Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions	*4*	47,305	43,176
Transfers In from other pension funds	*5*	1,746	1,487
		49,051	**44,663**
Less: Benefits	*6*	(47,188)	(44,016)
Less: Payments to and on account of leavers	*7*	(6,870)	(2,626)
		(54,058)	**(46,642)**
Net additions/(withdrawals) from dealings with members		**(5,007)**	**(1,979)**
Less: Management expenses	*8*	(9,882)	(8,833)
including fund management expenses		**(14,889)**	**(10,812)**
Return on investments			
Investment income	*9*	23,101	22,732
Profit and losses on disposal of investments and changes in market	*10A*	(86,092)	42,843
Taxes On Income		(48)	(83)
Net return on investments		**(63,039)**	**65,492**
Net Increase/(Decrease) in the fund		**(77,928)**	**54,680**
Net Assets at start of year		**1,066,983**	**1,012,303**
Net Assets at end of year		**989,055**	**1,066,983**

NET ASSETS STATEMENT

		31 March 2020 £'000	31 March 2019 £'000
Investment Assets	*10*	986,131	1,066,215
Investment Liabilities	*10*	(17)	(89)
Total net investments		**986,114**	**1,066,126**
Current Assets	*11*	3,574	1,424
Current Liabilities	*12*	(633)	(567)
Net assets of the fund available to fund benefits at the end of the		**989,055**	**1,066,983**

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.

Paul Whaymand
Director of Finance
31 July 2020

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

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

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

Admitted Bodies:

Braybourne Facilities - Bishop Ramsey Cleaners

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton Academy

Scheduled Bodies:

Barnhill Academy

Belmore Academy

Bishop Ramsey Academy

Bishopshalt Academy

Charville Academy

Douay Martyrs Academy

Eden Academy Trust

- Moorcroft School
- Pentland Field School
- Grangewood School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Haydon Academy

Heathrow Aviation Engineering

Notes to the Pension Fund Account

LBDS Frays Academy Trust

- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	66	65
Number of employees in scheme		
London Borough of Hillingdon	4,733	4,781
Other employers	2,702	2,629
Total	**7,435**	**7,410**
Number of Pensioners		
London Borough of Hillingdon	5,170	5,227
Other employers	570	575
Total	**5,740**	**5,802**
Deferred Pensioners		
London Borough of Hillingdon	7,745	7,153
Other employers	2,487	1,722
Total	**10,232**	**8,875**

Note: To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

c. Funding

The Fund is financed by contributions from the employers, Pension Fund members and by income from the Fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the Fund.
Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 17.3% to 42.18% of pensionable pay, as per the 2016 valuation.

d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there 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 (Four meetings in 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (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 2019/20, 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 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). The Pension Fund Accounts have been prepared on a going concern basis.

3. ACCOUNTING POLICIES

a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.

- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.

- For pooled funds, if bid prices are provided by the Fund administrators then these are used, otherwise the Net Asset Value (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.

- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

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

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

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

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

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

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

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

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

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

k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits 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 2020 was £109,697k (£115,893k at 31 March 2019).

m. Assumptions made about the future and other major sources of estimation uncertainty - The Pension Fund accounts contains estimated figures that are based on assumptions made by the Fund about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values.	The total private equity investments in the financial statements are £13,614k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2020. 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. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.	The total infrastructure alternative investments in the financial statements are £27,265k. 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 manager has confirmed its investments and valuation will not be impacted by Covid-19.	The total private finance investments in the financial statements are £4,674k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from 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. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.	The total Private Debt investments in the financial statements are £64,103k. 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**
Pooled Property - LGIM LPI, AEW UK & UBS Property	Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.	The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobervable inputs are utilised in the valuation of the assets. These unobservable valuation assumptuons may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
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 IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.	The effects on the net pension liability of changes 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 2020 by the fund's actuaries.

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

Notes to the Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	134
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	9%	144

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1-year increase in life expectancy would approximately increase the liabilities of the Pension Fund by around 3-5%.

4. CONTRIBUTIONS

By category	31 March 2020 £'000	31 March 2019 £'000
Employees	10,109	9,846
Employers Contributions:		
Normal	30,333	27,465
Deficit Funding	6,863	5,865
	47,305	**43,176**

Deficit Funding: At the actuarial valuation on 31 March 2019 the Fund was 87% funded, with the remaining 13% deficit to be recovered over a period of 20 years.

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	33,793	30,267
Scheduled Bodies	13,174	12,509
Admitted Bodies	338	400
	47,305	**43,176**

5. TRANSFERS IN

	31 March 2020 £'000	31 March 2019 £'000
Individual transfers in from other schemes	1,746	1,487
	1,746	**1,487**

6. BENEFITS

By category	31 March 2020 £'000	31 March 2019 £'000
Pensions	(38,846)	(36,423)
Commutations and Lump Sum Retirement Benefits	(7,330)	(6,750)
Lump Sum Death Benefits	(1,012)	(843)
	(47,188)	**(44,016)**

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	(42,567)	(40,973)
Scheduled Bodies	(4,246)	(2,579)
Admitted Bodies	(375)	(464)
	(47,188)	**(44,016)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020 £'000	31 March 2019 £'000
Refunds to members leaving	(103)	(79)
Individual transfers out to other schemes	(6,767)	(2,547)
	(6,870)	**(2,626)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

	31 March 2020 £'000	31 March 2019 £'000
Administrative Costs	(825)	(840)
Investment Management Expenses	(8,767)	(7,897)
Oversight and Governance	(290)	(96)
	(9,882)	**(8,833)**

* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2020 £'000	31 March 2019 £'000
Management Fees	(5,932)	(5,934)
Performance Related Fees	(780)	(1,405)
Custody Fees	(59)	(66)
Transaction Costs	(1,996)	(492)
	(8,767)	**(7,897)**

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2020 £'000	31 March 2019 £'000
Equities	(112)	(28)
Pooled Investments	(1,884)	(464)
	(1,996)	**(492)**

8C. EXTERNAL AUDIT COSTS

	31 March 2020 £'000	31 March 2019 £'000
Payable in Respect of External	(22)	(22)
	(22)	**(22)**

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

9. INVESTMENT INCOME

	31 March 2020 £'000	31 March 2019 £'000
Income from Equities	5,810	6,254
Pooled Property Investments	6,452	4,713
Pooled Investments- Unit trusts and other managed funds	10,362	11,266
Interest on cash deposits	119	110
Other (for example from stock lending or underwriting)	358	389
	23,101	**22,732**

10. INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Investment Assets		
Equities	84,471	128,054
Pooled investments	706,512	774,129
Pooled property investments	165,448	135,049
Private equity	13,614	17,329
Other Investment balances		
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	**(17)**	**(89)**
Net investment assets	**986,114**	**1,066,126**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2019/20	**Value 1 April 2019 £'000**	**Purchases at cost £'000**	**Sales proceeds £'000**	**Change in market value £'000**	**Value 31 March 2020 £'000**
Equities	128,054	14,695	(14,825)	(43,453)	84,471
Pooled Investments	774,128	117,948	(152,591)	(32,973)	706,512
Pooled Property Investments	135,049	103,606	(55,878)	(17,329)	165,448
Private Equity	17,329	105	(4,265)	445	13,614
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
Other investment balances					
Cash Deposits	10,472			207	15,520
Investment Income Due	1,183				502
Outstanding Purcases				7,011	64
Total Investment Assets	**1,066,215**			**(86,092)**	**986,131**

2018/19	**Value 1 April 2018 £'000**	**Purchases at cost £'000**	**Sales proceeds £'000**	**Change in market value £'000**	**Value 31 March 2019 £'000**
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,129
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**
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**

10B. ANALYSIS OF INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Equities		
UK		
Quoted	84,471	128,054
	84,471	**128,054**
Pooled funds - additional analysis		
Fixed income unit trust - Quoted	89,137	82,707
Other Unit trusts - Quoted	184,318	249,858
Unitised insurance policies - Quoted	336,973	343,000
Limited liability partnerships - Unquoted	96,084	98,564
	706,512	**774,129**
Pooled property Investments - Unquote	165,448	135,049
Private equity - Unquoted	13,614	17,329
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
	195,148	**164,032**
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	**986,114**	**1,066,126**

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10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2020 £'000	%	Market Value 31 March 2019 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	384,373	39	343,000	32
London CIV Asset Pool	184,884	19	249,858	24
	569,257	58	592,858	56
Investments Managed Outside of London CIV				
Adams Street Partners	9,909	1	12,654	1
AEW UK	50,774	5	58,927	6
JP Morgan Asset Management	89,137	9	82,707	8
LGT Capital Partners	3,705	0	4,675	0
M&G Investments	4,674	0	7,956	1
Macquarie Infrastructure	26,699	3	29,133	3
Permira Credit Solutions	64,103	7	61,434	6
UBS Global Asset Management (Equities)	86,948	9	131,174	12
UBS Global Asset Management (Property)	67,517	7	76,521	7
Other*	13,391	1	8,086	1
	416,857	42	473,268	44
Total	**986,114**	**100**	**1,066,126**	**100**

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

***** No single holding within an investment represents more than 5% of total assets

10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £3,572k (31 March 2019: £17,125k). 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 £3,804k (31 March 2019: £18,428k) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

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

11. CURRENT ASSETS

	31 March 2020 £'000	31 March 2019 £'000
Debtors		
Employers' contributions due	51	68
Employees' contributions due	13	17
Cash balances	3,510	1,339
	3,574	**1,424**

12. CURRENT LIABILITIES

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(223)
Other entities	(461)	(344)
	(633)	**(567)**

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2020 £'000	Market Value 31 March 2019 £'000
Prudential Assurance Company	5,249	5,086
	5,249	**5,086**

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, £168k 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
Pooled Property investments	Level 3	Fair value in accordance with the RICS valuation - professional standards	Nav/Fair value-based pricing derived using recent market transactions on arm's length terms, where available	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund’s own reporting date,
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 2020.
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 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	27,265	29,992	24,539
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,777	75,655	61,899
Private Equity - c	5%	13,614	14,295	12,933
Venture Capital	5%	41	43	39
Total		**109,697**	**119,984**	**99,410**

a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.

b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.

c) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

14A. FAIR VALUE HIERARCHY

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

Level 1

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

Level 2

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

Level 3

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

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

Values as at 31 March 2020	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	84,471	775,877	109,697	970,045
Loans and Receivables	16,086	0	0	16,086
Financial Liabilities at Fair Value through Profit and Loss	(17)	0	0	(17)
Net investment Assets	**100,540**	**775,877**	**109,697**	**986,114**

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**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2019	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	17,329		105	(4,265)	(2,147)	2,592	13,614
Private Finance - M&G	7,956		0	(4,352)	2,113	(1,043)	4,674
Infrastructure - Maquarie & LCIV	29,133		643	(3,613)	(935)	2,037	27,265
Venture Capital - UBS	41		0	0	0	0	41
Direct Lending - Permira	61,434		844	(1,306)	3,131	0	64,103
	115,893	**0**	**1,592**	**(13,536)**	**2,162**	**3,586**	**109,697**
Other investment balances	0					0	0
Total Investment Assets	**115,893**					**3,586**	**109,697**

There were no transfers into Level 3 in 2019/20

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3 after discussions with the fund managers. Prior years classification of these assets have been erroneous in past years, based on current valuation technique and information provided by the fund managers' assets affected. Both managers confirmed valuation methodologies or techniques have not changed from previous years. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

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

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

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

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

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

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

Pooled Property: AEW & UBS Property
Fair value is primarily derived using recent market transactions on arm's length terms, where available.

Notes to the Pension Fund Account

Description of Valuation Process

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

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

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

  - Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
  - That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

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

DCF-Based Market Valuation Process
Financial Model
The acquisition financial models of all 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.

Pooled Property: AEW & UBS Property
Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

“The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.”

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

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

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

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

Direct Lending: Permira
The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:
- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

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

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

Pooled Property – AEW & UBS Property
Prevalent economic conditions may affect occupancy rate or possible default in rent payments and conversely affecting transaction values. Local authority intentions, planning proposals and onerous restrictions are some of the other factors to which Pooled Property assets transactions may be sensitive towards.

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total
	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Financial Assets								
Equities	84,471		0	84,471	128,054	0	0	128,054
Pooled Investments	706,512		0	706,512	774,129	0	0	774,129
Pooled property investments	165,448		0	165,448	135,049	0	0	135,049
Private Equity	13,614		0	13,614	17,329	0	0	17,329
Cash	0	15,520	0	15,520	0	10,472	0	10,472
Other Investment balances	0	566	0	566	0	1,183	0	1,183
	970,045	**16,086**	**0**	**986,131**	**1,054,560**	**11,655**	**0**	**1,066,215**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(17)	(17)	0	0	(89)	(89)
	0	**0**	**(17)**	**(17)**	**0**	**0**	**(89)**	**(89)**
Total	**970,045**	**16,086**	**(17)**	**986,114**	**1,054,560**	**11,655**	**(89)**	**1,066,126**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2020 £000's	31 March 2019 £000's
Financial Assets		
Designated at Fair Value through profit and	(86,093)	42,843
	(86,093)	**42,843**

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.

Notes to the Pension Fund Account

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 2020 £'000**	**Percentage Change %**	**Value on Increase £'000**	**Value on Decrease £'000**
Global Equity	379,584	12.00%	425,134	334,034
UK Equity	84,471	18.00%	99,676	69,266
Bonds	230,845	6.00%	244,696	216,994
Alternatives	109,697	2.80%	112,769	106,625
Property	165,448	4.70%	173,224	157,672
Total	**970,045**		**1,055,498**	**884,592**

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

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.

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 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.

	Value as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
Total change in assets available	**246,365**	**2,464**	**248,829**	**243,901**

	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	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**

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 2020 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 2020 and as at the previous period ending 31 March 2019.

Currency exposure by asset type

	Asset Value 31 March 2020	Asset Value 31 March 2019
	£'000	**£'000**
Overseas Managed Funds	195,267	214,196
Private Equity/Infrastructure	40,879	46,462
	236,146	**260,658**

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 7.40%, based on the data provided by PIRC. A 7.40% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 7.40% 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:

Notes to the Pension Fund Account

Assets exposed to currency risk	Asset Value 31 March 2020	Potential market movement	Value on increase	Value on decrease
		7.40%		
	£'000	£'000	£'000	£'000
Overseas Managed Funds	195,267	14,450	209,717	180,817
Private Equity/Infrastructure	40,879	3,025	43,904	37,854
	236,146	**17,475**	**253,621**	**218,672**

Assets exposed to currency risk	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		8.70%		
	£'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**	**241,630**

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 which assigns four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with 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 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2020 £'000	Rating S&P	Balances as at 31 March 2019 £'000
Money market funds				
Northern Trust	AAAf S1+	15,766	AAAf S1+	10,672
Bank current accounts				
Lloyds	A+	3,310	A+	1,139
Total		**19,076**		**11,811**

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 (£3,310k). 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 2020 these assets totalled £694,900k, with a further £15,766k 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 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as at 31 March 2022.

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

1. to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council 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 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term).

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

McCloud ruling
The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

• Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
• Measurement of funding position at 31 March 2019: no allowance.

Notes to the Pension Fund Account

Contribution rates

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

Primary Rate (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	2020/21	2021/22	2022/23
20.20%	£5,313,000	£5,451,000	£5,592,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.
At the previous formal valuation 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, this approach recognises the uncertainties, and risks posed to funding and follows the process outlined below:

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

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

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

Assumptions

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

Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2019	31 March 2016
Funding Basis Discount Rate	4.0%	4.0%
Benefit Increases (CPI)	2.3%	2.1%
Salaries Increases	2.6%	2.6%

Demographic Assumptions

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

Description		31 March 2019	31 March 2016
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 years

Commutation assumptions

An allowance is included for future retirements to elect to take 65% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 85% of the maximum tax-free cash for post-April 2008 service.

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

Description	**31 March 2020 % per annum**	**31 March 2019 % per annum**
Inflation /Pensions Increase	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

Description	**31 March 2020 £m**	**31 March 2019 £m**
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	992	1067
Net Liability	**(577)**	**(636)**

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

These figures are presented as required by IAS 26. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the Fund.

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. The figures have been prepared by Hymans Robertson, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

Description	**31 March 2020 £m**	**31 March 2019 £m**
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	992	1067
Net Liability	**(577)**	**(636)**

Going Concern

The Pension Fund accounts and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2019/20) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The Fund's triennial valuation at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. A recent review undertaken in response to the COVID-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. If a need to obtain liquidity arises10% of the Fund's assets are held in liquid investments. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

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 (Vice-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.

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 and Statutory Accounts (Up to 26 Decemeber 19). Total remuneration payable to key management personnel is set out below:

	31 March 2020 £'000	**31 March 2019 £'000**
Short term benefits	64	74
Post employment benefits	78	75
	142	**149**

***** Post-employment benefits for 2018/19 updated for consistency

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 2019-20.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

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. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

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 the event of employer default.

23. POST BALANCE SHEET EVENTS

As a result of COVID-19 the market value of investments has been volatile with large fluctuations in asset prices. The Fund has a 20 year funding strategy designed to accommodate volatility, periods of market stress and other factors. It is well placed to deal with an event such as COVID-19. The governance structure around the Fund ensures that investment, administration and other risks are constantly monitored and where necessary remedial action can be taken. There will be no impact on pension payments.