:



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity investments during the year. The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2016.

INVESTMENT MANAGER	as at 31 March 2016		as at 31 March 2015	
	£'000	%	£'000	%
Adams Street	21,836	2.70	24,508	3.06
AEW UK	36,093	4.46	32,123	4.02
GMO	62,041	7.67	65,729	8.22
JP Morgan	36,603	4.53	38,447	4.81
Kempen	87,317	10.80	87,276	10.91
LGT	12,872	1.59	13,924	1.74
M&G	39,151	4.84	35,312	4.42
Macquarie	19,805	2.45	13,934	1.74
Newton	30,395	3.76	27,173	3.40
Permira	20,634	2.55	4,029	0.50
Ruffer	92,836	11.48	94,758	11.85
State Street (SSgA)	179,997	22.26	161,566	20.20
UBS Equities	97,886	12.11	104,844	13.11
UBS Property	71,184	8.80	64,119	8.02
UBS TAA	-	-	32,018	4.00
Total	**808,650**	**100.00**	**799,760**	**100.00**

Note: Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (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 2016 were:

Top 5 Holdings	Market Value as at 31 March 2016 £000s	Percentage of Fund Value
Kempen Intl Fds Global High Dividend I GBP	87,317	10.80%
SSgA MPF Equity Index	69,970	8.65%
GMO Funds GBL Real Rtn Ucits Grruf A	62,041	7.67%
JP Morgan Strategic Bond X Accumulation Shares	36,603	4.53%
AEW UK Investment Management LLP AEW UK Core Property Fund A	36,093	4.46%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2016 £000s	Percentage of Fund Value
Bp Ord Usd0.25	8,625	1.07%
Royal Dutch Shell 'B'ord Eur0.07	7,671	0.95%
Glaxosmithkline Ord Gbp0.25	5,096	0.63%
Hsbc Hldgs Ord Usd0.50(Uk Reg)	4,478	0.55%
Lloyds Banking Gp Ord Gbp0.1	4,011	0.50%
Barclays Plc Ord Gbp0.25	3,960	0.49%
Rio Tinto Ord Gbp0.10	3,710	0.46%
Glencore Plc Ord Usd0.01	3,626	0.45%
3i Group Ord Gbp0.738636	3,594	0.44%
Bae Systems Ord Gbp0.025	3,427	0.42%

Investment Performance

Over the financial year under review, the fund grew by 1.63% equating to 17 basis points ahead of the benchmark figure of 1.46%. For a 3 year period to 31 March 2016, the fund has outperformed with a return, exceeding the benchmark by 0.31% pa. Also, since inception in September 1995 the returns come to 6.71%, 9 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	(4.73)	(3.92)	(0.81)	5.12	3.67	1.45	6.57	6.79	(0.22)
Overseas Equity	(1.21)	(0.58)	(0.63)	4.56	8.34	(3.78)	5.95	6.92	(0.97)
Government Bonds	3.26	3.25	0.01	(1.44)	4.65	(6.09)	2.66	6.66	(4.00)**
Corporate Bonds	0.43	0.50	(0.07)	4.81	4.89	(0.08)	7.38	7.06	0.32**
Index Linked Gilts	2.40	1.74	0.66	5.19	5.08	0.11	7.98	8.60	(0.62)**
Property	15.12	10.58	4.54	15.43	13.00	2.43	8.79	8.11	0.68
Total Portfolio	**1.63**	**1.46**	**0.17**	**6.27**	**5.96**	**0.31**	**6.71**	**6.62**	**0.09**

Note: 5 Yrs Performance returns as no longer term data available

Over the year, on investment performance, there was a relative excess return of 0.17% The biggest contributor to the excess return was Macquarie with 18.37% outperformance, whilst the biggest detractor was GMO with (6.20)% underperformance. Overall, three year and since inception performance figures were 0.31% and 0.09% respectively above the set benchmarks.

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
Adams Street	11.33	-	-	15.68	-	-	5.41	-	-
AEW UK	12.66	10.58	2.08	-	-	-	14.04	12.90	1.14
GMO	(5.63)	0.57	(6.20)	-	-	-	(2.98)	0.18	(3.15)
JP Morgan	1.06	3.60	(2.54)	2.09	3.57	(1.48)	3.27	3.64	(0.37)
Kempen	0.05	2.22	(2.17)	4.39	11.53	(7.15)	6.06	13.45	(7.39)
LGT Capital	25.66	-	-	12.26	-	-	9.54	-	-
Macquarie	21.95	3.58	18.37	10.21	3.56	6.65	0.92	3.68	(2.76)
M&G	3.49	4.58	(1.09)	5.79	4.56	1.23	5.36	4.69	0.67
Newton	11.86	1.44	10.42	10.03	10.30	(0.27)	12.18	11.95	0.24
Permira	12.41	4.58	7.83	-	-	-	10.36	4.47	5.89
Ruffer	(2.12)	0.59	(2.70)	3.42	0.55	2.87	5.48	0.68	4.80
SSgA	(2.16)	(2.13)	(0.03)	5.17	5.24	(0.07)	10.65	10.65	0.00
UBS Equities	(6.61)	(3.92)	(2.69)	4.86	3.67	1.19	9.56	8.49	1.07
UBS Property	16.11	10.58	5.53	15.46	13.00	2.46	3.72	3.37	0.35
Total Portfolio	**1.63**	**1.46**	**0.17**	**6.27**	**5.96**	**0.31**	**6.71**	**6.62**	**0.09**

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, securities lending, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the 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 is 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 on 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. 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.

REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund (“the Fund”)
Actuarial Statement for 2015/16

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

Description of Funding Policy

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

- 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

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Hillingdon, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen placing a higher value on liabilities. The effect of this has been only partially offset by the effect of stronger than assumed asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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

Catherine McFadyen FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
15 April 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

SCHEME ADMINISTRATION REPORT

Administrators

Administration of the scheme is currently outsourced to Capita Employee Benefits (CEB) who are responsible for:

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

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 As well as redundancy and compensation benefits for non-teaching employees.

The performance of CEB is reported quarterly to both Committee and the Board. Performance is also monitored on a daily basis by pension's officers of London Borough of Hillingdon. 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 2016.

Performance Indicator	Hillingdon Target	2014/15 Performance %	2015/16 Performance %
Letter detailing transfer in quote	10 days	82.56	89.05
Letter detailing transfer out quote	10 days	73.68	88.56
Process refund & issue payment	5 days	54.38	89.63
Letter notifying estimate of benefit	10 days	45.24	91.01
Letter notifying actual benefit	5 days	98.82	96.00
Letter acknowledging death	5 days	25.55	80.11
Letter notifying amount of dependant's benefit	5 days	70.83	90.63
Calculate & notify deferred benefits	10 days	47.65	86.92

Performance on reportable events improved over the 2015/16 year, but other areas of administration were not delivered at an unacceptable level. The Annual Benefit Statement exercise was an example of poor performance and resulted in Capita having to report themselves to the Pensions Regulator for non-compliance with the Pensions Act. Continued weekly monitoring of Capita's performance is ongoing.

The pensions administration service at CEB can be contacted by telephoning 0208 338 7055 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 contract with CEB is currently on notice of termination and is due to cease on 31 October 2016. From 1 November 2016 the administration of the scheme will be undertaken by Surrey County Council under powers delegated to them by Hillingdon Council. A project to manage the transfer has been underway since late last year and Surrey and Hillingdon internal officers have been working collaboratively to significantly improve the quality of the data being transferred. Progress on the transfer is on track and updates are provided each quarter to Committee.

Review of 2015/16

The latest available Government SF3 statistics (for 2014/15) indicate the cost per member for all English Authorities was £24.98 compared with an outer London average of £49.00 per scheme member. The cost in 2015/16 for the London Borough of Hillingdon was £29.93, (a decrease of £0.29 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.

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	2011/12	2012/13	2013/14	2014/15	2015/16
Redundancy or Efficiency	65	23	50	23	19
Ill Health	12	6	3	8	6
Total	**77**	**29**	**53**	**31**	**25**

Complaints

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.

RISK MANAGEMENT

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

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

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

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

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

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated regularly and reported to Pension Committee on a quarterly basis. The key types of risk facing the Fund are explained briefly below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement.

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.

FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

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

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

   The Corporate Director of Finance has also:

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

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31 March 2016 and its income and expenditure for the year then ended.

Paul Whaymand

CORPORATE DIRECTOR OF FINANCE
September 2016

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 21 September 2016.

Cllr Philip Corthorne
Signed on behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)

Independent auditor's report to the members of London Borough of Hillingdon

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members 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 auditor

As explained more fully in the Statement of Responsibilities set out on page 10, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tim Sadler
Executive
Director

for and on behalf of Ernst & Young LLP
Southampton

September 2016

London Borough of Hillingdon Pension Fund

Statement of Accounts for the year to 31 March 2016

HILLINGDON
LONDON

INVESTOR IN PEOPLE

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Pension Fund Accounts and Net Asset Statement

	Note	31 March 2016 £000's	31 March 2015 £000's
Contributions	*4*	39,268	37,383
Transfers In from other pension funds	*5*	2,744	1,164
Less: Benefits	*6*	(39,776)	(34,448)
Less: Leavers	*7*	(2,700)	(1,365)
Less: Management expenses	*8*	(6,353)	(6,834)
Net additions/(withdrawals) from dealings with members		**(6,817)**	**(4,100)**
Investment income	*9*	15,511	16,887
Profit and losses on disposal of investments and changes in value of investments	*10*	(707)	62,982
Taxes on income		0	(5)
Net return on investments		**14,804**	**79,864**
Net Increase in the fund during the year		**7,987**	**75,764**
Net Assets at start of year		**802,300**	**726,536**
Net Assets at end of year		**810,287**	**802,300**

		31 March 2016 £000's	31 March 2015 £000's
Investment Assets	*10*	808,967	800,969
Investment Liabilities	*11*	(317)	(1,209)
Current Assets	*12*	2,073	3,191
Current Liabilities	*13*	(436)	(651)
TOTAL NET ASSETS		**810,287**	**802,300**

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of 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 2016

Notes To Pension Fund Accounts

1. DESCRIPTION OF THE FUND

a) General

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

The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

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

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 thier own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

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

Admitted Bodies:

Greenwich Leisure
Heathrow Aviation Engineering
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Mitie Cleaning (Transferred to Churchill)
Mitie Facilities Management
Servest Group Ltd
Taylor Shaw (Caterlink, Caterplus & Genuine Dining)

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
Hillingdon Primary School
John Locke Academy
Lake Farm Park Federation
LBDS Frays Academy Trust
London Housing Consortium
Nanak Sar Primary School
Northwood Academy
Pentland Field School
Pinkwell School
Queensmead Academy
Rosedale Hewens Academy
Ruislip High School
Ryefield Primary School
Skills HUB
Stockley Academy
Swakeleys Academy
Uxbridge Academy
Uxbridge College
Vyners Academy
Willows Academy
Wood End Academy
Young Peoples Academy

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2016 there were 8,267 active employees contributing to the fund, with 6,244 in receipt of benefit and 6,658 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2016	Updated 31 March 2015
Number of employers with active members	43	40
Number of employees in scheme		
London Borough of Hillingdon	5,307	5,796
Other employers	2,960	2,237
Total	**8,267**	**8,033**
Number of Pensioners		
London Borough of Hillingdon	5,461	5,566
Other employers	783	514
Total	**6,244**	**6,080**
Deferred Pensioners		
London Borough of Hillingdon	4,600	5,541
Other employers	2,058	510
Total	**6,658**	**6,051**

c) Funding

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

d) Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, 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 are two direct investments into pooled funds with M&G Investments.

e) Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2015/16:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Peter Davis
Cllr Tony Eginton
Cllr Beulah East

Pensions Board

Cllr David Simmonds (Chairman)
Cllr Alan Chapman (Vice-Chairman)
Mr Andrew Scott (Member Representative)
Cllr John Morse
Venetia Rogers (Member Representative)
Roger Hackett (Member Representative)

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 2015/16 which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis and summarise the funds income and expenditure for 2015/16 and its position as at 31 March 2016.

Notes To Pension Fund Accounts

3. ACCOUNTING POLICIES

a) Valuation of assets
- Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value 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.

b) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

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

d) Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis.

e) Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension fund.

f) Interest on property developments
- Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

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

h) Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

i) Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement which they are made.

j) Cash & Cash Equavalents: Cash and cash equvalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA

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

Critical Judgements and Uncertainties

l) Unquoted Alternative Investments - Fair value of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2016 was £109,712k (£86,637k at 31 March 2015 (Revised)).

NB: 2014/15 figures above have been revised from those published in the 2014/15 accounts to include Macquarie, M&G and Permira holdings

m) 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 2016 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 £30,082k. There is a risk that this investment may be under- or overstated in the accounts.

Notes To Pension Fund Accounts

3. ACCOUNTING POLICIES (CONTINUED)

Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2016. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £19,805k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £39,150k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £20,634k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilties and an increase in assumed life expectancy would increase the liability.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2016 £000's	31 March 2015 £000's
Employers		
Normal	25,118	23,621
Deficit Funding	4,768	4,576
Members		
Normal	8,370	8,410
Additional Contributions	1,012	776
	39,268	**37,383**

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 2016 £000's	31 March 2015 £000's
Employers		
LB Hillingdon	21,866	20,827
Scheduled Bodies	7,700	7,081
Admitted Bodies	320	289
Members		
LB Hillingdon	7,216	7,151
Scheduled Bodies	2,068	1,938
Admitted Bodies	98	97
	39,268	**37,383**

5. TRANSFERS IN

	31 March 2016 £000's	31 March 2015 £000's
Individual transfers in from other schemes	2,744	1,164

6. BENEFITS

	31 March 2016 £000's	31 March 2015 £000's
Pensions	(31,597)	(29,862)
Commutations and Lump Sum Retirement Benefits	(7,598)	(4,521)
Lump Sum Death Benefits	(581)	(65)
	(39,776)	**(34,448)**
Schedule of benefits by employer		
LB Hillingdon	(38,969)	(33,985)
Scheduled Bodies	(701)	(416)
Admitted Bodies	(106)	(47)
	(39,776)	**(34,448)**

Notes To Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2016 £000's	31 March 2015 £000's
Individual transfers out to other schemes	(2,700)	(1,365)
	(2,700)	**(1,365)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2016 as follows:

	31 March 2016 £000's	31 March 2015 £000's
Administrative Costs	(570)	(534)
Investment Management Expenses	(5,338)	(5,995)
Oversight and Governance	(445)	(305)
	(6,353)	**(6,834)**

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.

9. INVESTMENT INCOME

	31 March 2016 £000's	31 March 2015 £000's
Dividends from equities	5,915	6,672
Income from fixed interest securities	0	107
Income from index-linked securities	307	205
Income from pooled investment vehicles	4,345	1,833
Interest on cash deposits	88	83
Other (for example from stock lending or underwriting)	4,856	7,987
	15,511	**16,887**

10. INVESTMENT ASSETS

	Value 1 April 2015 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2016 £000's
Equities	136,322	25,428	(24,919)	(13,232)	123,599
Index-linked securities	64,834	6,087	(37,691)	1,668	34,898
Pooled investment vehicles	570,033	116,617	(61,227)	6,771	632,194
	771,189	**148,132**	**(123,837)**	**(4,793)**	**790,691**
Other investment balances	913			3,806	980
Fund managers' cash	28,867			280	17,296
Total Investment Assets	**800,969**			**(707)**	**808,967**

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.

Notes To Pension Fund Accounts

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2016 £000's	Market Value 31 March 2015 £000's
Adams Street Partners	19,195	22,988
AEW UK	36,094	24,623
GMO	62,041	65,729
JP Morgan Asset Management	36,603	38,447
Kempen International Investments	87,317	87,276
LGT Capital Partners	10,887	12,769
M&G Investments	39,150	32,965
Macquarie Infrastructure	19,805	13,886
Newton Asset Management	30,395	27,173
Permira Credit Solutions	20,634	4,029
Ruffer LLP	92,546	94,758
State Street Global Advisors	179,997	161,566
UBS Global Asset Management (Equities	97,271	104,844
UBS Global Asset Management (Property	71,112	64,119
UBS TAA	0	31,742
Other*	5,603	12,846
Total	**808,650**	**799,760**

* 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	5,862	(6,227)	(364)	07/01/2016	15/04/2016
Northern Trust GBP - JPY	2,283	(2,309)	(26)	17/02/2016	15/04/2016
Northern Trust GBP - USD	22,111	(22,018)	92	17/02/2016	13/05/2016
Northern Trust GBP - EUR	852	(871)	(19)	14/03/2016	17/06/2016
Total unrealised loss	**31,108**	**(31,425)**	**(317)**		

As at 31 March 2016 four forward foreign exchange contracts were in place for £31,425k with unrealised loss of £317k. 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 2016 £000's	31 March 2015 £000's
Equities		
UK Quoted	98,337	108,883
Overseas Quoted	25,262	27,439
	123,599	**136,322**
Index Linked Securities		
UK Public Sector Quoted	18,026	17,642
Overseas Public Sector Quoted	16,871	47,192
	34,897	**64,834**
Pooled Investment Vehicles		
UK Managed Funds - Other	384,421	351,510
UK Unit Trusts Property	106,369	87,738
Overseas Unit Trusts - Other	111,282	95,028
Private Equity	30,123	35,757
	632,195	**570,033**
Other Investment balances		
Amount due from brokers	0	3
Outstanding dividend entitlements and recoverable withholding tax	980	910
	980	**913**
Cash deposits		
Sterling	17,296	28,867
	17,296	**28,867**
	808,967	**800,969**

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. 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 2016 was £5,937k (£6,488k at 31 March 2015) and £246k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

11. INVESTMENT LIABILITIES

	31 March 2016 £000's	31 March 2015 £000's
Amount outstanding to brokers	0	(463)
Forward foreign exchange unrealised loss	(317)	(746)
	(317)	**(1,209)**

12. CURRENT ASSETS

	31 March 2016 £000's	31 March 2015 £000's
Employers' contributions due	364	391
Employees' contributions due	100	111
Debtor: London Borough of Hillingdon	30	0
Cash balances	1,579	2,689
	2,073	**3,191**

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

13. CURRENT LIABILITIES

	31 March 2016 £000's	31 March 2015 £000's
Creditor: Other Entities	(436)	(394)
Creditor: London Borough of Hillingdon	0	(257)
	(436)	**(651)**

NB: The £436k total of other entities is due to bodies external to government, namely investment managers.

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS

a) Analysis of Investments

	31 March 2016 £000's	31 March 2015 £000's
Investment Assets		
Fixed Interest Securities	34,898	57,833
Equities	123,599	136,322
Pooled Investments	475,897	439,607
Pooled Property Investments	106,369	87,743
Private Equity/Infrastructure	49,928	49,684
Cash	17,296	28,867
Investment Income Due	980	910
Amounts Receiveable For Sales	0	3
	808,967	800,969
Investment Liabilities		
Derivative Contracts	(317)	(746)
Amounts Payable for Purchases	0	(463)
	(317)	(1,209)
	808,650	**799,760**

b) Net Gains and Losses on Financial Instruments

	31 March 2016 £000's	31 March 2015 £000's
Financial Assets		
Realised Fair Value through profit and loss	16,287	16,602
Unrealised Fair Value through profit and loss	(16,677)	47,126
Financial Liabilities		
Unrealised Fair Value through profit and loss	(317)	(746)
	(707)	**62,982**

c) Fair Value of Financial Assets and Liabilities through Profit & Loss

	Designated as fair value through P&L 31 March 2016 £000's	Loans & receivables 31 March 2016 £000's	Total 31 March 2016 £000's	Designated as fair value through P&L 31 March 2015 £000's	Loans & receivables 31 March 2015 £000's	Total 31 March 2015 £000's
Financial Assets						
Fixed Interests Securities	34,898	0	34,898	57,833	0	57,833
Equities	123,599	0	123,599	136,322	0	136,322
Pooled Investments	582,266	0	582,266	527,350	0	527,350
Private Equity/Infrastructure	49,928	0	49,928	49,684	0	49,684
Cash	0	17,296	17,296	0	28,867	28,867
Other Investment balances	0	980	980	0	913	913
	790,691	**18,276**	**808,967**	**771,189**	**29,780**	**800,969**
Financial Liabilities						
Derivative Contracts	(317)	0	(317)	(746)	0	(746)
Creditors	0	0	0	(463)	0	(463)
	(317)	**0**	**(317)**	**(1,209)**	**0**	**(1,209)**
Total	**790,374**	**18,276**	**808,650**	**769,980**	**29,780**	**799,760**

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS (CONTINUED)

d) Analysis of pricing hierarchies for assets carried at fair value

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Financial Assets	**Level 1 £000's**	**Level 2 £000's**	**Level 3 £000's**	**Total £000's**
Financial Assets at Fair Value through Profit and Loss	574,611	106,368	109,712	790,691
Loans and Receivables	18,276	0	0	18,276
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	(317)	0	0	(317)
At Amortised Cost	0	0	0	0
Net Financial Assets	**592,570**	**106,368**	**109,712**	**808,650**

Values as at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Financial Assets	**Level 1 £000's**	**Level 2 £000's**	**Level 3 £000's**	**Total £000's**
Financial Assets at Fair Value through Profit and Loss	596,836	87,716	86,637	771,189
Loans and Receivables	29,780	0	0	29,780
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	(746)	0	0	(746)
At Amortised Cost	(463)	0	0	(463)
Net Financial Assets	**625,407**	**87,716**	**86,637**	**799,760**

Fair values shown in the tables above are split by their level in the fair value pricing hierarchy:

Level 1 - Fair value is only derived from unadjusted quoted prices in active markets at the valuation date, for identical assets or liabilities, e.g equities or bonds.

Level 2 - Fair value is calculated from observable inputs for the assets or liabilities, rather than unadjusted quoted prices, e.g pooled property vehicles

Level 3 - Fair value is determined using unobservable inputs for assets and liabilities, e.g private equity.

There was a transfer of £41k in Venture Capital Investments with UBS Asset Management from Level 1 to Level 3 in line with the pricing hierarchy of the investment.

14. FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 Pricing Hierarchy Disclosures
Quantitaive Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital
The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of markeability and potential bids.

Private Finance: M&G
The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie
The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.
- The acquistion financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cashflows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira
The following key terms are confirmed as inputs for each yield analysis calculation:
- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Level 3 Assets Reconciliation	**Value 1 April 2015 £000's**	**Purchases at cost £000's**	**Sales proceeds £000's**	**Transfer between Levels**	**Change in market value £000's**	**Value 31 March 2016 £000's**
Private Equity - Adams Street Partners & LGT Capital Partners	35,757	1,201	(4,901)	0	(1,975)	30,082
Private Finance - M&G	32,965	7,274	(2,291)	0	1,202	39,150
Infrastructure - Maquarie	13,886	3,450	(706)	0	3,175	19,805
Venture Capital - UBS	0	0	0	41	0	41
Direct Lending - Permira	4,029	15,173	0	0	1,432	20,634
	86,637	**27,098**	**(7,898)**	**41**	**3,834**	**109,712**
Other investment balances	0				0	0
Total Investment Assets	**86,637**				**3,834**	**109,712**

DRAFT

Description of Valuation Process

Private Equity
The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS (CONTINUED)

Description of Valuation Process Contd:

Private Finance: M&G
These assets are floating rate and are held to maturity they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira
- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that
- Each valuation is reviewed to ensure:

Third party evidence to support pricing (such as Markit data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;

That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie
Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cashflow (DCF) analysis.

DCF-Based Market Valuation Process

Financial Model
The acquisition financial models of all of the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

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

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put
Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.
Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market

Private Equity
Market valuation method applied to investments is sensitive to four main components:
(i) changes in actual market prices;
(ii) interest rate risk;
(iii) foreign currency movements; and
(iv) other price risks.

Private Finance (M&G)
The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an anlalyst impairing an asset if there is a change in the asset's credit rating.

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS (CONTINUED)

Infrastructure: Macquarie
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:

- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

15. 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.

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.

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

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 2015/16 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	10.56%
Overseas quoted equities	8.01%
UK Public Sector quoted Index-Linked Securities	8.43%
Overseas Public Sector quoted Index-Linked Securities	8.43%
Corporate Bonds	4.57%
UK Managed funds - other	10.56%
UK Unit Trusts - property	3.00%
Overseas Unit Trusts - other	8.01%
Private Equity/Infrastructure	4.86%

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

Asset type	Value as at 31 March 2016 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	17,296	0.01%	17,298	17,294
Investment Assets				
UK quoted equities	98,337	10.56%	108,721	87,953
Overseas quoted equities	25,262	8.01%	27,285	23,239
UK Public Sector quoted Index-Linked Securities	55,655	8.43%	60,347	50,963
Overseas Public Sector quoted Index-Linked Securities	16,871	8.43%	18,293	15,449
UK Managed funds - Equities	177,082	10.56%	195,782	158,382
UK Managed funds - Bonds	112,128	4.57%	117,252	107,004
UK Unit Trusts - property	106,369	3.00%	109,560	103,178
Overseas Unit Trusts - Equities	149,059	8.01%	160,999	137,119
Private Equity/Infrastructure	49,928	4.86%	52,355	47,501
Net Derivative assets	(317)	0.00%	(317)	(317)
Investment income due	980	0.00%	980	980
Amounts receivable for sales	0	0.00%	0	0
Amounts payable for purchases	0	0.00%	0	0
Total Assets Available to pay benefits	**808,650**		**868,555**	**748,745**

Asset type	Value as at 31 March 2015 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £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	41,700	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	**801,108**		**856,221**	**743,299**

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

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

The fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2016 £000's**	**31 March 2015 £000's**
Cash	17,296	28,867
Fixed Interest Securities (Segregated)	72,526	64,834
Fixed Interest Securities (Pooled Funds)	112,128	109,014
Total	**201,950**	**202,715**

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 2016**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash	17,296	17,469	17,123
Fixed Interest Securities (Segregated)	72,526	73,251	71,801
Fixed Interest Securities (Pooled Funds)	112,128	113,249	111,007
Total change in assets available	**201,950**	**203,970**	**199,931**

Asset Type	**Carrying amount as 31 March 2015**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash	28,867	29,156	28,578
Fixed Interest Securities (Segregated)	64,834	65,482	64,186
Fixed Interest Securities (Pooled Funds)	109,014	110,104	107,924
Total change in assets available	**202,715**	**204,742**	**200,688**

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

The pension fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2016 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 2016 and as at the previous period ending 31 March 2015.

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

Currency exposure by asset type

	Asset value 31 March 2016	Asset value 31 March 2015
	£000's	£000's
Overseas Quoted Securities	25,262	36,181
Overseas Corporate Bonds	0	31,869
Overseas Index-Linked Bonds	16,871	40,191
Overseas Managed Funds	149,059	228,144
Private Equity/Infrastructure	49,928	49,684
	241,120	**386,069**

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 6.08%, based on the data provided by WM. A 6.08% 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 6.08% 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 2016	Change in the net assets available to pay benefits	
		+6.08%	-6.08%
	£000's	£000's	£000's
Overseas Quoted Securities	25,262	26,798	23,726
Overseas Index-Linked Bonds	16,871	17,897	15,845
Overseas Managed Funds	149,059	158,122	139,996
Private Equity/Infrastructure	49,928	52,964	46,892
	241,120	**255,780**	**226,460**

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	**409,350**	**362,789**

15. 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 agreements with Northern Trust hold 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 a 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 Lloyds Plc (which holds an A long-term credit rating or equivalent) and Natwest (BBB+) across the three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAf rated Northern Trust Money Market Fund that is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2016 was £1,579k (31 March 2015: £2,689k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2016	Rating	Balances as at 31 March 2015
Money market funds	**S&P**	**£000's**	**S&P**	**£000's**
Northern Trust Global Sterling Fund A	AAAf	100	AAAm	1,700
Bank current accounts				
Lloyds (Started 01/04/2015)	A	402		0
Natwest (Capita)	BBB+	1,077	A-	838
HSBC Plc (Changed to Lloyds 01/04/2015)	AA-	0	AA-	151
Total		1,579		2,689

Liquidity Risk - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.

The pension fund holds a working cash balance in its own bank accounts (Lloyds and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£1,579k). 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 2016 these assets totalled £574,611k, with a further £17,296k held in cash by fund managers.

16. 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%

17. 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 IAS 26 valuation are summarised below:

Description	**31 March 2016 % per annum**	**31 March 2015 % per annum**
Inflation /Pensions Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

An IAS 26 valuation was carried out for the fund as at 31 March 2016 by Hymans Robertson with the following results:

Description	**31 March 2016 £000's**	**31 March 2015 £000's**
Present Value of Promised Retirement Benefits	1,225,000	1,308,000
Assets	808,995	802,300
Deficit	416,005	505,700

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.

18. 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.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There are two members of the Pension Fund Committee who are deferred or retired members of the pension fund. These members are Cllr Philip Corthorne (Chairman), a deferred member; and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

Key management personnel

Two 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 2016 £000's	Accrued pension 31 March 2015 £000's
Corporate Director of Finance	1,259	1,241
Deputy Director - Strategic Finance	809	741

19. SECURITIES LENDING ARRANGEMENTS

On the 12 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 2016, securities worth £17,138k were on loan by Northern Trust from our portfolio and collateral worth £18,492k was held within the pool including Hillingdon. All collateral held were non-cash collaterals comprisng of various stocks and bonds. In the same period, a net income of £31k was received.

20. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

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

21. BULK TRANSFER

There were no bulk transfers into or out of the fund during the 2015/16 financial year.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2016 totalled £31,122k (£56,975k at 21 March 2015).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

23. 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.

24. POST BALANCE SHEET EVENTS

On the 23rd June 2016 the UK voted to leave the European Union (EU) "BREXIT". The referendum result has no impact on the figures included within the Pension Fund Accounts as at the 31st March 2016, however this stage, any potential future impact on the UK economy is not fully known. The Pension Fund is managed on a long-term basis and with a deficit recovery period of twenty five years, any short-term influences would be absorbed into the ongoing funding strategy. Risk mitigation is a primary driver in setting the Pension Fund's investment objectives, with currency and market movements being managed as part of the normal process. Initial impact on the Pension Fund has been positive with an upward movement in the value of the fund since the referendum decision.

POLICY STATEMENTS

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

Statement of Investment Principles

The Statement of Investment Principles (SIP) is kept continually under review and is updated whenever there is a change in Fund Manager or mandate. The last update was agreed by Committee in September 2015, and has been added to the website. Please use the following link to see the most recently published version: http://www.hillingdon.gov.uk/article/6492/Pension-fund. The SIP is due to be updated and reported to Committee in September 2016. The SIP will be replaced from April 2017 with a published Investment Strategy.

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 following the 2013 valuation. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund. The FSS sill be fully reviewed during 2016, following the 2016 valuation.

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was last approved by Committee in March 2014. It can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund. Once the transfer of administration to Surrey County Council is complete a full review of the Fund's communication strategy will be undertaken to align to Surrey's practices.

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/article/6492/Pension-fund . The local Pension Board has undertaken an in depth review of governance against the Pension Regulator checklist. The initial review showed a high level of compliance and a workplan is being developed to improve compliance further.

Risk Management Policy

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

Administration strategy

During 2016 it was agreed by Committee that best practice was to have an Administration Strategy. The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

A draft strategy was agreed by Committee in June 2016 for consultation with Fund employers. The strategy will be updated following feedback and should be approved by Committee in September 2016.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

CEB
'Capita Employee Benefits'. The administration of the LGPS was outsourced to CEB on 1 April 2012.

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

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.
Corporate Governance
The system by which organisations are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

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

Creditors
Amounts owed by the pension fund.

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

Debtors
Amounts owed to the pension fund.

Defined Benefit
A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

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

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

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

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

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

Equity
Stock or any other security representing an ownership interest.

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

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

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

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

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

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

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

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

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

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

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transition
To move from one set of investment managers to another

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

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

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

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

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