

London Borough of Hillingdon Pension Fund Annual Report 2018/19



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CHAIRMAN'S FOREWORD

By the end of 2018/19 the Fund had grown to just under £1,067 million, up from £1,012 million in 2017/18. The fund value increased by 5.02% compared to the benchmark of 6.05%, but above the long-term investment returns required for the funding strategy.

Membership of the scheme also continued to increase over the previous year in all membership categories. The Fund is borderline cash neutral on member transactions; as the scheme matures, with new contributions equivalent to monies paid out in benefits. As a result, cash flow is an ongoing discussion point for the Committee. The future trend will see cash flow from members becoming consistently negative, however the fund has income generating asset classes that will support the fund when this becomes the norm in activity.

Monitoring the Fund's specific investments and its strategy has kept the Committee busy over the last 12 months, particularly looking at further opportunities to invest via the London Collective Investment Vehicle (LCIV) and keeping abreast of governance issues within the pool to ensure assets are securely managed on the fund's behalf. As of 31 March 2019, 56% of the Fund's assets were held with the LCIV compared to 52% at the end of 2017/18. Hillingdon Pension Fund has actively participated in pooling of the fund assets and is keen to support the development of more sub-fund opportunities. It intends to increase its investment within the pool, as suitable offerings open which meet the strategic investment strategy of the Fund.

During the financial year, we have seen further work carried out by the Pension's Board who have been able to focus on key governance issues as well as update and create policy documentation. The board continues to ensure compliance with the Pension Regulator's code of practice with quarterly in-depth analysis into sections of the code. Both the Pensions Committee and Pensions Board have taken a strong interest in improving knowledge and skills and have an active training programme, training log and needs analysis for all members.

Further improvements have been seen with the administration of the fund, with a solid data score achieved in 2018 and data improvement projects in place to improve the score for 2019. KPI's for the Orbis administration team at Surrey County Council have also improved now the function has become more embedded, and Pensions Committee and Board review the administration functions quarterly to ensure this continues to improve and be well managed.

The Committee and Fund have many challenges coming up, including transition further towards a fully pooled position over the longer-term, whilst also reducing overall fees. In addition, the fund has recognised that ESG issues are increasing challenging and the Fund needs to ensure it has robust processes in place so that it can hold fund managers to account, and ensure investments are in line with Fund policies. In 2018/19 the Fund recognised climate change as a financial risk and

added this to the risk register. In addition cyber security was also included as a new risk.

Other challenges will arise out of the 2019 triennial valuation process as well as known and unknown political and economic challenges - including changing worldviews and priorities.

Cllr Philip Corthorne
Chairman Pensions Committee 2018/19

INTRODUCTION TO THE FUND

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

Hillingdon is the Administering Authority for the Fund. Pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees 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 as at 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. The benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. Contributions payable by Scheme members are also defined in the regulations. Employing Authorities are required to pay contributions into the Scheme 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 during the financial year 2018/19 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 they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension that would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, HMRC calculates a Guaranteed Minimum Pension (GMP), which is the minimum pension, which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions

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

Regulations

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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

A: OVERALL FUND MANAGEMENT

SCHEME MANAGEMENT AND ADVISERS

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

Corporate Director of Finance

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

Officers Responsible for the Fund

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

Sian Kunert	Head of Pensions Treasury and Statutory Accounts
Tunde Adekoya	Pension Fund Accountant
James Lake	Lead Corporate Accountant
Seby Carvalho	Pensions Technical Officer

Scheme Administration

Administration of the scheme was contracted out to Surrey County Council (SCC) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. SCC maintains pension scheme membership records and calculates benefits.

Email: myhelpdeskpensions@surreycc.gov.uk

Telephone: 020 8213 2802

Address: Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston upon Thames, KT1 2DN

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 management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2018/19, the following managers managed the Fund's investments externally:

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

Fund Pool and Pool Operator

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

Advisors to the Fund

The Fund's Investment Advisor is 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 had an Independent Advisor for 2018/19 - 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 Public Sector Audit Appointments (PSAA), 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

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RISK MANAGEMENT

Risk Management within the Governance Structure

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

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

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

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.

Responsibility

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

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

Risk Identification

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

Risks are identified by a number of means including, but not limited to:

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

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

Risk Management

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

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

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

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that

ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

A risk report, including the latest risk register 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 Pension 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 officer support to the Fund helps to further mitigate these risks.

The specific risks identified within the Pension Fund risk register as at March 2019 were:

1. Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term
2. Inappropriate long-term investment strategy
3. Active investment manager under-performance relative to benchmark
4. Pay and price inflation significantly more than anticipated
5. Pensioners living longer
6. Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary
7. Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 2018
8. Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals
9. Climate Change - Risk of financial loss through climate change impacts

Management of investment risk

Investments risk is the risk that investments assets underperform the assumed level in the triennial actuarial valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers.

The fund's investments risk is managed in line with the risk budget specified in the triennial actuarial valuation by the Fund's actuaries, Hymans Robertson. The valuation specifies the required rate of return on assets employed to ensure the main objective of the fund, meeting its obligation of paying Pensioners when due, is met. The officers of the Fund implement Pensions Committee decisions based on professional advice provided by engaged investment advisers, by constantly monitoring the Fund's asset allocation on a risk return basis. An asset allocation review is undertaken annually to ensure the required rate of returns are being met and adjustments made to the asset allocation if necessary to de-risk after consultation between the Fund's actuaries and investment advisers and such decisions are then presented to the Pensions Committee for consideration and ratification.

Third Party risk such as late payment of contributions

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

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

Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Adams Street Partners	SSAE 16 SOC 1	Reasonable Assurance	KPMG LLP
AEW UK Ltd	ISAE 3402	Reasonable Assurance	KPMG LLP
JP Morgan Asset management	SOC 1	Reasonable Assurance	PWC LLP
Legal & General Investments Management	AAF 01/06/ ISAE 3402	Reasonable Assurance	KPMG LLP
London CIV - Epoch	SOC 1	Reasonable Assurance	Ashland Partners & Company LLP
London CIV – Ruffer LLP	AAF 01/06/ ISAE 3402	Reasonable Assurance	Ernst & Young LLP

M&G	SOC 1 (Custodian Report by State Street)	Reasonable Assurance	Ernst & Young LLP
Macquarie Infrastructure Real Assets	Internal Controls Report	Reasonable Assurance	RMG Internal Audit (Macquarie Risk Management Group)
Northern Trust Company	SOC 1	Reasonable Assurance	KPMG LLP
Permira LLP	SOC 1	Reasonable Assurance	Ernst & Young LLP
UBS Asset Management	SOC 1	Qualified Opinion	Ernst & Young LLP

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

<http://www.hillingdon.gov.uk/article/6492/Pension-fund>

B: FINANCIAL PERFORMANCE

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

General Scheme membership

Membership of the scheme is split between

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

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

Membership Summary

	2018/19	2017/18	2016/17	2015/16
Active Members	9,015	8,591	8,684	8,267
Pensioners/Dependants	6,881	6,453	6,194	6,244
Deferred	9,643	8,510	7,225	6,658
Total Membership	25,539	23,554	22,103	21,169

CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2018/19 amounted to £44.6m compared to £77.2m for the previous year. The 42% decrease from previous year is attributable to the receipt of Bulk transfer sum of £31.1m from Harrow College in March 2018, because of its merger with Uxbridge College. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2018/19 were set from the 2016 valuation.

Analytical Review of Performance

	2018/19	2017/18	2016/17	2015/16
Pension Fund Account	£' 000	£' 000	£' 000	£' 000
Dealings With Members				
Contributions	44,663	77,191	42,707	42,012
Pensions	-46,642	-45,300	-41,596	-42,476
Net Additions/(Withdrawals) from Dealings with members	-1,979	31,891	1,111	-464

Management Expense	-8,833	-7,332	-8,385	-6,353
Net Investment Returns	22,649	15,203	16,004	15,511
Change In Market Value	35,501	15,834	137,690	-707
Net Increase/(Decrease) In Fund	47,338	55,596	146,420	7,987

Analysis of dealings with members

	2018/19	2017/18	2016/17	2015/16
	£' 000	£' 000	£' 000	£' 000
Contributions Receivable				
Employees	9,486	9,920	9,356	9,382
Employers	33,330	32,909	32,110	29,886
Transfers In - Individual Transfers In	1,489	3,313	1,241	2,744
Transfers In - Bulk Transfer In	0	31,049	0	0
Total Contributions	44,305	77,191	42,707	42,012

	2018/19	2017/18	2016/17	2015/16
	£' 000	£' 000	£' 000	£' 000
Benefits and Other payments				
Pensions	-36,423	-33,721	-32,435	-31,597
Lump Sum Retirements and Death Benefits	-7,593	-8,282	-6,918	-8,179
Transfers Out	-2,547	-3,235	-2,162	-2,603
Refunds	-79	-62	-81	-97
Total Payments	-46,642	-45,300	-41,596	-42,476

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

- Lump Sum Paid in 2018/19 reduced due to fewer retirements compared to 2017/18.
- Transfers In and Out for 2018/19 were lower as fewer members transferred their pensions both ways under the freedom of choice legislation compared to 2017/18.

Analysis of Operational Expenses

Analysis of Operational Expenses

	2018/19	2017/18	2016/17	2015/16
	£' 000	£' 000	£' 000	£' 000
Administration				
Employees	-355	-301	-272	-224
Outsourced Administration Costs	-433	-400	-588	-305
Support Services Charges	-52	-52	-42	-41
	-840	-753	-902	-570
Governance and Oversight				
Investment Advisory Services	-55	-81	-103	-103
Governance & Compliance	-12	-50	-484	-172
External Audit	-22	-20	-21	-21
Actuarial Fees	-7	-36	-114	-42
	-96	-187	-722	-338
Investment Management				
Management Fees	-5,934	-5,291	-5,359	-4,807
Performance Fees	-1,405	-525	-917	-279
Transaction Costs	-492	-520	-389	-251
Custodian fees	-66	-56	-96	-108
	-7,897	-6,392	-6,761	-5,445
Total Operational Expenses	-8,833	-7,332	-8,385	-6,353

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

- Governance and oversight costs reduced by about 49% due to reduced investment and actuarial advice activities, with most actuarial charges recharged to the various employing bodies as per requested services.
- Investment management expenses increased mainly due to increased performance related fees paid, because of the maturity profile of the Fund's alternative assets, which are coming to the end of their investment cycles.
- Ad-hoc data cleansing and GMP reconciliation projects by the Fund's administrators resulted in increased administration charges.

C: INVESTMENT POLICY AND PERFORMANCE

Investment Policy

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

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

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

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

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

The Fund's SIP can be found on the Fund's web page. For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

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

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment

- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

Fund Value and Asset allocation

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

Whilst managers 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 and alternative investments during the year.

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

The asset allocation as at 31 March 2019 is as follows:

Asset Category	Opening Value 01 April 2018	Strategic Weighting	Actual Weighting	Closing Value 31 March 2019	Strategic Weighting	Actual Weighting
	£'000	%	%	£'000	%	%
Equities	460,554	47	46	492,526	44	46
DGF	103,270	12	10	102,701	10	10
Bonds	154,480	12	15	211,512	14	20
Property	129,553	12	13	135,448	12	13
Alternatives:						
Private Equity	20,091	4	2	17,329	2	2
Infrastructure	28,307	3	3	29,133	3	3
Private Credit	66,387	10	7	69,390	10	7
Long Lease Property	0	0	0	0	5	0
Cash	47,460	0	5	8,086	0	1
Total	1,010,102	100	100	1,066,125	100	100

Asset Allocation Variances

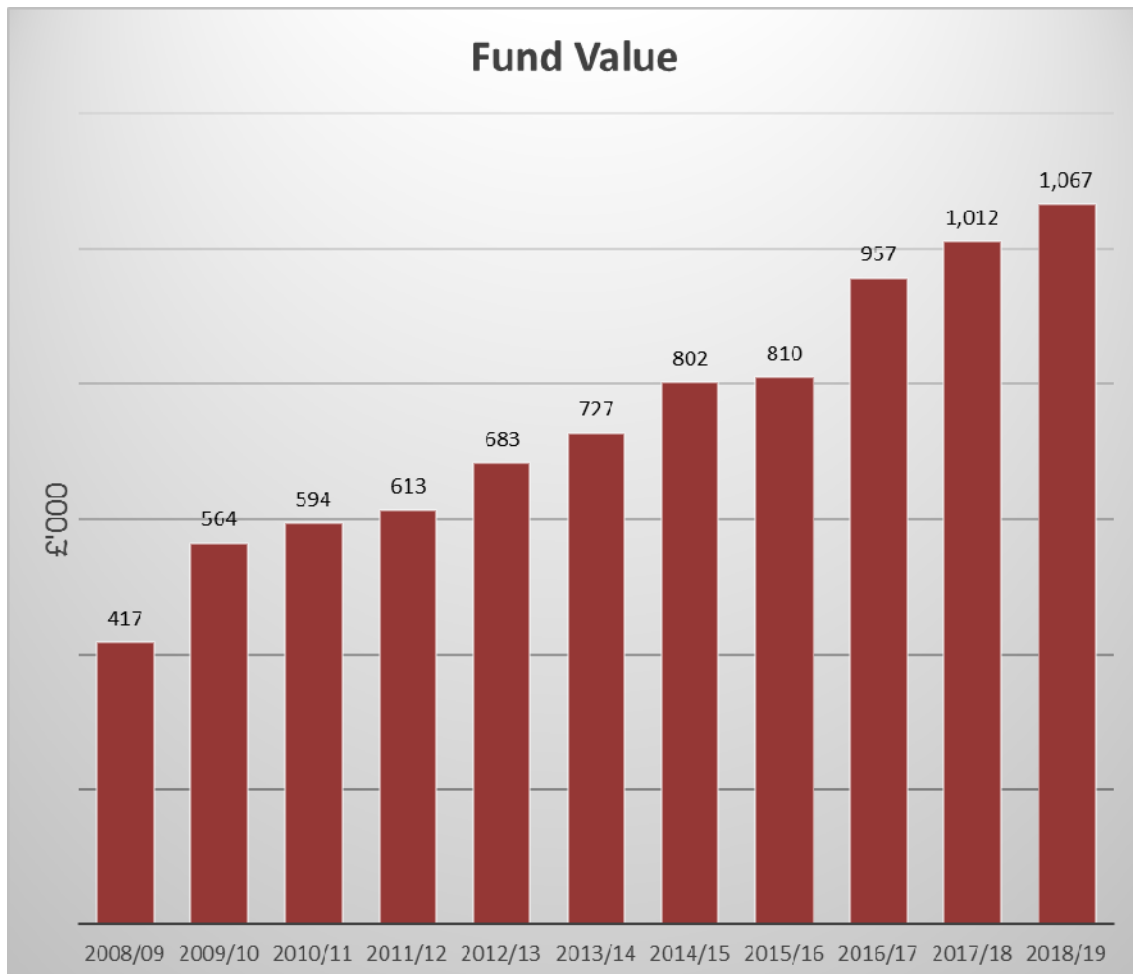
The table above shows a 6% variances between bond strategic and actual weightings compared to its strategic allocation due to the bond portfolio at LGIM being used to temporarily hold earmarked commitments for long lease property which currently shows a zero actual weighting and awaiting draw-down by the appointed manager, LGIM.

Weighting difference in Private Credit is mainly due to the winding down and return of investments in M&G as the investments in the fund are close to being completely liquidated.

Fund Value

The value of the fund has undergone significant increase over the last few years. Most of the gains has been attributable to buoyant world economies and financial markets. The biggest increase in fund value was in the last three years from 2016 – 2019 which saw the fund gain about £110 million.

Overall, the fund has more than doubled in value over the last ten years going from £417 million in 2008/09 to £1.067 Billion at the end of the 2018/19 financial year.



Funding Strategy Statement

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

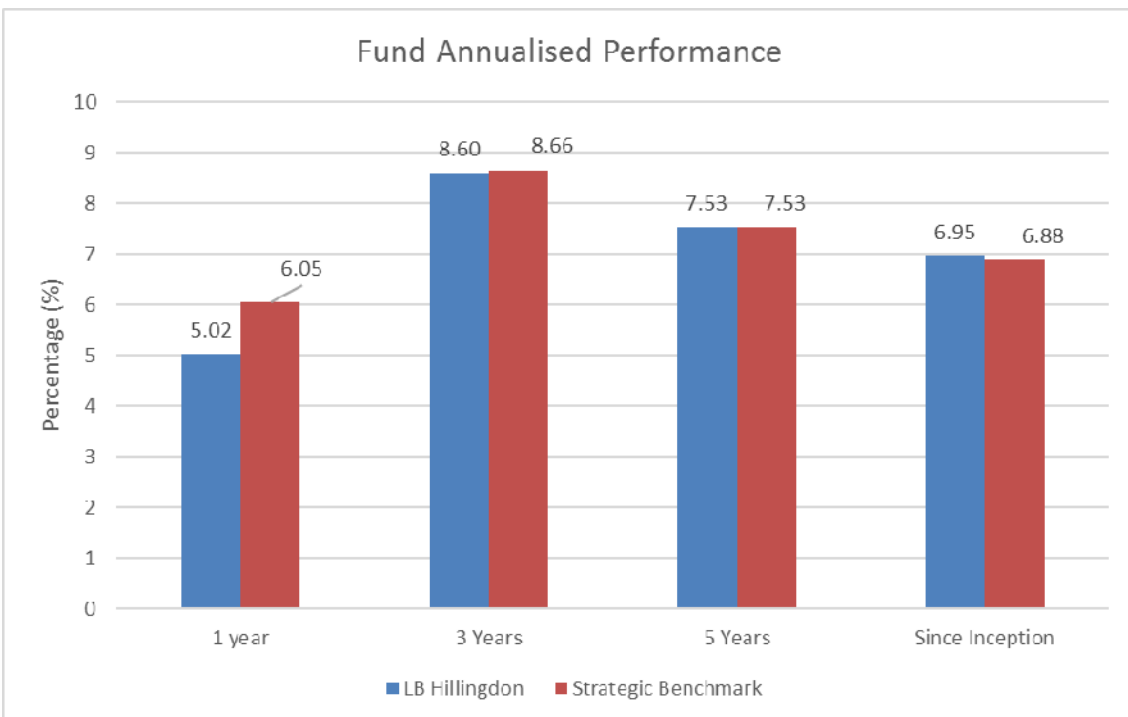
- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those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

The latest Funding Strategy Statement can be accessed via the Pension Fund Web page. file:///C:/Users/Babatundea/Downloads/Funding_Strategy_Statement.pdf

Investment Performance

Overall relative performance of the fund for the year 2018/19 was 0.96% below the overall benchmark. Across all performance measurement intervals of one, three and five years, the annualised returns were behind the respective benchmarks as shown in the chart below.

However, since inception relative performance was positive at 0.06 ahead of the benchmark

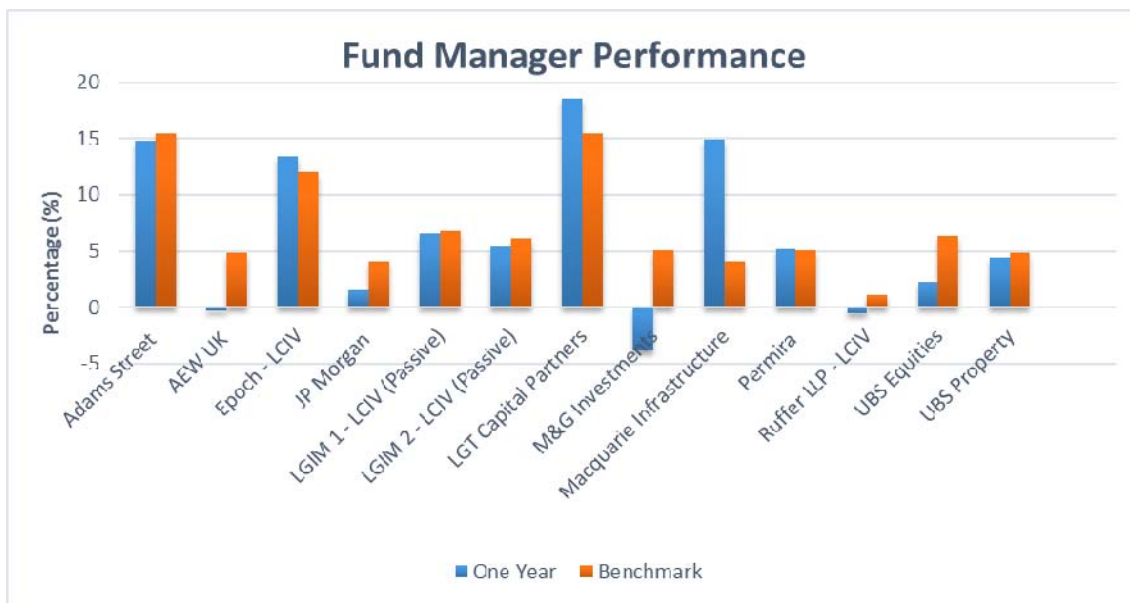


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee, which is supported by officers and the Fund’s independent investment advisor, KPMG

Investment Managers Performance

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



Fund Manager Performance 2018/19		
	One Year	Benchmark
	%	%
Adams Street	14.77	15.5
AEW UK	-0.32	4.88
Epoch - LCIV	13.42	11.98
JP Morgan	1.54	4.05
LGIM 1 - LCIV (Passive)	6.53	6.79
LGIM 2 - LCIV (Passive)	5.40	6.13
LGT Capital Partners	18.62	15.5
M&G Investments	-3.84	5.05
Macquarie Infrastructure	14.97	4.05
Permira	5.18	5.05
Ruffer LLP - LCIV	-0.55	1.05

UBS Equities	2.30	6.36
UBS Property	4.43	4.88

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

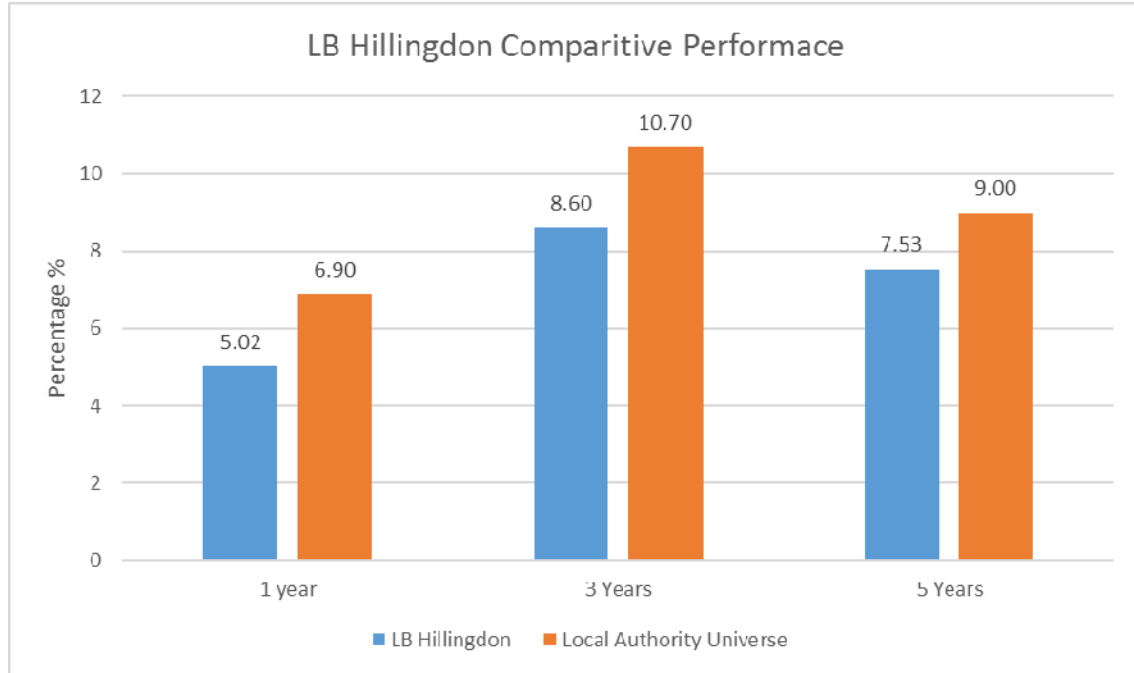
- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Adams Street, AEW UK, Epoch, JP Morgan (LCIV), LGT Capital, M&G, Macquarie, Permira, Ruffer (LCIV) UBS Equities and UBS Property
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Both LGIM mandates are passive.

Historical Fund Managers Performance and Benchmarks				
Benchmark	One Year	Three Years	Five Years	Benchmark
	%	%	%	
Adams Street	14.77	12.68	15.54	MSCI All Countries World Index
AEW UK	-0.32	6.41	0	IPD UK PPFi All Balanced Funds Index
Epoch – LCIV*	13.42	0	0	MSCI World ND
JP Morgan	1.54	4.22	3.14	LIBOR +3%pa
LGIM 1 - LCIV (Passive)*	6.53	0	0	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unHedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)*	5.4	0	0	Markit iBoxx £ Non-Gilt, FTSE A Govt Index-Linked (All Stocks), FTSE A Govt Index-Linked (Over 15 Year)
LGT Capital Partners	18.62	18.84	17.64	MSCI All Countries World Index
M&G Investments	-3.84	7.93	7.15	LIBOR +4%pa
Macquarie Infrastructure	14.97	15.45	15.78	LIBOR +3%pa
Permira	5.18	7.51	0	LIBOR +4%pa
Ruffer LLP - LCIV	-0.55	3.42	3.98	LIBOR
UBS Equities	2.3	12.35	6.45	FTSE All Share Ex-Tobacco
UBS Property	4.43	5.06	9.81	IPD UK PPFi All Balanced Funds Index

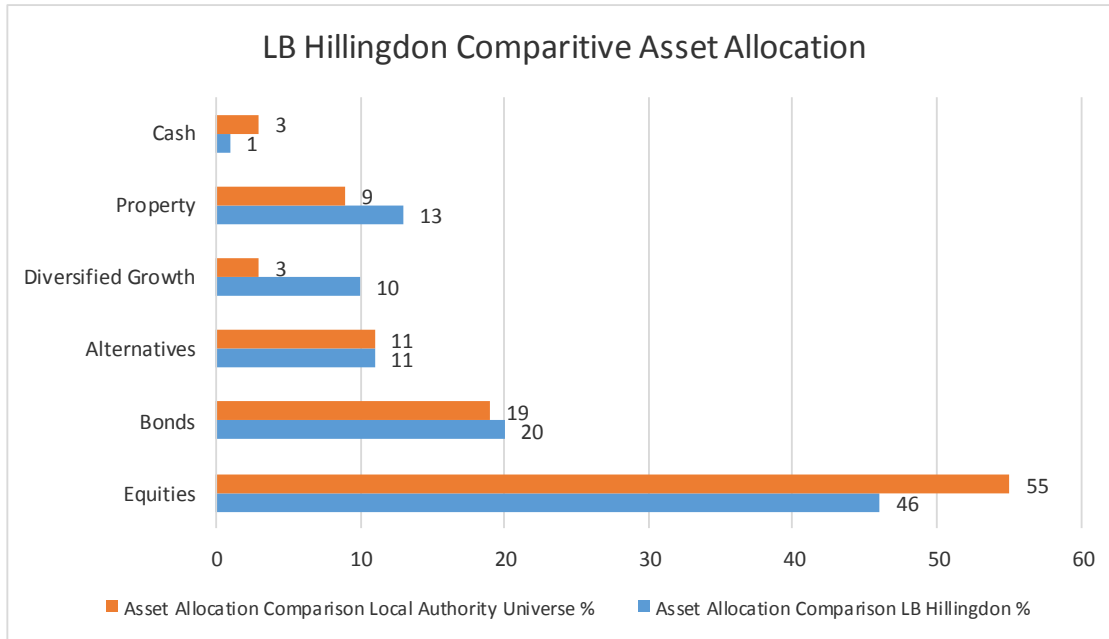
*Pooled Investments with London CIV. Three and five year returns unavailable

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

Comparative Performance



The graph above shows the fund's investment returns in comparison with Uk Local Authorities average over one, three and five year periods. The performance difference is mainly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund.



Note: Local Authority Universe information courtesy of PIRC

Responsible Investing

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

Where the Fund invests on a segregated basis, it requests the exclusion of investment within the Tobacco sector as part of the mandate. The Fund will not pursue policies that are contrary to UK foreign policy or UK defence policy.

The Fund’s approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

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

Exercise of voting rights

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

The Fund complies with the UK Stewardship Code and a statement of compliance that explains the arrangements supporting its commitment to each of the seven Myners principles.

Custody

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

Separation of Responsibilities

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

The Fund's bank accounts are held with Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank and the custodian, Northern Trust.

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

D. SCHEME ADMINISTRATION

Service Delivery

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

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

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

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

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number of key performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance	
		2017/18	2018/19
Death notification acknowledged, recorded and documentation sent	5 working days	90%	83%
Payment of death grant made	10 working days	93%	86%
Retirement notification acknowledged, recorded and documentation sent	10 working days	75%	94%
Payment of lump sum made	10 working days	84%	91%
Calculation of spouses benefits	10 working days	65%	84%
Transfers In - Quotes	20 working days	100%	92%
Transfers In - Payments	20 working days	100%	100%
Transfers Out - Quote	20 working days	55%	87%

Transfers Out - Payments	20 working days	77%	89%
Employer estimates provided	10 working days	84%	94%
Employee projections provided	10 working days	69%	84%
Refunds	20 working days	91%	96%
Deferred benefit notifications	20 working days	68%	88%

Staff shortages and legacy data integrity issues had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

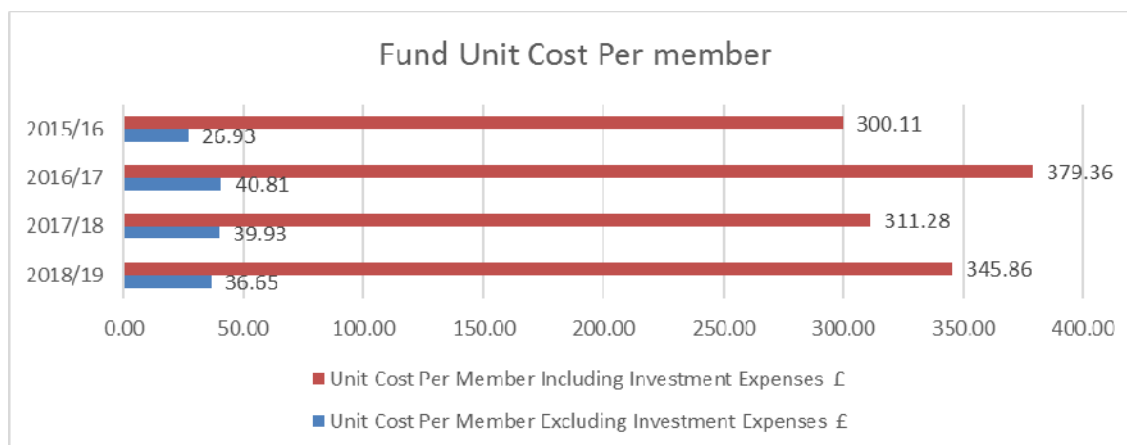
During 2018/19, staffing issues have been addressed with new appointments made to complement the existing work force ensuring improved efficiency and improvement in all areas of performance indicators above.

STAFFING COSTS ANALYSIS

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

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

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



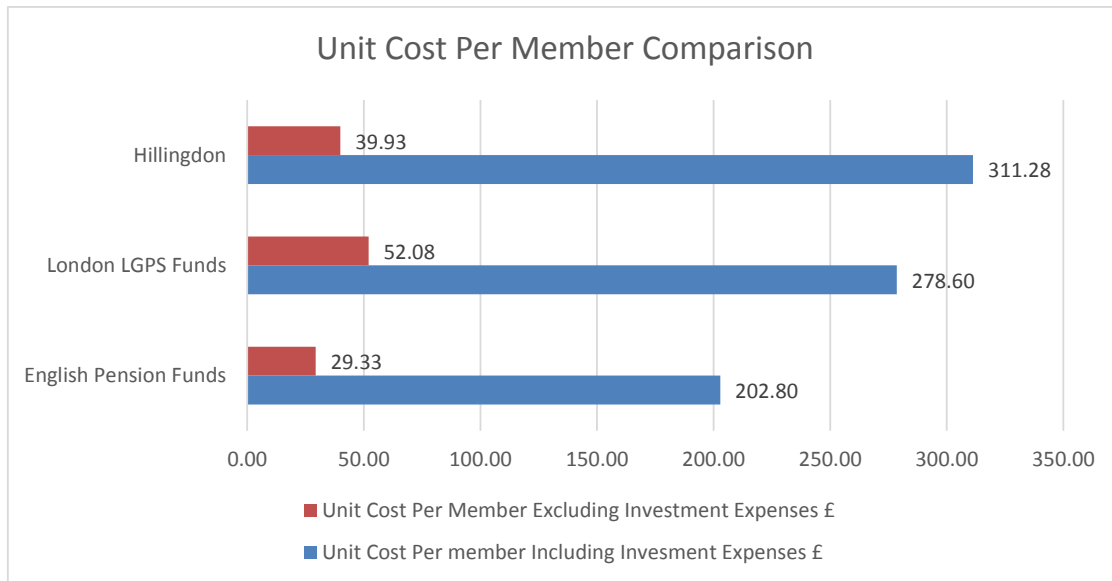
The staffing costs for the fund has increased with membership numbers over the years and the spike in 2016/17 coincided with the change in outsourced

administration contract from CAPITA to Surrey County Council run Orbis and the accompanying initial set up and data migration costs contributed largely to the high administration costs recorded during that year.

An increase in membership numbers of around 1,985 between 2017/18 to 2018/19 was largely responsible for the decrease in costs per member from £40 per head in 2017/18 to £37 per head in 2018/19.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2018/19 figures were yet to be released.

Membership costs comparison 2017/18



For the year 2017/18, the unit cost per member excluding investment expenses is about 25% higher than the average for Pension Funds in England but less than London Funds' average at £40 per member. The cost per member including Investment management expenses is about £311 per member and comes out higher than most English and London Pension Funds in comparison.

Comparative Figures obtained from ONS SF3 published information for 2017/18.

MEMBERSHIP

Active and deferred membership continued to grow over the last four financial years. The most significant movement year-on-year is the increase in deferred membership by 1,133 and overall scheme membership increased year-on-year by 7.8% to 25,539 from 23,554 in 2017/18. The membership profile over the last four years is shown below:



Overall membership has increased by almost 21% in the last five years from 20,164 to 25,539.

The biggest jump has been deferred membership which has increased from 6,051 to 9,643 in five years, representing an increase of 37%. Auto enrolment, introduced in April 2013 has been a contributory factor to the increase in active membership over the same five year period by 11%.

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

Reasons for leaving	2014/15	2015/16	2016/17	2017/18	2018/19
Ill-Health Retirement	8	6	3	8	8
Redundancy	23	19	34	58	39
Total	31	25	37	66	47

COMPLAINTS

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

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

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2018/19 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	23,181,784.39	23.1
Barnhill Academy	Scheduled Body	276,954.62	24.9
Belmore Academy	Scheduled Body	194,720.02	24.1
Bishop Ramsey Academy	Scheduled Body	281,012.66	25.2
Bishopshalt Academy	Scheduled Body	310,362.98	28.8
Charville Academy	Scheduled Body	179,362.88	24.3
Coteford Academy	Scheduled Body	125,415.99	27.1
Cowley St. Laurence School	Scheduled Body	121,512.33	24.9
Cranford Park Academy	Scheduled Body	272,686.26	24.8
Douay Martyrs Academy	Scheduled Body	237,246.02	26.9
Eden Academy	Scheduled Body	199,153.93	21.7
Global Academy	Scheduled Body	97,034.71	17.3
Grangewood School	Scheduled body	248,114.09	21.7
Guru Nanak Academy	Scheduled Body	292,368.92	22.4
Harefield Academy	Scheduled Body	207,689.42	22.3
Haydon Academy	Scheduled Body	360,641.88	25.1
Heathrow Aviation	Scheduled Body	26,650.89	18.8
Hillingdon Primary School	Scheduled Body	177,542.92	23.5
John Locke Academy	Scheduled Body	74,282.33	19.1
Lake Farm School	Scheduled Body	131,576.02	18.9
Laurel Lane Academy	Scheduled Body	121,990.92	24.9
LBDS Frays Academy Trust	Scheduled Body	48,558.88	24.9
London Housing Consortium	Scheduled Body	364,794.09	23.1
Moorcroft School	Scheduled Body	172,423.38	21.7
Nanaksar Primary School	Scheduled Body	46,297.10	20.4
Northwood Academy	Scheduled Body	128,093.12	23.8
Park Federation	Scheduled Body	60,638.80	24.8

Park West Academy	Scheduled Body	121,592.53	21.0
Pentland Field School	Scheduled Body	259,936.85	21.7
Pinkwell School	Scheduled Body	276,362.03	26.6
Queensmead Academy	Scheduled Body	262,270.53	21.8
Rosedale Hewens Academy	Scheduled Body	312,818.55	23.9
Ruislip Academy	Scheduled Body	200,669.30	25.9
Ryefield Academy	Scheduled Body	131,551.34	28.9
Skills HUB – Orchard Hill College	Scheduled Body	89,614.20	29.6
St. Matthews Primary School	Scheduled Body	85,833.60	24.9
St. Martins primary School	Scheduled Body	84,855.30	24.9
Swakeleys Academy	Scheduled Body	194,796.89	23.9
Uxbridge College	Scheduled Body	1,845,451.77	23.8
Uxbridge Academy	Scheduled Body	289,343.61	21.5
Vyners Academy	Scheduled Body	233,359.93	25.7
West Primary School	Scheduled Body	157,212.92	25.5
William Byrd Primary School	Scheduled Body	174,902.34	26.6
Willows Academy	Scheduled Body	72,528.86	32.5
Wood End Academy	Scheduled Body	224,135.49	23.0
Young Peoples Academy	Scheduled Body	83,250.17	29.6
Braybourne Facilities	Admitted Body	11,198.21	29.3
Busy Bee	Admitted Body	1,273.84	32.3
Caterlink – Frays Academy	Admitted Body	16,615.54	28.3
Caterplus – Genuine Dining	Admitted Body	16,128.26	22.1
Churchill (was Mitie Cleaning)	Admitted Body	15,189.56	42.1
Cucina - Haydon Academy	Admitted Body	8,743.15	34.4
Cucina – Ruislip Academy	Admitted Body	3,421.65	28.0
Greenwich Leisure	Admitted Body	65,321.54	0.0
Hayward Services – Ruislip	Admitted Body	1,626.61	34.2
Hayward Services - Highfield	Admitted Body	7,200.94	32.4
Hayward Services - Hillingdon	Admitted Body	7,039.75	33.4
Heathrow Travel Care	Admitted Body	43,041.83	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	49,658.18	25.2
Kingdom Security	Admitted Body	11,969.66	23.1
NHS – Michael Sobell House	Admitted Body	10,484.20	31.5
Taylor Shaw	Admitted Body	7,926.25	34.5
Pantry – Whiteheath School	Admitted Body	1,997.84	32.9
Pantry – Frithwood & Hillside Schools	Admitted Body	2,011.28	31.8
Pantry – Yeading School	Admitted Body	2,375.28	32.6
Pabulum – West Drayton Primary School	Admitted Body	8,270.33	34.4
Total		33,330,889.66	

Analysis of Fund Membership Data

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

2018/19	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Bodies	45	0	45
Admitted Bodies	20	0	20
	66	0	66

E. REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund (“the Fund”) Actuarial Statement for 2018/19

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), dated March 2017. 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 (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 to return their portion of the Fund to full funding over 25 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 a better than 70% chance that the Fund will return to full funding over 25 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This

valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £810 million, were sufficient to meet 75% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £269 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.6 years	24.6 years
Future Pensioners*	24.0 years	26.5 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding level.

Craig Alexander FFA
For and on behalf of Hymans Robertson LLP
12 April 2019

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

F: GOVERNANCE

Pension Committee

The Pensions Committee is the formal decision making body for the Fund. The Committee consists of five Councillor Members, all with voting rights. During 2018/19 these were:



Councillor
Philip Corthorne
(Chairman)



Councillor
Martin Goddard
(Vice-Chairman)



Councillor
Teji Barnes



Councillor
Tony Eginton
(Labour Lead)



Councillor
John Morse

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

Record of Attendance

Name	Meetings attended
Cllr Philip Corthorne	4/4
Cllr Martin Goddard	4/4
Cllr Teji Barnes	4/4
Cllr Tony Eginton	4/4
Cllr John Morse	4/4

Local Pension Board

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

The members of the Board meetings during 2018/19 were:

Employer Representatives:

Zak Muneer (from July 2018)
Hayley Seabrook (from July 2018)

Scheme Member Representatives:

Roger Hackett
Venetia Rogers (to December 2018)
Tony Noakes (from January 2019)

Record of Attendance

Four Meetings were held in 2018/19; April 2018, September 2018, November 2018 and February 2019

Name	Meetings attended
Zak Muneer	3/3
Hayley Seabrook	3/3
Roger Hackett	4/4
Venetia Rogers	3/3
Tony Noakes	1/1

Note: For the April 2018 meeting the employer representative positions were vacant, under active recruitment

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

Knowledge and Skills

The CIPFA Knowledge and Skills framework has been utilised to track training needs of both Pensions Committee and Pensions Board with some addition categories on asset classes and investment topics for Pension Committee members to ensure investment decisions are supported with knowledge in those areas. All members

have been asked to complete a review scoring themselves against each topic from 1-5 of knowledge with 5 being highly skilled and 1 being no knowledge.

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

New Pension Committee members were enrolled on a comprehensive 2 day training programme covering all areas of the knowledge and skills framework including asset pooling to start to build their knowledge from the outset of their commitment to the committee. New Employer representative Board members were enrolled on an introduction to the LGPS when joining the Board.

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

Training Received in 2018/19

	Cllr Corthorne (Chair)	Cllr Goddard	Cllr Eginton	Cllr Morse	Cllr Barnes
The Legislative Framework and Structure of the LGPS, Key Governance Requirements and the Pensions Regulator's Code of Practice, Contributions and Benefits, Current 'Hot Topics' in the LGPS	N	Y	N	Y	Y
Introduction to the Hillingdon fund and strategy	Y	Y	Y	Y	Y
Understanding Funding – Actuarial Methods, Standards and Practices, Investment Strategy, Financial Markets, Monitoring Investment Performance, Asset Pooling	N	Y	N	Y	Y
Infrastructure Equity and Debt	Y	Y	Y	Y	Y
Introduction to Infrastructure	N	Y	N	N	N
Roles and Responsibilities & Regulation	Y	Y	Y	Y	Y
Inflation and UK I/L Bonds Vs US TIPS	Y	Y	Y	Y	Y

	Hayley Seabrook	Zak Muneer	Venetia Rogers	Roger Hackett	Tony Noakes
Introduction to the Hillingdon fund and strategy	Y	Y	N	Y	
Introduction to the LGPS	Y	Y	N		
CIPFA LGPS Local Pension	Y	Y	N	Y	

Board Members' Autumn Seminar					
Introduction to Infrastructure	Y	Y	N	Y	
Roles and Responsibilities & Regulation	Y	Y		Y	
Cyber Security	Y	Y		Y	Y
CIPFA LGPS Local Pension Board Members' Spring Seminar	Y	Y		Y	Y
Inflation and UK I/L Bonds Vs US TIPS	Y	N		N	N

Further Information can be found in Appendix 1 with the full governance and compliance policy for the fund.

In January 2019 the Pensions Board reported to pensions Committee to explain work completed between September 2017 and December 2019. The report to Committee has been included here.

ANNUAL REPORT TO PENSIONS COMMITTEE

Committee	Local Pension Board
Officer Reporting	Sian Kunert
Papers with report	None

REASON FOR ITEM

The report is compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since the last report presented in Pensions Committee in September 2017 and to meet the legislative requirement for producing an annual report.

INFORMATION

1. The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.
2. The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:
 - Secure compliance with the regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
 - To ensure the effective and efficient administration of the Scheme.
3. London Borough of Hillingdon Council ratified the establishment of the Board on 6th November 2014 to commence with effect from 1st April 2015. Council at its meeting 02 November 2017 agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two scheme member representatives.

Membership and Attendance at Meetings

4. The membership of the local Pension Board is:

Employer Representatives:

- Hayley Seabrook (Hillingdon Council)
- Zak Muneer (LHC)

Scheme Member Representatives:

- Venetia Rogers
 - Roger Hackett
5. Attendance at meetings has been high with all members in attendance where positions have been filled.
 6. AON Hewitt is appointed as Governance advisers to support the development and work of the local Pension Board and attend meetings as necessary.

Training

7. Relevant external training opportunities are made available to Board Members and have been well supported, in particular with regular attendance at quarterly local board specific training sessions held by CIPFA. Pension Board members also utilise internal training opportunities by attending Pension Committee where a training item starts each meeting.
8. Using CIPFA's Training Needs analysis, specific training needs have been identified, and will continue to be identified, and will be built into future training. The new members plan to complete their frameworks within the next quarter.

Work of the Local Pension Board

9. Meetings are held shortly after each Pensions Committee. Since the annual report in September 2017, there was one meeting held under the old board structure in October 2017 and three since the structural changes in November 18; April 18, September 18 and November 18.
10. Each meeting undertakes a review of the most recent Pensions Committee reports and decisions, raising any issues for clarification with officers. To date there have been no issues referred back to Pensions Committee. All committee papers are shared with Board Members who are encouraged to attend committee meetings to fully understand the reports.
11. Terms of Reference for the Board:
 - i. The Pensions Board will be chaired by a member chosen by the group
 - ii. The frequency of the Pensions Board will be determined by the Board.
 - iii. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
 - iv. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;

- v. To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
- vi. To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
- vii. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. (NB: Being a member of the LGPS is not seen as a conflict of interest.)

12. The key work of the Pension Board in the past year have related to understanding changes in regulation, reviewing performance of the administration of the fund and to improve Fund governance and in ensuring compliance with the Pension Regulator's code of practice by carrying out a refresh to monitor improvements. Pension Board have undertaken some significant pieces over the past year including:

- Reviewed publications to fund members
- Carried out a refresh against Pension regulator's compliance checklist and agreement of actions for improvement; and
- Monitoring the performance of the Pensions Administration by Surrey County Council.

13. In understanding governance of the Fund the Pension Board have challenged officers in specific areas of administration and governance arrangements including:

- - a. Whether the fund has sufficient resources available,
 - b. Implementation and publicity of self service module for pensioners, actives and deferred members
 - c. Data quality and improvement
 - d. GMP
 - e. GDPR
 - f. Cyber Security
 - g. ABS production
 - h. Member training
 - i. Review of Pension Committee papers and decision making process

G: FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

The Council is required to:

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

2. Corporate Director of Finance Responsibilities

The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ('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 31st March 2019 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
30 October 2019

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that the Pension Fund accounts were considered by Pensions Committee at the meeting held on 17 July 2019.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 30 October 2019.

Cllr Martin Goddard
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)
30 October 2019

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2019 £'000	31 March 2018 £'000
Contributions	4	43,176	42,829
Transfers In from other pension funds	5	1,487	34,362
		44,663	77,191
Less: Benefits	6	(44,016)	(42,003)
Less: Payments to and on account of leavers	7	(2,626)	(3,297)
		(46,642)	(45,300)
Net additions/(withdrawals) from dealings with members		(1,979)	31,891
Less: Management expenses	8	(8,833)	(7,332)
Net additions/(withdrawals) including fund management expenses		(10,812)	24,559
Return on investments			
Investment income	9	22,732	15,289
Profit and losses on disposal of investments and changes in market value of investments	10A	42,843	15,834
Taxes On Income		(83)	(86)
Net return on investments		65,492	31,037
Net Increase in the fund during the year		54,680	55,596
Net Assets at start of year		1,012,303	956,707
Net Assets at end of year		1,066,983	1,012,303

NET ASSETS STATEMENT

		31 March 2019 £'000	31 March 2018 £'000
Investment Assets	10	1,066,215	1,010,428
Investment Liabilities	10	(89)	(326)
Total net investments		1,066,126	1,010,102
Current Assets	11	1,424	2,480
Current Liabilities	12	(567)	(279)
Net assets of the fund available to fund benefits at the end of the reporting		1,066,983	1,012,303

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

Andrew Evans
Deputy Director Corporate Finance
31 July 2019

Notes to the Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the fund.
- Admitted bodies, which participate in the fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

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

Admitted Bodies:

Braybourne Facilities

Bishop Ramsey Cleaners

Caterlink

Frays Academy

Caterplus

Churchill Services - Mitie & McMillan Cleaning

Cucina

Haydon Academy

Ruislip High School

Greenwich Leisure

Hayward Services

Ruislip Academy

Highfield Primary

Hillingdon Primary

Pabulum – *West Drayton Academy* (Start date April 2018)

Busy Bee Cleaning – *Skills Hub* (Start date August 2018)

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Security

Mitie Facilities Management

NHS - Michael Sobel House

The Pantry

Whiteheath Infant

Warrender School

Frithwood School

Hillside School

Taylor Shaw

Haydon Academy

Scheduled Bodies:

Middlesex Partnership Trust

Barnhill Academy

Belmore Academy

London Housing Consortium

Orchard Hill College Academy Trust

Skills HUB (formerly Hillingdon Tuition Centre)

Notes to the Pension Fund Account

Bishop Ramsey Academy	<i>Central Payroll</i>
Bishopshalt Academy	<i>Young Peoples Academy</i>
Charville Academy	Park Federation Trust
Douay Martyrs Academy	<i>Central Payroll</i>
Eden Academy Trust	<i>Cranford Park Academy</i>
<i>Moorcroft School</i>	<i>Lake Farm Park Federation</i>
<i>Pentland Field School</i>	<i>Wood End Academy</i>
<i>Grangewood School</i>	<i>West Drayton Academy</i>
Elliot Foundation Trust	QED Academy Trust
<i>Hillingdon Primary School</i>	<i>Coteford Academy</i>
<i>John Locke Academy</i>	<i>Queensmead Academy</i>
<i>Pinkwell School</i>	<i>Northwood Academy</i>
Guru Nanak Academy Trust	Rosedale Hewens Academy Trust
<i>Nanak Sar Primary School</i>	<i>Rosedale Primary & College</i>
<i>Guru Nanak Sikh Academy</i>	<i>Hewens Primary & College</i>
Global Academy	<i>Brookside Primary School</i>
Harefield Academy	Vanguard Learning Trust
Harrow & Uxbridge College	<i>Ruislip High School</i>
Haydon Academy	<i>Ryefield Primary School</i>
Heathrow Aviation Engineering	<i>Vyners Academy</i>
LBDS Frays Academy Trust	Stockley Academy
<i>Cowley St. Lawrence Academy</i>	Swakeleys Academy
<i>Laurel Lane Academy</i>	Uxbridge Academy
<i>St. Matthews Primary School</i>	William Byrd School
<i>St. Martins Primary School</i>	Willows Academy

As at 31 March 2019, there were 9,015 active members contributing to the fund, with 6,881 members in receipt of benefit and 9,643 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2019	31 March 2018
Number of employers with active members	65	62
Number of employees in scheme		
London Borough of Hillingdon	5,613	5,401
Other employers	3,402	3,190
Total	9,015	8,591
Number of Pensioners		
London Borough of Hillingdon	6,294	6,106
Other employers	587	347
Total	6,881	6,453
Deferred Pensioners		
London Borough of Hillingdon	7,483	7,135
Other employers	2,160	1,375
Total	9,643	8,510

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.

Notes to the Pension Fund Account

d. Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e. Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2018/19:

Pensions Committee

Cllr Phillip Corthorne (Chairman)
Cllr Martin Goddard (Vice-Chairman)
Cllr Teji Barnes

Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)

Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

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 2018/19, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis, and summarise the fund transactions and report on the net assets available to pay pension benefits as at 31 March 2019.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2019).

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.

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.

Notes to the Pension Fund Account

- 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 administering authority's payment system and recharged to the Pension fund.
- f. Interest on property developments - property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.
- g. 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 and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

- l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2019 was £115,893k (£114,879k at 31 March 2018).
- m. Assumptions made about the future and other major sources of estimation uncertainty - The pension fund accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £17,329k. There is a risk that this investment may be under or overstated in the accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2018. 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 £29,133k. 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 £7,956k. 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 £61,434k. 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 liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2019 by the fund's actuaries.

Notes to the Pension Fund Account

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

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	137
0.5% p.a. increase in the Salary Increase Rate	1%	22
0.5% p.a. decrease in the Real Discount Rate	10%	169

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

4. CONTRIBUTIONS

By category	31 March 2019 £'000	31 March 2018 £'000
Employees	9,846	9,920
Employers Contributions:		
Normal	27,465	27,356
Deficit Funding	5,865	5,553
	43,176	42,829

Deficit Funding: At the actuarial valuation on 31 March 2016 the fund was 75% funded, with the remaining 25% deficit to be recovered over a period of 25 years. The new actuarial valuation results are due to be released in Q3, 2019.

By authority	31 March 2019 £'000	31 March 2018 £'000
LB Hillingdon	30,267	30,938
Scheduled Bodies	12,509	11,484
Admitted Bodies	400	407
	43,176	42,829

5. TRANSFERS IN

	31 March 2019 £'000	31 March 2018 £'000
Individual transfers in from other schemes	1,487	3,313
Bulk Transfers In	0	31,049
	1,487	34,362

Notes to the Pension Fund Account

6. BENEFITS

	31 March 2019 £'000	31 March 2018 £'000
By category		
Pensions	(36,423)	(33,721)
Commutations and Lump Sum Retirement Benefits	(6,750)	(7,607)
Lump Sum Death Benefits	(843)	(675)
	(44,016)	(42,003)

	31 March 2019 £'000	31 March 2018 £'000
By authority		
LB Hillingdon	(40,973)	(40,220)
Scheduled Bodies	(2,579)	(1,428)
Admitted Bodies	(464)	(355)
	(44,016)	(42,003)

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2019 £'000	31 March 2018 £'000
Refunds to members leaving service	(79)	(62)
Individual transfers out to other schemes	(2,547)	(3,235)
	(2,626)	(3,297)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2019 as follows:

	31 March 2019 £'000	31 March 2018 £'000
Administrative Costs	(840)	(753)
Investment Management Expenses	(7,897)	(6,392)
Oversight and Governance	(96)	(187)
	(8,833)	(7,332)

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2019 £'000	31 March 2018 £'000
Management Fees	(5,934)	(5,291)
Performance Related Fees	(1,405)	(525)
Custody Fees	(66)	(56)
Transaction Costs	(492)	(520)
	(7,897)	(6,392)

Notes to the Pension Fund Account

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2019 £'000	31 March 2018 £'000
Equities	(28)	(14)
Pooled Investments	(464)	(506)
	(492)	(520)

8C. EXTERNAL AUDIT COSTS

	31 March 2019 £'000	31 March 2018 £'000
Payable in Respect of External Audit	(22)	(20)
	(22)	(20)

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

9. INVESTMENT INCOME

	31 March 2019 £'000	31 March 2018 £'000
Income from Equities	6,254	5,294
Private Equity Income	0	11
Pooled Property Investments	4,713	4,838
Pooled Investments- Unit trusts and other managed funds	11,266	5,496
Interest on cash deposits	110	55
Other (for example from stock lending or underwriting)	389	(405)
	22,732	15,289

Notes to the Pension Fund Account

10. INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Investment Assets		
Equities	128,054	128,306
Pooled investments	774,128	679,908
Pooled property investments	135,049	127,808
Private equity	17,329	20,091
Other Investment balances		
Cash deposits	10,472	53,558
Investment income due	1,183	757
Total investment assets	1,066,215	1,010,428
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	(89)	(326)
Net investment assets	1,066,126	1,010,102

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2019 £'000
2018/19					
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,128
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	956,113	509,743	(447,707)	36,411	1,054,560
Forward Foreign Exchange	0	0	0	0	0
	956,113	509,743	(447,707)	36,411	1,054,560
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	1,010,428			42,843	1,066,215
	Value 1 April 2017 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value 31 March 2018 £'000
2017/18					
Equities	123,992	257,437	(254,089)	966	128,306
Pooled Investments	672,256	197,317	(188,869)	(796)	679,908
Pooled Property Investments	114,894	4,006	0	8,908	127,808
Private Equity	27,128	370	(9,669)	2,262	20,091
	938,270	459,130	(452,627)	11,340	956,113
Forward Foreign Exchange	0	12	(19)	7	(0)
	938,270	459,142	(452,646)	11,347	956,113
Other investment balances					
Cash Deposits	16,276			(575)	53,558
Investment Income Due	644				757
Adjustments to Market Value Changes				5,062	
Total Investment Assets	955,190			15,834	1,010,428

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2019 £'000	31 March 2018 £'000
Equities		
UK		
Quoted	128,054	128,306
	128,054	128,306
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	82,707	56,312
Other Unit trusts - Quoted	249,858	233,063
Unitised insurance policies - Quoted	343,000	295,839
Limited liability partnerships - Unquoted	98,564	94,694
	774,129	679,908
Pooled property Investments - Unquoted	135,049	127,808
Private equity - Unquoted	17,329	20,091
Cash deposits	10,472	53,558
Investment income due	1,183	757
	164,032	202,214
Total investment assets	1,066,215	1,010,428
Investment liabilities		
Purchase Settlements Outstanding	(89)	(326)
Total investment liabilities	(89)	(326)
Net investment assets	1,066,126	1,010,102

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2019 £'000	%	Market Value 31 March 2018 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	343,000	32	295,839	29
London CIV Asset Pool	249,858	24	233,020	23
	592,858	56	528,859	52
Investments Managed Outside of London				
Adams Street Partners	12,654	1	13,565	1
AEW UK	58,927	6	54,361	5
JP Morgan Asset Management	82,707	8	56,312	6
LGT Capital Partners	4,675	0	6,526	1
M&G Investments	7,956	1	12,419	1
Macquarie Infrastructure	29,133	3	28,307	3
Permira Credit Solutions	61,434	6	53,968	5
UBS Global Asset Management (Equities)	131,174	12	133,133	13
UBS Global Asset Management (Property)	76,521	7	75,192	7
Other*	8,086	1	47,460	5
	473,268	44	481,243	48
Total	1,066,126	100	1,010,102	100

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

There are no fund investments which constitute more than 5% of net assets of the scheme.

Notes to the Pension Fund Account

10D. STOCK LENDING

The fund's investment strategy sets the parameters for the fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £17,125k (31 March 2018: £31,377k). These equities continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £18,428k (31 March 2018: £34,288k) representing 108% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

11. CURRENT ASSETS

	31 March 2019 £'000	31 March 2018 £'000
Debtors		
Employers' contributions due	68	50
Employees' contributions due	17	16
Cash balances	1,339	2,414
	1,424	2,480

12. CURRENT LIABILITIES

	31 March 2019 £'000	31 March 2018 £'000
Creditors		
Other local authorities (LB Hillingdon)	(223)	(8)
Other entities	(344)	(271)
	(567)	(279)

Note: Other entities balance is due to the pension fund from bodies external to the government e.g. fund managers.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2019 £'000	Market Value 31 March 2018 £'000
Prudential Assurance Company	5,086	5,546
	5,086	5,546

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, £180k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

Notes to the Pension Fund Account

14. FAIR VALUE - BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019. It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2019 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	29,133	30,839	25,232
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	69,390	75,372	61,668
Private Equity	5%	17,329	17,528	15,858
Venture Capital	5%	41	43	39
Total		115,893	123,782	102,797

Notes to the Pension Fund Account

14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	810,613	115,893	1,054,560
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	139,620	810,613	115,893	1,066,126

Values as at 31 March 2018	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,307	712,927	114,879	956,113
Loans and Receivables	54,315	0	0	54,315
Financial Liabilities at Fair Value through Profit and Loss	(326)	0	0	(326)
Net investment Assets	182,296	712,927	114,879	1,010,102

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2018/19.

Notes to the Pension Fund Account

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2018	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	20,091	201	(6,509)	196	3,350	17,329
Private Finance - M&G	12,472	0	(3,886)	(1,646)	1,016	7,956
Infrastructure - Macquarie	28,307	1,493	(4,193)	2,065	1,461	29,133
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	53,968	12,063	(5,568)	(201)	1,172	61,434
	114,879	13,757	(20,156)	414	6,999	115,893
Other investment balances	0				0	0
Total Investment Assets	114,879				6,999	115,893

There were no transfers in or out of level 3 assets in 2018/19.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G

The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cash flows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

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

Notes to the Pension Fund Account

available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Private Finance: M&G

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

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.
- Each valuation is reviewed to ensure:
 - Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
 - That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie

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

DCF-Based Market Valuation Process

Financial Model

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

Update for Economic, Operational and Financial Assumptions

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

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

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

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

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.

Notes to the Pension Fund Account

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

Private Equity

Market valuation method applied to investments is sensitive to four main components:

- i) changes in actual market prices;
- ii) interest rate risk;
- iii) foreign currency movements; and
- iv) other price risks

Private Finance (M&G)

The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Infrastructure: Macquarie

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

Direct Lending: Permira

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

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

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

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

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Loans & Receivables	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Loans & Receivables	Financial Liabilities at Amortised Cost	Total
	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000	31 March 2018 £'000
Financial Assets								
Equities	128,054	0	0	128,054	128,306	0	0	128,306
Pooled Investments	774,128	0	0	774,128	679,908	0	0	679,908
Pooled property investments	135,049	0	0	135,049	127,808	0	0	127,808
Private Equity	17,329	0	0	17,329	20,091	0	0	20,091
Cash	0	10,472	0	10,472	0	53,558	0	53,558
Other Investment balances	0	1,183	0	1,183	0	757	0	757
	1,054,560	11,655	0	1,066,215	956,112	54,315	0	1,010,428
Financial Liabilities								
Purchase Settlements	0	0	(89)	(89)	0	0	(326)	(326)
Outstanding	0	0	(89)	(89)	0	0	(326)	(326)
Total	1,054,560	11,655	(89)	1,066,126	956,112	54,315	(326)	1,010,102

Notes to the Pension Fund Account

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

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

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

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

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

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

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Global Equity	344,271	8.40%	373,190	315,352
UK Equity	214,794	10.00%	236,273	193,315
Bonds	154,478	4.30%	161,121	147,835
Alternatives	114,879	5.10%	120,738	109,020
Property	127,785	5.40%	134,685	120,885
Total	956,207		1,026,007	886,407

Note: changes in asset values as at 31 March 2018 restated by asset type for comparative reason based on the current analysis provided by PIRC, our fund's analytics information provider.

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 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 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.

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

Assets exposed to income rate risks	Value as at 31 March 2018	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Cash balances	53,558	535	54,093	53,023
Bonds - pooled funds	154,478	1,545	156,023	152,933
Total change in assets available	208,036	2,080	210,116	205,956

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 2019 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 2019 and as at the previous period ending 31 March 2018.

Currency exposure by asset type

	Asset Value 31 March 2019	Asset Value 31 March 2018
	£'000	£'000
Overseas Managed Funds	214,196	111,250
Private Equity/Infrastructure	46,462	48,398
	260,658	159,648

Notes to the Pension Fund Account

Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 7.30%, based on the data provided by PIRC. A 7.30% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. An 7.30% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk

	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	260,658	19,028	279,686	241,631

Assets exposed to currency risk

	Asset Value 31 March 2018	Potential market movement	Value on increase	Value on decrease
		8.70%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	111,250	9,679	120,929	101,571
Private Equity/Infrastructure	48,398	4,211	52,609	44,187
	159,648	13,890	173,538	145,758

Credit Risk - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The pension fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The pension fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the fund's custodian Northern Trust 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.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The pension fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2019 was £11,811k (31 March 2018: £55,972k) and this was held with the following institutions

Summary	Rating S&P	Balances as at 31 March 2019 £'000	Rating S&P	Balances as at 31 March 2018 £'000
Money market funds				
Northern Trust	AAAf S1+	10,672	AAAf S1+	53,758
Bank current accounts				
Lloyds	A+	1,139	A	2,214
Total		11,811		55,972

Notes to the Pension Fund Account

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

The pension fund holds a working cash balance in its own bank accounts with Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£1,339k). 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 2019 these assets totalled £805,876k, with a further £10,672k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

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

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as at 31 March 2016 setting rates for the period April 2017 to March 2020. The next triennial valuation will take place as at 31 March 2019.

In line with the triennial valuation the fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

1. to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2016 actuarial valuation, the fund was assessed as 75% funded (72% at the March 2013 valuation). This corresponded to a deficit of £269m (2013 valuation: £266m) at that time. The slight improvement in funding position between 2013 and 2016 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

Contribution rates

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

Primary Rate (%) 1 April 2017 - 31 March 2020	Secondary Rate (£)		
	2017/18	2018/19	2019/20
19.50%	£5,296,000	£5,537,000	£6,938,000

The Primary rate above includes an allowance for administration expenses of 0.7% of pay. The employee average contribution rate is 6.4% of pay.

Notes to the Pension Fund Account

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

The valuation of the fund has been undertaken using a risk based approach and this approach adopted recognises the uncertainties and risks posed to funding and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2016	31 March 2013
Funding Basis Discount Rate	4.0%	4.6%
Benefit Increases (CPI)	2.1%	2.5%
Salaries Increases	2.6%	3.3%

Demographic Assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description	31 March 2016	31 March 2013
Male		
Pensioners	22.6 years	22.7 years
Non- Pensioners	24.0 years	24.3 years
Female		
Pensioners	24.6 years	24.7 years
Non- Pensioners	26.5 years	26.9 years

Notes to the Pension Fund Account

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

Description	31 March 2019 % per annum	31 March 2018 % per annum
Inflation /Pensions Increase Rate	2.5%	2.4%
Salary Increase Rate	2.9%	2.8%
Discount Rate	2.4%	2.6%

An IAS 26 valuation was carried out for the fund as at 31 March 2019 by Hymans Robertson with the following results:

Description	31 March 2019 £m	31 March 2018 £m
Present Value of Promised Retirement Benefits	1,703*	1,548
Active Members	753	624
Deferred Members	380	350
Pensioners	570	574

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

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 pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the fund.

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Following pension fund related legal rulings, the Fund's actuary has assessed the likely impact to pension liabilities which reveals an increase in the present value of promised retirement benefits. There is no impact to the Pension Fund financial statements, however the actuarial present value above has been amended with the revised amount.

19. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the pension fund.

Governance

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

Notes to the Pension Fund Account

Key Management Personnel

Two employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer and the Head of Pensions, Treasury & Statutory Accounts. This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

	31 March 2019 £'000	31 March 2018 £'000
Short term benefits	74	82
Post employment benefits	49	84
	123	166

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

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

20. BULK TRANSFER

There were no bulk transfers in 2018-19. There was a bulk transfer of £31,049k into the fund from Harrow College as a result of a merger with Uxbridge College during the 2018-19 financial year.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2019 totalled £10,305k (£23,859k at 31 March 2018).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment. It is anticipated all outstanding commitments will be called by December 2019.

There were no contingent liabilities outstanding for the fund at the end of the financial year 2018/19.

22. CONTINGENT ASSETS

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

23. POST BALANCE SHEET EVENTS

Following a legal ruling regarding age discrimination arising from pension scheme transition arrangements; court of appeal judgements were made affecting judges and firefighters pensions. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. On the 15th July 2019, the UK Government issued a statement confirming that the ruling would apply to public sector pensions. The Fund's actuary has assessed the likely impact to pension liabilities which reveal an increase in the present value of promised retirement benefits. There is no impact to the Pension Fund financial statements as a result of this judgement, however the actuarial present value in note 18 has been amended to the revised higher figure.

H. ASSET POOLS (LCIV)

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

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

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

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

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

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

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

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

At the start of 2018/19 the London CIV had the following sub funds available for Hillingdon to invest.

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16

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

The Fund had total LCIV holdings of £529m at 31 March 2018 accounting for 52.3% of total assets of the Pension Fund. Holdings within the pool were within Ruffer (Multi Asset, Absolute Return Fund) and Epoch (Global Equity Income Fund) on the LCIV platform and LGIM Passive mandate.

As at the 31 March 2019 the London CIV had the following sub funds available for Hillingdon to invest

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		

LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
Fixed Income		
LCIV Global Bonds Fund	London CIV	30-Nov-18
LCIV MAC Fund	CQS	31-May-18

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

The Fund had total LCIV holdings of £593m at 31 March 2019, accounting for almost 56% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) and Epoch (Global Equity) on the LCIV platform and LGIM Passive.

Pooled assets

Sub Fund	Value £'000 31/03/2018	Opening Proportion %	Value £'000 31/03/2019	Closing Proportion %
LCIV EP Income Equity Fund	129,750	12.8	147,156	13.85
LCIV RF Absolute Return Fund	103,270	10.2	102,701	9.67
LGIM Passive Equities	197,671	19.6	214,196	20.16
LGIM Passive Bonds	98,168	9.7	128,805	12.13
	528,859	52	592,858	56

Post pool reporting

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

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

LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2015/16	2016/17	2017/18	2018/19	Cumulative to date
Set Up Costs	£000s	£000s	£000s	£000s	£000s
Development Charge			75	65	140
Annual Service Charge including establishment of pool	50	25	25	25	125
Share Capital Costs	150	0	0	0	150
Transition Costs	0	32	132	0	164
Fee Savings	0	-84	-167	-181	-432
Net (Savings)/Cost Realised	200	-27	65	-91	147

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

As at the end of 2018/19 the fund shows a net cost overall from pooling, however if share capital is excluded as it is still a fund asset then the fund has made a minor saving. As fund manager fees of the sub funds Hillingdon invests currently, are lower than before pooling, over time, the fund should show a cumulative saving in the long term.

Ongoing Investment Management Fees

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

	Asset Pool			Non-Asset Pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'00	£'000s	£'000	£'000	£'000s	£'000	£'000
Management Fees							
Ad Valorem	60	1,332	1,392	4,404	0	4,404	5,796
Performance	0	0	0	1,405	0	1,405	1,405
Transaction Costs							
Commissions	0	122	122	492	0	492	614
Custody	10	0	10	0	0	0	10
Other	72	0	72	0	0	0	72
Total £'000	142	1,454	1,596	6,301	0	6,301	7,897

In addition to the above ongoing investment management fees the Fund has also been charged £90k for costs associated with the London CIV managing assets on top of the fee rate. These costs were in respect of product development, governance costs and operator costs. These costs have been included within the Fund's Statement of Accounts under the category of oversight and governance costs.

In response to the Scheme Advisory Board Transparency Code the Fund contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2018/19 and future years to allow more transparent reporting. London CIV Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers they select are signed up to the Transparency Code. Information from the completed templates were utilised to compile the overall Investment management costs for 2018/19.

Asset Allocation and Performance

Asset Category	Opening Value		Closing Value		Performance 1 Year		Passive Index	Local Target
	£'000	%	£'000	%	Gross %	Net %		
Asset Pool Managed Investments								
Active listed Equity	129,750	13	147,156	14	13.4	13.4	12.0	12.0
Passive listed Equity	197,671	20	214,196	20	6.5	6.5	6.8	6.8
Passive Listed Fixed Income	98,168	10	128,805	12	5.4	5.4	6.1	6.1
Multi-asset funds/diversified growth funds	103,270	10	102,701	10	-0.6	-0.6	N/A	1.1
Total	528,859	52	592,858	56				
Non-asset pool managed investments								
Active listed Equity	133,133	13	131,174	12	2.3	2.3	3.4	6.4
Active listed Fixed Income	56,312	6	82,707	8	1.5	1.5	5.6	4.1
Private Debt	12,419	1	7,956	1	-3.8	-3.8	N/A	5.1
Private Debt	53,968	5	61,434	6	5.2	5.2	N/A	5.1
Property	54,361	5	58,927	6	-0.3	-0.3	N/A	4.8
Property	75,192	7	76,521	7	4.4	4.4	N/A	4.9
Unlisted Equity	13,565	1	12,654	1	14.8	14.8	N/A	15.5
Unlisted Equity	6,526	1	4,675	0	18.6	18.6	N/A	15.5
Infrastructure	28,307	3	29,133	3	15.0	15.0	N/A	5.1
Cash	47,460	5	8,086	1	3.5	3.5	N/A	0.0
Total	481,243	48	473,267	44				

Savings

	2016/17	2017/18	2018/19
	£	£	£
Price Variance	83,609	167,422	181,063

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

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

The increase in fee savings in 2017/18 from 2016/17 is due to the transfer of the global equity income portfolio to the pool. The increased saving in 2018/19 is due to the fund value increasing as a result of investment returns. The above savings do not take into account additional charges serviced on the fund as a result of investment in the pool sub funds which are direct costs of us investing in the pool, for example auditing, FCA regulation and depositary costs. Total additional charges amount to £90k.

London Borough of Hillingdon Pension Fund

Administration Strategy

1 November 2016

London Borough of Hillingdon Pension Fund

Funding Strategy Statement

March 2017

London Borough of Hillingdon Pension Fund

Investment Strategy Statement

April 2017



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

COMMUNICATIONS STRATEGY

July 2017

M: EXTERNAL AUDIT OPINION

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

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GLOSSARY

Active Management

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

Actuary

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

Actuarial Valuation

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

Additional Voluntary Contribution (AVC)

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

Administering Authority

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

Admitted Bodies

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

Asset Allocation

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

Asset Liability Modelling

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

Benchmark

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

Bond

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

Book cost

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

Broker

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

CARE

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

Commission

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

Corporate Bond

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

Corporate Governance

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

Coupon

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

Creditors

Amounts owed by the pension fund.

Custody

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

Debtors

Amounts owed to the pension fund.

Defined Benefit

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

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

Derivative

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

Diversification

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

Dividend

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

Dividend Yield

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

Emerging Markets

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

Equity

Stock or any other security representing an ownership interest.

Ex-dividend

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

Final Salary Scheme

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

Fixed interest

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

FTSE All-Share

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

Funding Level

A comparison of a scheme's assets and liabilities.

Futures Contract

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

Gilts

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

Hedge

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

Index Linked

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

Liability Profile

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

LGPS

Local Government Pension Scheme

LSE

London Stock Exchange

Mandate

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

Market Value

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

Option

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

Passive Management

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

Pension Fund

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

Private Equity

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

Property Unit Trusts

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

Quantitative Easing (QE)

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

Resolution Bodies

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

Return

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

Risk

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

Scheme Employers

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

Security

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

Socially Responsible Investment (SRI)

Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager

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

Stock

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

Stock Selection

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

The Fund

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

Tracking Error

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

Transaction Costs

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

Transfer Value

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

Transition

To move from one set of investment managers to another

Underwriting

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

Unit Trust

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

Unlisted Security

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

Unrealised Gains/ (losses)

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

Yield

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

London Borough of Hillingdon Pension Fund

Governance Policy and Compliance Statement

Stewardship Code

Principle	Response
<p>Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p>	<p>The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and expects appointed asset managers to be signatories to code and publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.</p> <p>In practice, the fund's policy is to apply the Code through its arrangements with its asset managers. To this end, a quarterly summary of fund managers' ESG activities detailing the meetings engagement meetings undertaken and issues raised at such meetings, AGM and EGMs attended and their voting statistics are provided to members as part of the Pensions Committee meeting reports.</p> <p>Due to the diversity of investments made on behalf of our fund by the managers engaged. Their role is quite pivotal in ESG issues as they have vast resources at their disposal to raise issues of concern to clients such as us with respective companies and feedback information from such engagements via quarterly performance reports, detailing their activities for the period. Most managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care.</p> <p>The process described above ensures invested companies are aware of the opinion of shareholders such as our fund regarding their stewardship of the companies and consider such opinion in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager in question raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.</p>
<p>Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p>	<p>The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest.</p> <p>In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings</p> <p>Further to the declarations of interest at pension committee meetings, members are duty bound to make written related party declarations annually, which form part of the disclosure notes to the fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. Subsequently, any perceived conflict of interest is transparent to</p>

	<p>members of the public.</p> <p>Where conflict of interests arises during decision making process, involving member(s) of the Pension Committee or officers of the fund, such individuals may be recused from the particular decision making process to protect the integrity of the outcome.</p>
Principle 3 - Institutional investors should monitor their investee companies	<p>Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from our fund managers on voting are received and engagement activities reported to committee quarterly.</p> <p>Effectiveness of Fund managers' engagement activities is appraised through responses gleaned from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness.</p> <p>When contentious issues of national interests relating to any of the fund's investments is prominent in the press or widely debated. The fund will generally contact the relevant manager(s) to ensure they are aware of our interest and opinions on the issue and provide us with their views and steps being taken to ensure the invested company take on board such views.</p>
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	<p>As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</p> <p>On occasions, the fund may participate in escalation of poignant issues, principally through fund managers' engagements with parties of concern. Furthermore, fund managers engaged by the fund as part of their investment process have regular meetings with individual company boards and feedback such engagement results to us through their quarterly ESG reports.</p> <p>Our fund have in the past directed fund managers to divest from companies in a particular sector (Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally. One of such managers, UBS now hold UK equities on our behalf excluding Tobacco stocks.</p>
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.	<p>The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of London CIV, which takes direction from Local Authority Pension Fund Forum (LAPFF) over environmental, social</p>

	<p>and governance issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.</p>
<p>Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.</p>	<p>In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.</p> <p>Responsibility for the exercise of voting rights is delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.</p> <p>Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings.</p> <p>The fund does currently publish available summary voting data by manager as part of the quarterly report to Pension Committee.</p> <p>The fund has a stock lending arrangement with Northern Trust as part of its investment strategy. Up to 25% of value of shares/bonds held in segregated portfolios are permitted to be loaned out as part of the arrangement and secured on collateral value of minimum 109% of the assets out on loan.</p> <p>Stock-lending commissions are remitted to the fund via the custodian. During the period, the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.</p> <p>The arrangement also allows the fund to recall any asset out on loan if required for shareholder engagement purposes without any punitive measures.</p>
<p>Principle 7 - Institutional investors should report periodically on their stewardship and voting activities</p>	<p>The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.</p> <p>A table detailing the statistical analysis of the fund's managers voting patterns is published as part of the annual report.</p>

All queries and further information on this document may be directed to Sian Kunert – Head of Pensions, Treasury & Statutory Accounts by email: SKunert@hillingdon.gov.uk