London Borough of Hillingdon Pension Fund Annual Report 2020/21

HILLINGDON
LONDON

www.hillingdon.gov.uk

CONTENTS

CHAIRMAN'S FOREWORD

There was a lot of activity for the pension fund during the financial year 2020/21 with a variety of changes being implemented by the Committee. Following the negative impact of COVID-19 on asset values in March 2020, the Fund has since recouped more than the reduction in value and sits at its highest level of £1,165m, an increase of £176m from the end of the previous year. The Fund is cashflow positive on member transactions, with member contributions higher than monies paid out in benefits. Cash flow is regularly monitored by the Committee with a keen eye towards future trends to ensure liquidity is maintained. Over the year there have been no defaults in terms of employer contributions and income streams remain strong. As well as member contributions the Fund has income generating asset classes which are currently reinvested, however these are available should support for cashflows become necessary. Linked to the increase of fund value is an improvement in the overall funding level, with the interim result of 89.3% now ahead of the formal triennial valuation figure.

This year has seen some considerable realignment of underlying equity managers with a bias towards Environmental, Social and Governance (ESG) investment. To reduce country concentration risk and increase the ESG direction, the long-standing UBS UK equity mandate was terminated in favour of the LGIM Global Future World Fund which covers a broad spectrum of ESG considerations. In addition, the LCIV Income Fund was also terminated, with monies reinvested in the LCIV Global Alpha Paris Aligned Fund; this fund aims to align assets with the objectives of the Paris Agreement and will serve as a specific lower carbon fund variant. Overall, these changes will not only have a positive impact on responsible investment but have also had a major impact in terms of reducing the carbon footprint exposure of the Fund. Of primary importance, however, is that these portfolio amendments aim to reduce risk and improve investment returns.

With our ongoing focus on ESG, the Fund has continued its commitment to be a signatory to the UK Stewardship Code. The Fund originally signed up to the 2012 code, but this has since been updated with the 2020 iteration. This updated Code is far more onerous and requires a greater level of commitment, engagement, collaboration and monitoring. The Committee has been working through the project plan to ensure processes are put place, policies are updated, objectives are set and required fund manager engagement is achieved , ensuring it is in a position to meet the requisite criteria. The Fund is due to make its formal application at the end of 2021.

The Fund has continued to work with our investment pool, the London Collective Investment Vehicle (LCIV) whilst also monitoring the evolution of governance within the pool to ensure assets are securely managed on the Fund's behalf. The Fund has initiated a number of meetings with the senior team at LCIV to raise concerns and offer constructive suggestions to improve governance and reporting. I am pleased to announce that our suggestions are being taken on board with changes being implemented to the benefit of all underlying investors. As of 31 March 2021, the Fund had an increase in the value of assets held with LCIV, representing 69% of the Fund compared with 58% from the previous year. During the year the Fund’s Infrastructure commitment began to be drawn, albeit at a slower pace than forecast due to COVID. The underlying manager has advised deployment is now picking up as lockdown restrictions begin to loosen.

In September 2020 the Committee made the decision to migrate pension administration services, currently run by Orbis Surrey Count Council under a section 101 delegation agreement. Following a period of unsatisfactory performance and the dissolution of the pension company element, Orbis, the Fund decided to give notice in line with the contract terms and to seek an alternative partner. Following market testing and an options appraisal, the Committee is pleased to announce a new partnership with Hampshire Pension Services run by Hampshire County Council. Hampshire has a strong, knowledgeable, and robust team with sufficient resources and quality systems to provide a top-quality service. However due to the complicated nature and requirement of strict controls and testing this is a long-term project due to run for a year, with a go-live date set for September 2021. Currently, the transition is in line with the project timeline and all key milestones have been met. Regular senior management oversight meetings are designed to ensure that everything stays on track and progress is reported to the Committee and Board to provide a full governance assurance framework. We are looking forward to completion of the transition; confident the move to Hampshire will enhance and improve the service received by pension fund members and employers within the scheme.

The Pensions Board continues to be active ensuring compliance with governance issues as well as updating and contributing towards policy documentation. The Board has also continued to ensure compliance with the Pension Regulator's code of practice monitoring the implementation of improvements to ensure full compliance where possible. The Board has been heavily involved in the ongoing monitoring of the administration transfer project, not only to contribute towards its success, but also to ensure the needs of members and employers are addressed. The Board and Committee continue to work well together to ensure governance and oversight are at the highest levels.

March 2020 saw the emergence of COVID-19 and together with the socio-economic factors, created a disrupted and restricted working environment. In terms of the revised way of working, the team at the Council, the Committee, the Board and its service delivery and operation partners, transitioned to remote working in a timely and effective manner. I am pleased that the pension service to members and employers did not show any significant decline due to the new arrangements. Now fully embedded, the new infrastructure allows the ability to be more flexible and introduces operational efficiencies.

The Committee and Fund continue to face challenges and have several current projects to complete. These include finalising the successful transition of administration services; making the necessary developments to allow a robust UK Stewardship Code submission; continued monitoring and influence over LCIV governance, as well as potential new investment commitments. In addition, the upcoming implementation of revised Good Governance recommendations and the

Pensions Regulator single Code of practice will form a major piece of work over the coming year. Furthermore, the impending application of regulations involving McCloud; Guaranteed Minimum Pensions, and Goodwin amongst others, will be challenging and will require increased resources.

Overall, during 2020/21 the Fund has performed well, both from an operational and investment perspective, with positive contributions to overall governance, the ESG agenda and lowering the carbon footprint. In addition, I believe the Fund is in a strong position to address and deliver on the upcoming challenges, and I am especially looking forward to the new partnership with Hampshire in the delivery of administration services.

As Chairman, I would like to add my personal thanks to officers, Committee & Board Members, and advisers for all their hard work over this especially challenging year. It has been a real team effort and testament to our strong working relationship

Cllr Martin Goddard

Chairman Pensions Committee 2020/21

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 latest valuation on 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 2020/21 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 3 x 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 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.

James Lake	Chief Accountant
Seby Carvalho	Pensions Technical Officer
Jean Boeg	Pensions 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 Fund's 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

Craig Alexander 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 2019/20, 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 and Index Linked Bonds - (Passive) – Pooled & Property Pooled
London CIV - Epoch	Global Equity Income - Pooled
London CIV - Ruffer	Absolute Return Fund - Pooled
London CIV - Stepstone	Infrastructure - Pooled
LGT Capital Partners	Private Equity
M&G Investments (Direct Investment)	Private Debt
Macquarie Investment	Infrastructure
Permira LLP	Private Debt
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 Iseran Bidco Ltd trading as Isio, (f*ormally* 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
Partner
Investment Advisory
Tax & Pensions
Iseran Bidco Ltd (Isio)
10 Norwich Street
London EC4A 1BD

In addition, the Fund had an Independent Advisor for 2020/21 – Clare Scott.

AON Hewitt advises and supports the Fund 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
1 More London Place
London
SE1 2AF

Banker
Banking services are provided to the Fund by the Council's banker National Westminster Bank (Natwest).

Natwest Bank Plc
Unit 227-228 Intu Shopping Centre
The Chimes
High Street Uxbridge
UB8 1LA

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

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

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 Chief Accountant 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 several 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 Chief Accountant 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 allows 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 2021 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 impacting the ability for employers to afford contributions Pensioners living longer
5. Pensioners living longer.
6. Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary
7. Risk of disruption to the delivery of pensions administration services and systems and data integrity during the transfer of administration services
8. Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals
9. ESG – Risk of financial loss through the negative impact of ESG matters
10. Portfolio Liquidity – risk of failure to liquidate assets or meet drawdown calls
11. Failure of the pool in management of funds / access to funds
12. Threat of COVID 19 to Business Continuity
13. Failure of the Fund’s governance to comply with statutory requirements and/or The Pension Regulator expectations including:

Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements

Failure to ensure that the Pension Board is effective in carrying out its role."

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

***NB: UBS Asset Management:** Basis of qualified opinion issued by auditors hinged on lack of sufficient evidence by manager to demonstrate that quality control check was completed for certain "New security set ups" and "Recording of Dividend Income Data Events". The manager was contacted and responded that by confirming "Standardised control checks have been created for both highlighted exceptions and these will make evidence gathering on both processes more efficient".*

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: https://archive.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

	2020/21	2019/20	2018/19	2017/18
Active Members	7,768	7,435	9,015	8,591
Pensioners/Dependants	6,861	6,682	6,881	6,453
Deferred	10,225	10,571	9,643	8,510
Total Membership	**24,854**	**24,688**	**25,539**	**23,554**

CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2020/21 amounted to £53.4m compared to £49.1m for the previous year. The 9% Increase from previous year is mainly attributable to the increased active membership and employee’s pay increases during the year under review. 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 2020/21 were set from the 2019 valuation.

Analytical Review of Performance

	2020/21	2019/20	2018/19	2017/18
Pension Fund Account	**£' 000**	**£' 000**	**£' 000**	**£' 000**
Dealings with Members				
Contributions	53,484	49,051	44,663	77,191
Pensions	-50,752	-54,058	-46,642	-45,300
Net Additions/(Withdrawals) from Dealings with members	**2,732**	**-5,007**	**-1,979**	**31,891**
Management Expenses	-10,749	-9,882	-8,833	-7,332
Net Investment Returns	13,667	23,101	22,732	15,203
Change in Market Value	170,519	-86,092	42,843	15,834
Taxes on Income	-22	-48	-83	-86
Net Increase/(Decrease) In Fund	**176,147**	**-77,928**	**54,680**	**55,510**

Analysis of Dealings with Members

	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
Contributions Receivable				
Employees	10,231	10,109	9,486	9,920
Employers	38,450	37,196	33,330	32,909
Transfers In - Individual Transfers In	4,803	1,746	1,489	3,313
Transfers In - Bulk Transfer In	0	0	0	31,049
Total Contributions	**53,484**	**49,051**	**44,305**	**77,191**

	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
Benefits and Other payments				
Pensions	-39,955	-38,846	-36,423	-33,721
Lump Sum Retirements and Death Benefits	-7,256	-8,342	-7,593	-8,282
Transfers Out	-3,459	-6,767	-2,547	-3,235
Refunds	-82	-103	-79	-62
Total Payments	**-50,752**	**-54,058**	**-46,642**	**-45,300**

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

- Lump Sum Paid in 2020/21 decreased by 15% as fewer people were made redundant.

- Transfers In for 2020/21 increased by 275% compared to previous year as more individuals transferred their services into the Hillingdon Fund. Whilst Transfers Out dropped by 95% from 2019/2020 due to fewer transactions.

Analysis of Operational Expenses

	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
Administration				
Employees	-397	-324	-355	-301
Outsourced Administration Costs	-545	-481	-433	-400
Support Services Charges	-21	-20	-52	-52
	-963	**-825**	**-840**	**-753**
Governance and Oversight				
Investment Advisory Services	-113	-95	-55	-81
Governance & Compliance	-42	-36	-12	-50
External Audit	-26	-17	-22	-20
Actuarial Fees	-57	-142	-7	-36
	-238	**-290**	**-96**	**-187**

Investment Management				
Management Fees	-4,463	-6,485	-5,934	-5,291
Performance Fees	-2,143	-1,080	-1,405	-525
Transaction Costs	-2,881	-1,143	-492	-520
Custodian fees	-61	-59	-66	-56
	-9,548	**-8,767**	**-7,897**	**-6,392**
Total Operational Expenses	**-10,749**	**-9,882**	**-8,833**	**-7,332**

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

- Transaction costs increased by about 57% due to increased portfolio activities by active fund managers and divestment from both UBS Equities, the LCIV Ruffer and Epoch funds.
- Investment management expenses decrease is attributable to divestment from actively managed portfolios managed by UBS, LCIV Ruffer and Epoch, with assets moved into passive portfolios at LGIM.
- Reduction in actuarial fees was mainly due to lack of valuation fees compared to 2019/20, which was a valuation year.

C: INVESTMENT POLCIY 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.

From 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 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 considered 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 can 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 2021 is as follows:

Asset Category	Opening Value 01 April 2020	Strategic Weighting	Actual Weighting	Closing Value 31 March 2021	Strategic Weighting	Actual Weighting
	£'000	**%**	**%**	**£'000**	**%**	**%**
Equities	408,483	45	41	537,107	45	46
DGF	55,573	0	6	50,833	0	4
Bonds	230,844	24	23	261,498	24	23
Property	118,060	12	12	139,177	12	12
Alternatives:			0			
Private Equity	13,645	1	1	13,369	1	1
Infrastructure	27,265	8	3	34,327	8	3
Private Credit	68,777	5	7	60,253	5	5
Long Lease Property	47,399	5	5	49,749	5	4
Cash	16,068	0	2	15,255	0	1
Total	**986,114**	100	100	**1,161,568**	100	100

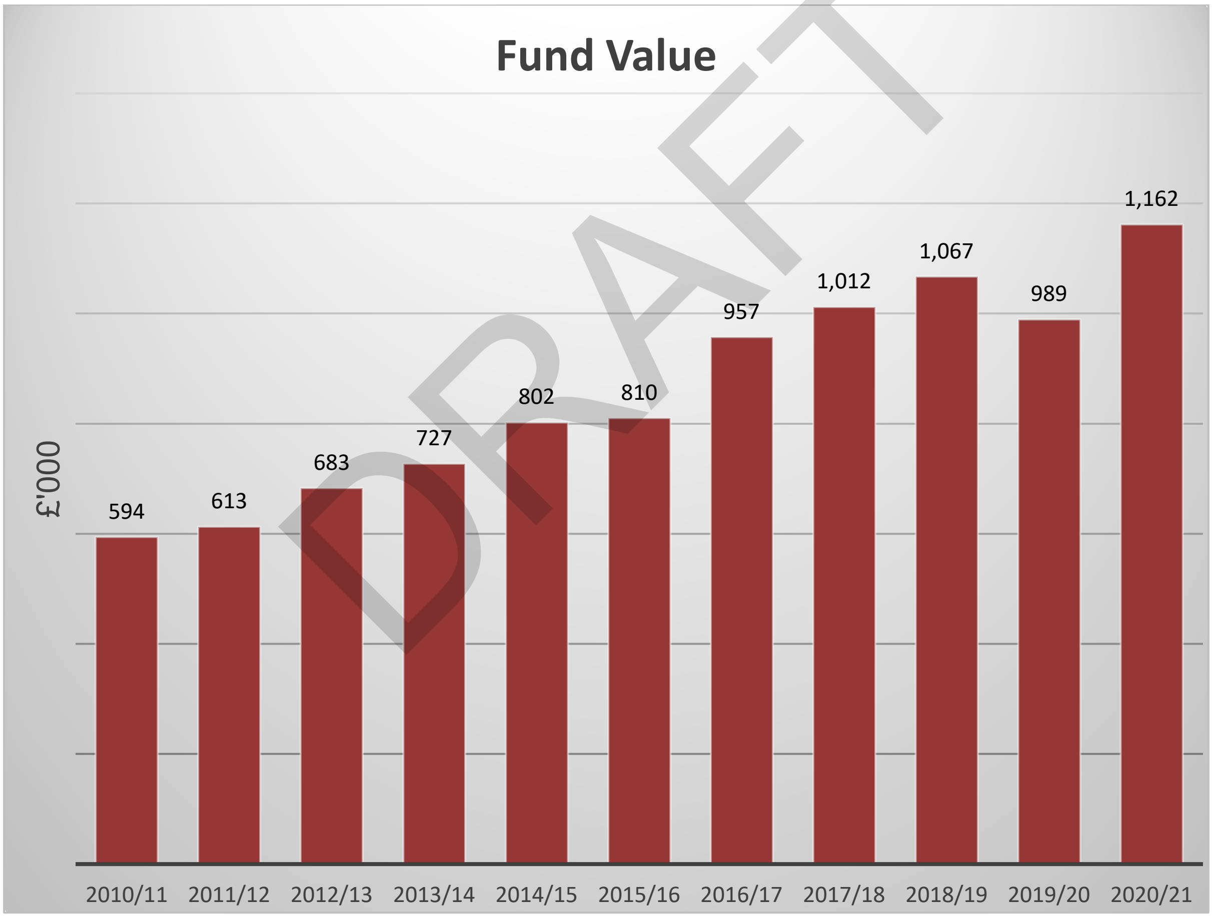
Asset Allocation Variances

The table above shows 4% variances between DGF strategic and actual weightings compared to its strategic allocation. This attributable to asset allocation decisions taken during the year to fund LPI I/L Property portfolio with LGIM and Infrastructure with DGF allocation reduced to zero.

Weighting difference in Infrastructure is due to the allocated commitments to LCIV-Infrastructure offerings yet to be drawn-down and still invested in DGF.

Fund Value

The Fund value increased by £173m as recovery from the impact of COVID-19 on assets valuation from previous financial was manifested in the asset prices during the current year under review.



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

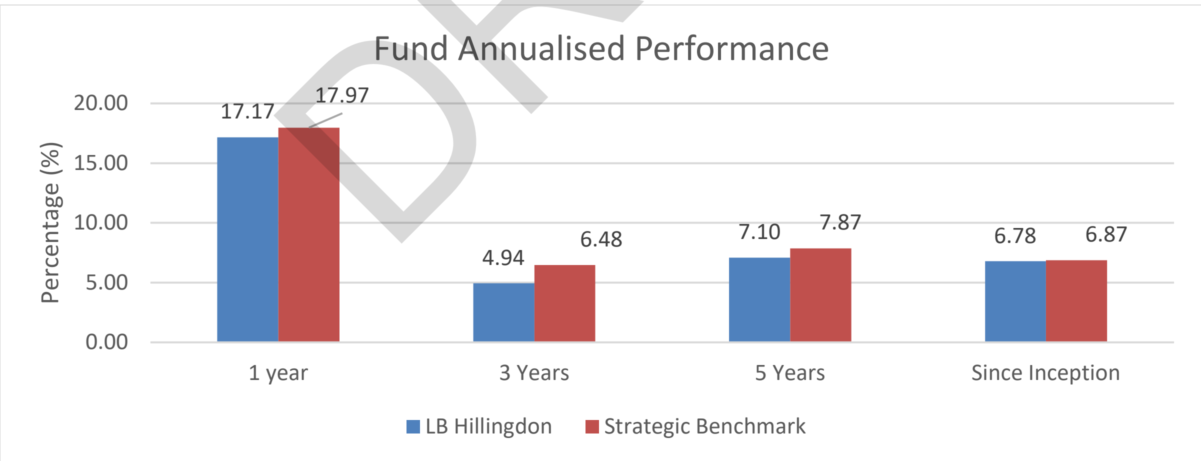
The latest Funding Strategy Statement can accessed via the Pension Fund Web page.

https://archive.hillingdon.gov.uk/article/6492/Pension-fund

Investment Performance

Overall relative performance of the Fund for the year 2020/21 was 0.80% 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.

The since inception relative performance was 0.09% behind the benchmark.

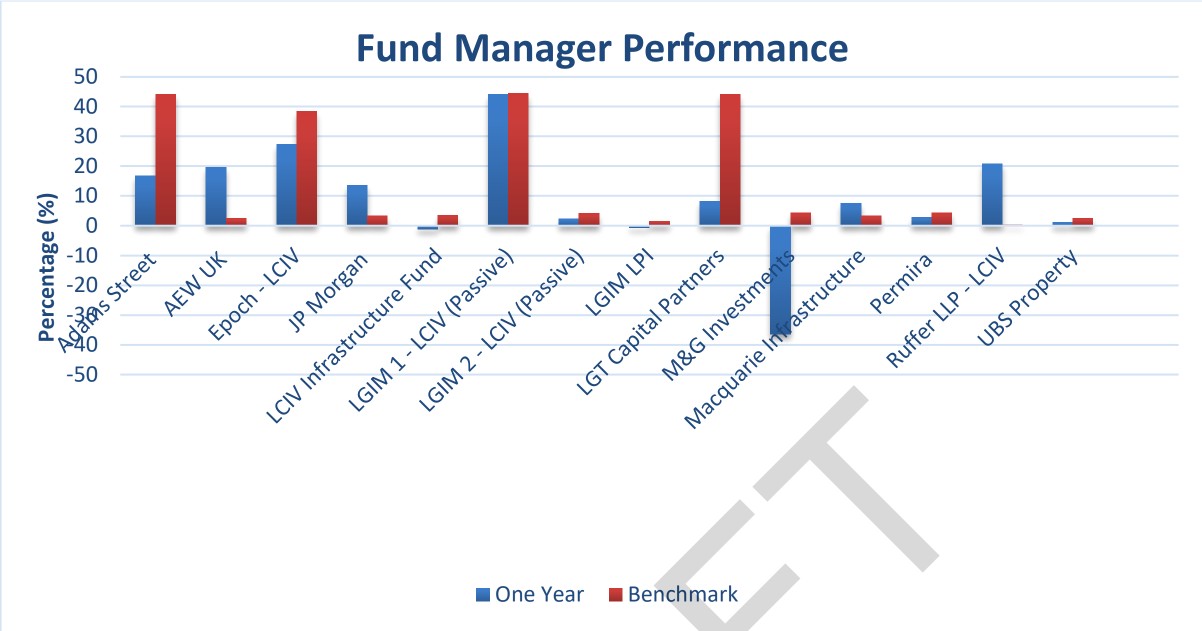


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by officers and the Fund's investment and independent advisers.

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 2020/21		
	One Year	Benchmark
	%	%
Adams Street	16.73	44.19
AEW UK	19.57	2.46
Epoch - LCIV	27.30	38.43
JP Morgan	13.67	3.36
LCIV Infrastructure Fund	-1.21	3.53
LGIM 1 - LCIV (Passive)	44.12	44.45
LGIM 2 - LCIV (Passive)	2.27	4.11
LGIM LPI	-0.63	1.52
LGT Capital Partners	8.24	44.19
M&G Investments	-36.45	4.36
Macquarie Infrastructure	7.61	3.36
Permira	2.80	4.36
Ruffer LLP - LCIV	20.89	0.36
UBS Property	1.12	2.46

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.

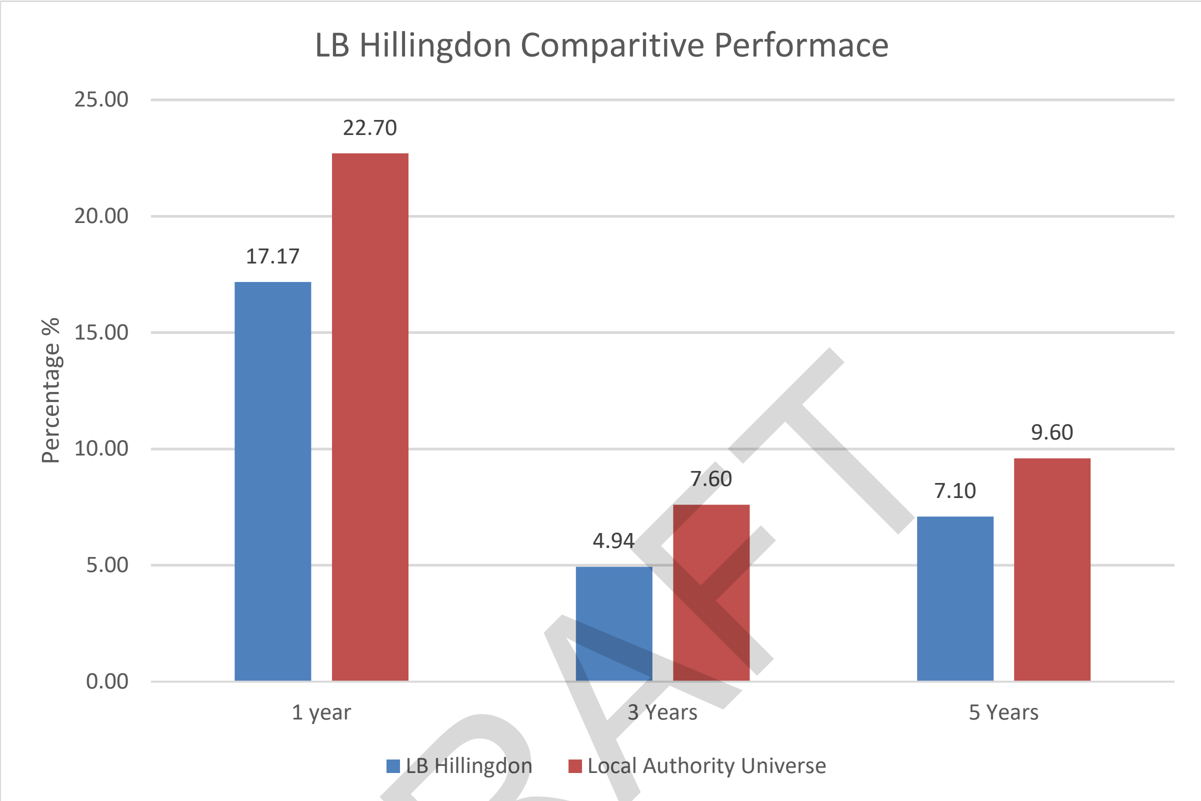
- Underperformance of the Fund was mainly attributable to underperforming equity managers Epoch and UBS. Action has, and is, been taken to address this.

Historical Fund Managers Performance Returns				
Manager	***One Year***	***Three Years***	***Five Years***	***Benchmark***
	%	***%***	***%***	
Adams Street	16.73	18.03	15.43	MSCI All Countries World Index
AEW UK	19.57	3.75	6.19	IPD UK PPFI All Balanced Funds Index
Epoch - LCIV	27.3	8.1	4.39	MSCI World ND
JP Morgan	13.67	4.31	4.82	LIBOR +3%pa
LGIM 1 - LCIV (Passive)	44.12	11.87	9.71	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unhedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)	2.27	3.59	4.32	Markit iBoxx £ Non-Gilt
LGT Capital Partners	8.24	12.83	15.24	MSCI All Countries World Index
M&G Investments	-36.45	-12.86	-2.86	LIBOR +4%pa
Macquarie Infrastructure	7.61	12.36	13.68	LIBOR +3%pa
Permira	2.8	4.92	6.41	LIBOR +4%pa
Ruffer LLP - LCIV	20.89	7.58	6.73	LIBOR
UBS Property	1.12	1.52	3.04	IPD UK PPFI All Balanced Funds Index

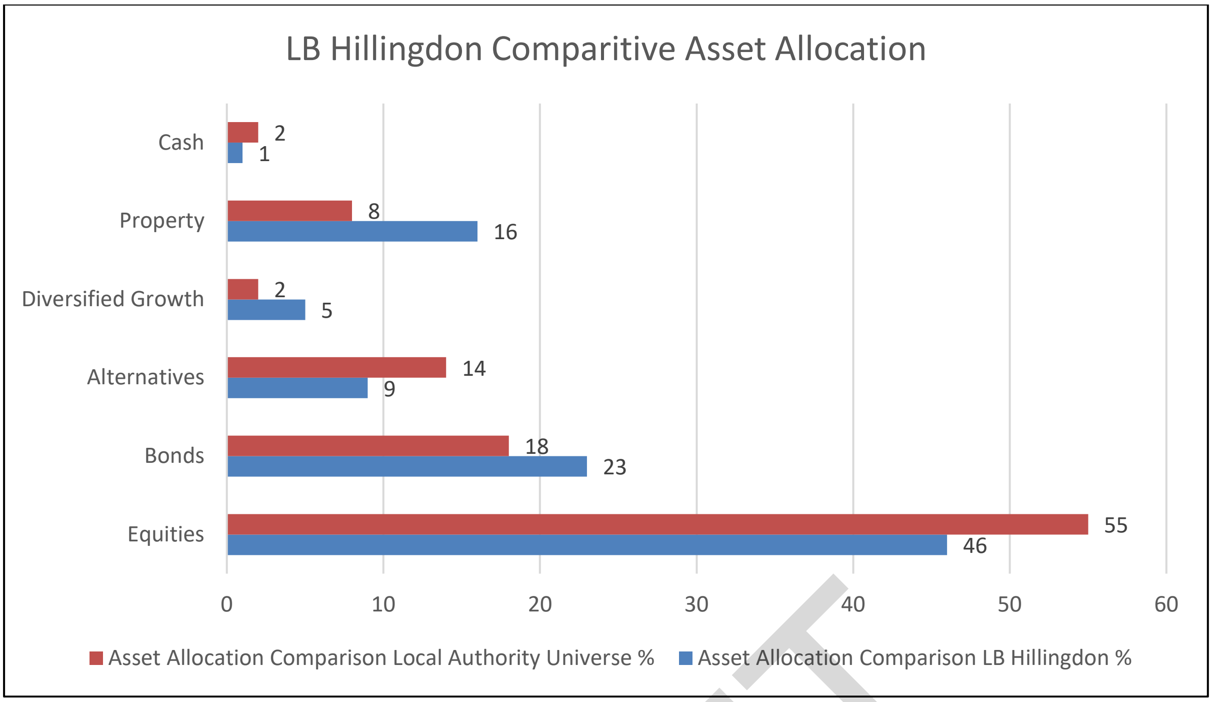
*Pooled Investments with London CIV. Three and five year returns unavailable

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 partly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund. In addition, performance has also been negatively impacted by poor results from the active equity managers.



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.

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.

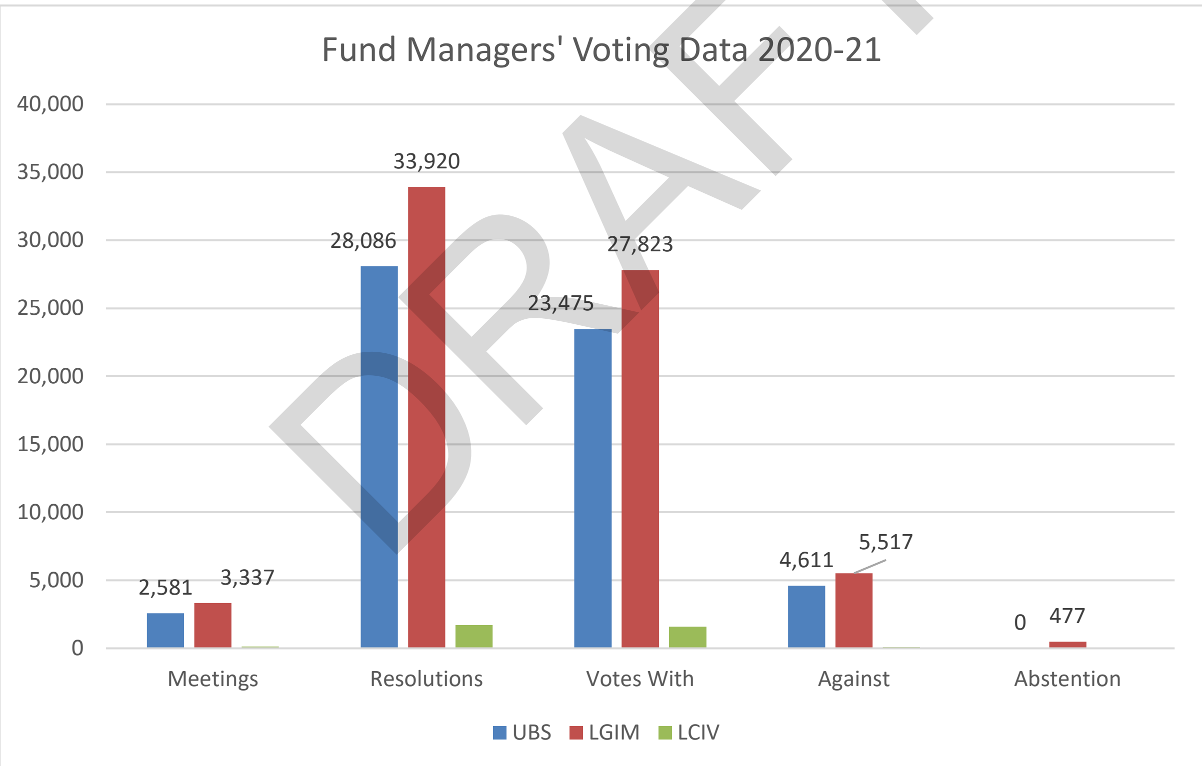
We as a Fund appreciates that to gain the attention of companies in addressing governance concerns; collaborating with other investors sharing similar concerns may be an effective tool.

The Fund is in the process of preparing the required framework to support submission for signatory status of the 2020 UK Stewardship Code.

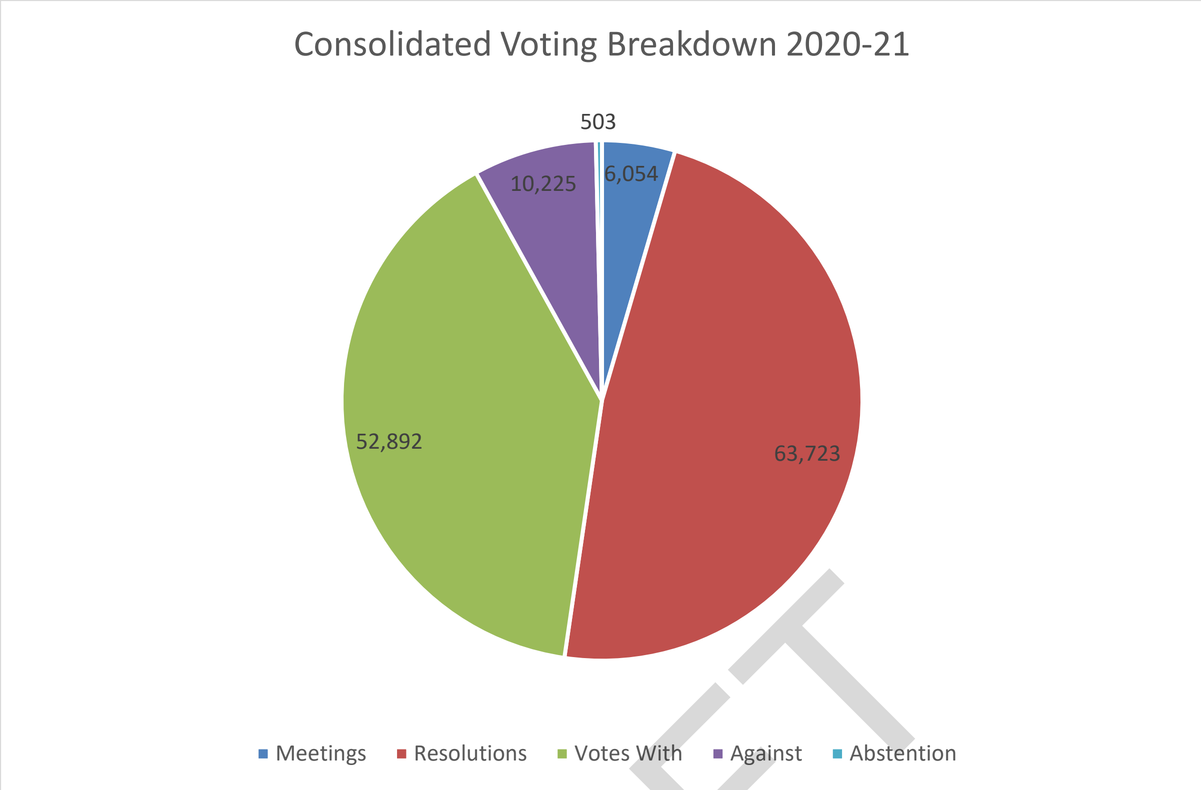
Exercise of voting rights

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 **UK Stewardship Code 2020** sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
The Fund is currently not a signatory to the 2020 UK Stewardship Code, but plans are currently in place to produce a compliance statement and apply to be a signatory to the code. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners.



The graph above shows a breakdown of voting activities by Fund's investment managers during 2020-21 financial year. LGIM were the most active in terms of voting activities by attending and voting at 3,337 meetings. All managers voting activity relates to the managers votes cast for the funds rather than Hillingdon specific shares.



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 Fund's 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.

As at the 31st March 2021 the Fund's bank accounts were held with Nat West. Funds not immediately required to pay benefits are held as interest bearing operational cash with the bankers and the custodian.

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 several 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**	
		2019/20	**2020/21**
Death notification acknowledged, recorded and documentation sent	5 working days	95%	79%
Payment of death grant made	10 working days	96%	75%
Retirement notification acknowledged, recorded and documentation sent	10 working days	95%	77%
Payment of lump sum made	10 working days	96%	78%
Calculation of spouses' benefits	10 working days	94%	68%
Transfers In - Quotes	20 working days	97%	73%
Transfers In - Payments	20 working days	89%	80%
Transfers Out - Quote	20 working days	89%	79%
Transfers Out - Payments	20 working days	96%	82%
Employer estimates provided	10 working days	91%	87%
Employee projections provided	10 working days	96%	87%
Refunds	20 working days	99%	88%
Deferred benefit notifications	20 working days	80%	69%

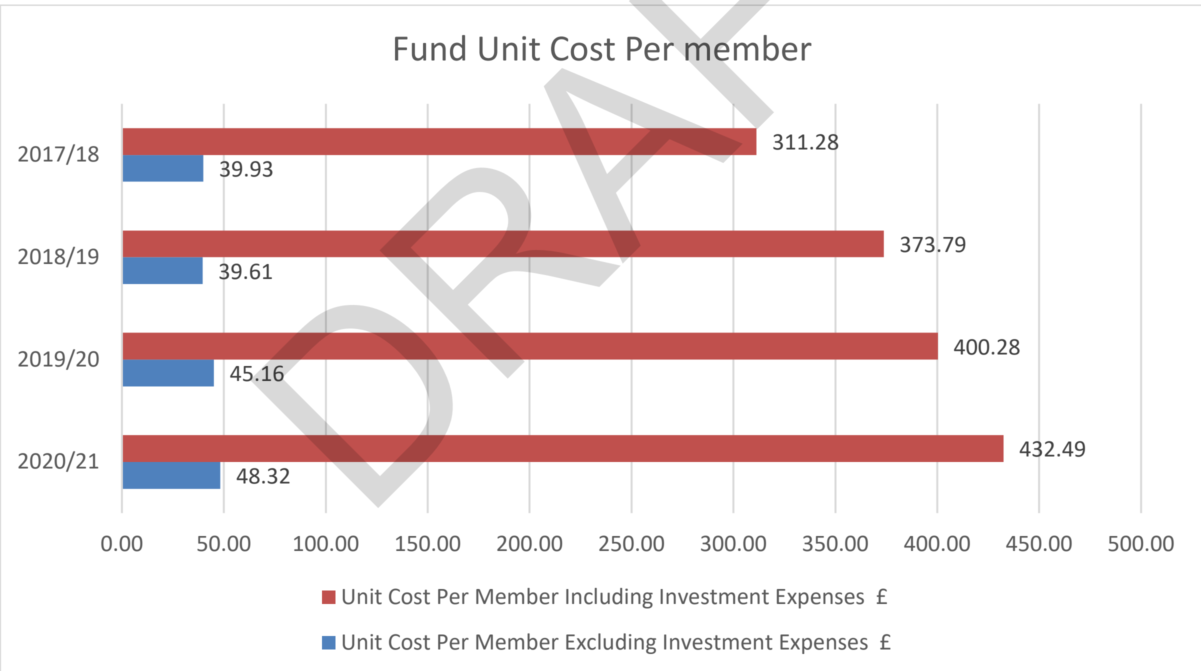
Performance indicators for all measurable metrics dropped throughout 2020/21 due largely to the impact of COVID-19, which necessitated remote working and emergency working conditions. As directed by The Pensions Regulator (TPR), only essential services, such Retirement benefits, Death Grants and Refund of contributions were prioritised.

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.

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

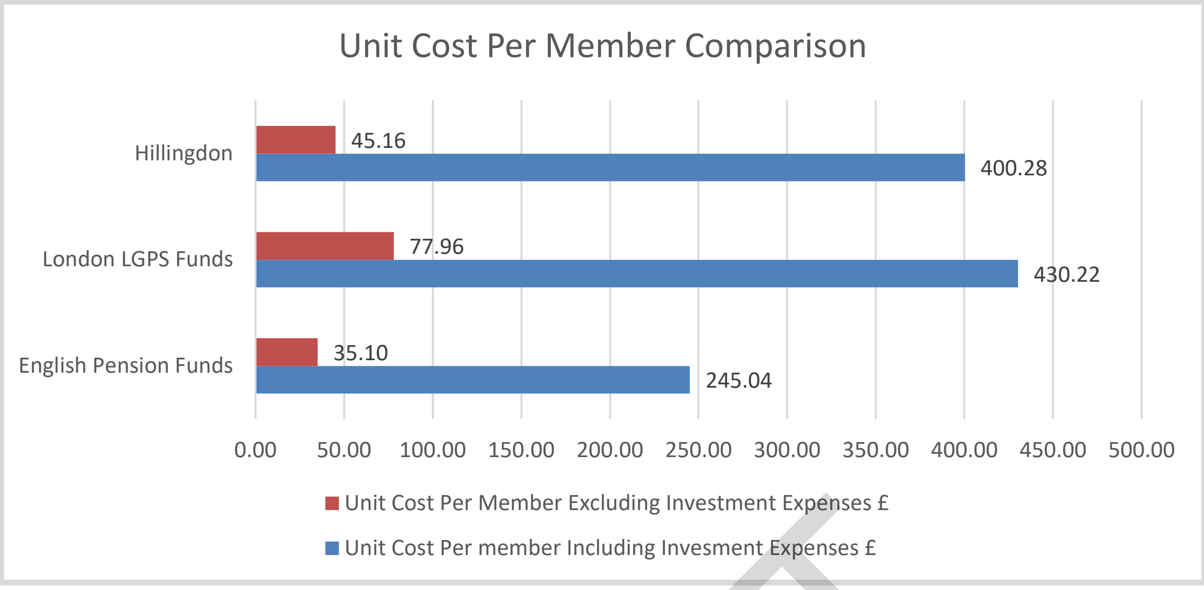
1.80 FTE staff are employed by the Finance Directorate to oversee the governance and accounting side of the Fund.



The increase in administration costs and Investment Management expenses were responsible for increased in costs per member from £45 in 2019/20 to £48 per head in 2020/21. The maturity profile of alternative investments resulted in increased performance fees paid to investment managers in this asset class as portfolios continued to wind down due to expiration of their respective investment periods.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2019/20 figures were yet to be released.

Membership costs comparison 2019/20

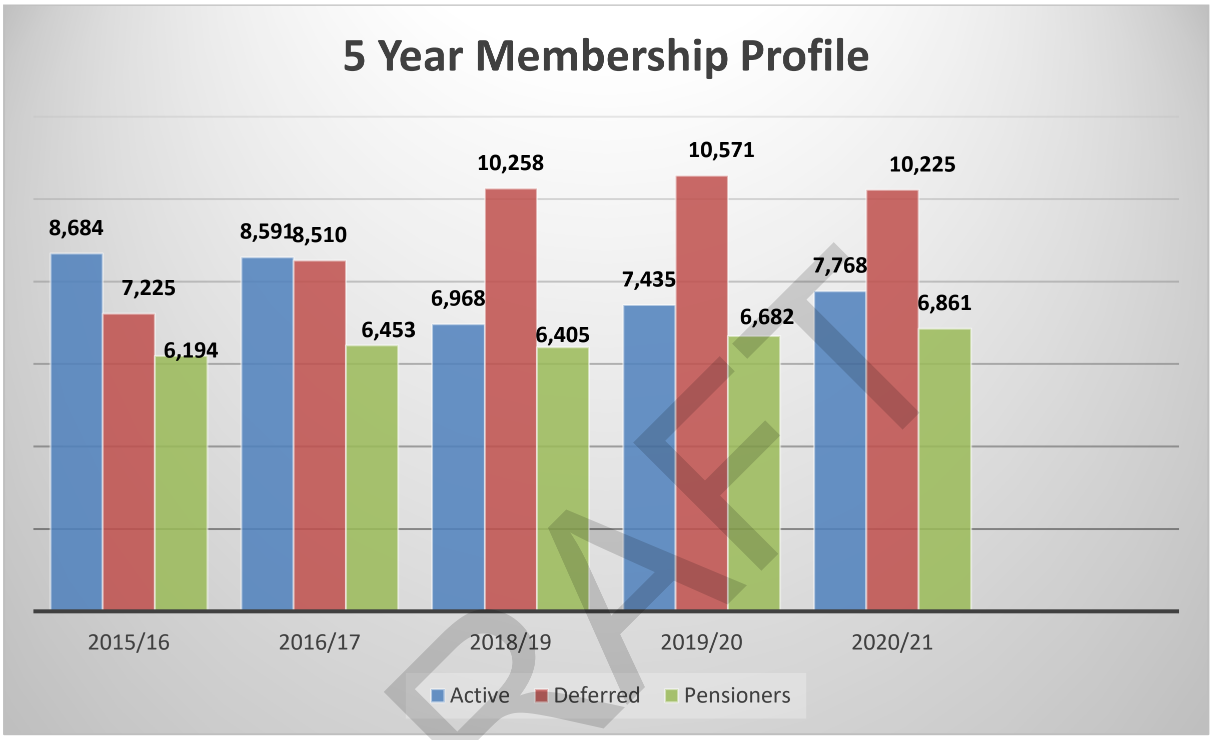


For the year 2019/20, the unit cost per member excluding investment expenses is about 22% higher than the average for Pension Funds in England but less than London Funds' average at £45 per member. The cost per member including Investment management expenses is about £400 per member and comes out less than most London Pension Funds in comparison.

Based on comparative figures obtained from ONS SF3 available as at 31 March 2021.

MEMBERSHIP

Active and deferred membership continued to grow over the last two financial years. The most significant movement year-on-year is the increase in active membership by 333 and overall scheme membership increased year-on-year by 0.7% from 24,688 to 24,854 in 2020/21. The membership profile over the last five years is shown below:



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	2016/17	2017/18	2018/19	2019/20	2020/21
Ill Health Retirement	3	8	8	10	6
Redundancy	34	58	39	41	34
Total	**37**	**66**	**47**	**51**	**40**

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 Chief Accountant, London Borough of Hillingdon.

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2020/21 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	27,447,378.29	24.1
Barnhill School - ACADEMY	Scheduled Body	230,983.00	24.9
Belmore Primary School - ACADEMY	Scheduled Body	204,909.71	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	240,109.80	24.2
Bishopshalt School - ACADEMY	Scheduled Body	307,044.34	26.5
Charville Primary School	Scheduled Body	181,986.59	23.2
Coteford Academy - QED Academy Trust	Scheduled Body	140,866.88	25.9
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	137,285.26	23.7
Cranford Park School - Park Federation Academy	Scheduled Body	279,348.41	22.7
Douay Martyrs School - ACADEMY	Scheduled Body	310,561.98	25.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	246,029.08	20.9
Grangewood School - EDEN ACADEMY	Scheduled Body	234,908.28	20.9
Global Academy - Heathrow	Scheduled Body	81,409.84	19.2
Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	307,674.76	21.8
Harefield ACADEMY	Scheduled Body	139,804.75	22.5
Haydon Secondary School - ACADEMY	Scheduled Body	373,367.93	23.6
Heathrow Aviation (UTC) Alet	Scheduled Body	27,342.30	20.1
Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	148,462.61	21.9
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	76,662.76	19.4
John Locke Academy - Elliot Foundation Trust	Scheduled Body	123,541.80	20.3

Lake Farm Academy - Park Federation Academy	Scheduled Body	183,523.70	19.6
Laurel Lane Primary School	Scheduled Body	129,919.10	23.7
LDBS FRAYS ACADEMY BGC FRAYS TRUST	Scheduled Body	54,271.90	23.7
LHC	Scheduled Body	551,931.83	24.1
Moorcroft Special School - EDEN ACADEMY	Scheduled Body	209,538.17	20.9
NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	60,995.40	21.8
Northwood Academy - QED Academy Trust	Scheduled Body	148,534.72	23.8
Park Federation - Academy (Payroll Staff)	Scheduled Body	70,826.08	19.6
Pentland Field School - Eden Academy	Scheduled Body	272,964.69	20.9
Pinkwell Primary School - Elliot Foundation Trust	Scheduled Body	268,961.61	25.7
Queensmead Secondary School - QED Academy Trust	Scheduled Body	255,718.86	21.8
Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	387,465.46	22.9
Ruislip Academy	Scheduled Body	248,362.94	25.7
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	130,058.96	31.3
St Martins Primary School	Scheduled Body	89,930.18	23.7
St Matthews Primary School - LBDS FRAYS ACADEMY	Scheduled Body	91,202.10	23.7
Stockley Academy - (Park West Academy)	Scheduled Body	126,873.75	20.7
Swakeleys School - ACADEMY	Scheduled Body	189,888.75	21
Uxbridge College	Scheduled Body	2,093,715.10	23.4
Uxbridge High School - ACADEMY	Scheduled Body	255,946.97	21
Vyners School - Multi Academy Trust	Scheduled Body	284,812.01	29.7
West Drayton Primary School	Scheduled Body	195,942.33	26.4
William Byrd Primary	Scheduled Body	170,734.20	27.3
Willows Special School - ACADEMY	Scheduled Body	69,601.75	31
Woodend Park School - Park Federation Academy	Scheduled Body	225,480.09	22.2

Young Peoples Academy - Orchard Hill Academy College Trust	Scheduled Body	128,999.80	19.4
BRAYBORNE FAC - Bishop Ramsey BISHOP RAMSEY	Admitted Body	10,739.85	35.1
Caterlink - Frays Academy	Admitted Body	16,295.29	30
Caterplus - Genuine Dining	Admitted Body	19,261.60	26
Cleantec (Harlington School)	Admitted Body	8,217.90	35.5
CUCINA - Bishopshalt	Admitted Body	6,629.69	27.7
CUCINA - Ruislip High School	Admitted Body	3,555.76	27.7
E/N HERTS NHST	Admitted Body	11,842.75	34.6
Greenwich Leisure Services	Admitted Body	52,294.17	28
Hayward Services (Highfield)	Admitted Body	4,374.63	34.5
Hayward Services (Hillingdon)	Admitted Body	13,103.76	34
Hayward Services (Guru Nanak)	Admitted Body	26,743.58	32.5
HEATHROW TRAVEL CARE	Admitted Body	44,709.23	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	50,772.68	23.2
Queensmead QED - Naveen Bandari	Admitted Body	22,185.00	21.8
Taylor Shaw - Haydon Academy	Admitted Body	11,752.12	33.7
Whiteheath School - Pantry	Admitted Body	1,374.28	37.4
Frithwood & Hillside Schools - Pantry	Admitted Body	1,856.48	31.4
West Drayton Primary - Pabulum	Admitted Body	8,424.24	34.4
Total		**38,450,011.83**	

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).

2020/21	**Active**	**Ceased**	**Total**
Administering Authority	1	0	1
Scheduled Bodies	44	0	44
Admitted Bodies	17	0	17
	62	**0**	**62**

London Borough of Hillingdon Pension Fund (“the Fund”) Actuarial Statement for 2020/21

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

Description of Funding Policy

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

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 75% likelihood that the Fund will achieve the funding target over 20 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 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £1,067 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £161 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 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 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.1 years	24.3 years
Future Pensioners*	22.8 years	25.5 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be broadly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Craig Alexander FFA

12 May 2021

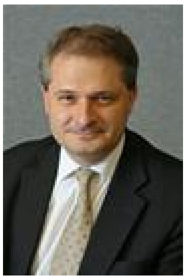
For and on behalf of Hymans Robertson LLP

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 2020/21 these were:

Councillor
Martin Goddard
(Chairman)



Councillor
Philip Corthorne
(Vice-Chairman)

Councillor
Raymond
Graham

Councillor
Tony Eginton

Councillor
John Morse
(Labour Lead)

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 Raymond Graham	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 2020/21 were:

Employer Representatives:
Zak Muneer – Until February 2021
Hayley Seabrook
Shane Woodhatch – From February 2021

Scheme Member Representatives:
Roger Hackett
Tony Noakes

Record of Attendance
Three Meetings were held in 2020/21; September 2020, November 2020 and February 2021

Name	Meetings attended
Zak Muneer	1/3
Hayley Seabrook	3/3
Roger Hackett	3/3
Tony Noakes	3/3
Shane Woodhatch	1/3

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.

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 2020/21

	Cllr Goddard (Chair)	Cllr Corthorne	Cllr Eginton	Cllr Morse	Cllr Graham
Investment Strategy Training – Isio	Y	Y	Y	Y	Y
Property Investment - Isio	Y	Y	Y	Y	Y
Regulatory Training - Clare	Y	Y	Y	Y	Y
Conflict of Interest - AON	Y	N	N	N	N
ESG Training - Isio	Y	Y	Y	Y	Y

Pensions Board

	Hayley Seabrook	Zak Muneer	Roger Hackett	Tony Noakes
Pensions Board Training - Reporting Beaches	Y	Y	Y	Y
Barnett Waddingham & CIPFA LGPS LPB Members' Seminar	Y	N	Y	Y
Pensions Committee Training, Trienial valutaion	N	Y	Y	Y
ESG Training - Pension Committee special session	N	Y	Y	Y
Pensions Board - Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling.	N	N	Y	N
LGPS Members Spring Seminar – CIPFA & Barnett Waddingham	Y	N	Y	Y
Training On Myners Principles	Y	Y	Y	Y
Accounts and Audit Regulations Training by Chief Accountant	Y	Y	Y	Y

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

In November 2020 the Pensions Board reported to pensions Committee to explain work completed since last report in November 2019. The report to Committee has been included here.

ANNUAL REPORT OF THE LOCAL PENSIONS BOARD Item 10

Committee	Pensions Committee
Reporting Board Member	Roger Hackett – Chair of the Local Pensions Board
Papers with report	Annual Report of the Pensions Board

RECOMMENDATION

1. That the Pensions Committee note the annual report of the Local Pension Board for the year 2020

REASON FOR ITEM

The Scheme Advisory Board’s LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans.

This report has been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board during the year 2020

FINANCIAL IMPLICATIONS

The financial implications are included in the annual report

LEGAL IMPLICATIONS

The legal implications are included in the annual report

1 Introduction to the Local Pension Board

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

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.

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 of the Board

Employer Representatives	Scheme Member Representatives
Hayley Seabrook	Roger Hackett
Zac Muneer	Tony Noakes

Record of Attendance

Name	Feb-20	Apr-20	Sep-20	Nov-20
Zak Muneer	Y			
Hayley Seabrook	Y		Y	Y
Roger Hackett	Y		Y	Y
Tony Noakes	Y		Y	Y

**April 2020 meeting was cancelled due to COVID-19 restrictions

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the period from February to November 2020.

AON Hewitt is appointed as Governance advisers to support the development and work of the Board and attend meetings as necessary.

2 Summary of the Work of the Board

In March 2020 the Council suspended the Pensions Committee meetings due toCOVID-19. This had a knock-on effect on the Pensions Board meeting for April 2020, as a key part of the work of the Board is to review the decisions of the Pensions Committee.

In addition to reviewing the governance of Pensions Committee papers and effective decision making, the Board has a work programme focusing on administrative and governance compliance of the fund with papers presented to the Board for discussion. Some of the key areas discussed have been outlined below.

Results of TPR code compliance review

The review of the Councils compliance with the TPR code of practice was presented to the Board in February 2020. Of the 97 areas assessed, full compliance was found in 78 areas, partial compliance in 18 and 1 area of non-compliance.

At the last assessment in November 2020 the areas of partial compliance were improved from 18 to 7 and there were no areas of non-compliance. The Board continues to monitor the code compliance with an aim to achieve full compliance in all areas

Other areas of work have been undertaken as outline below

- Monitoring of the Data Improvement Plan
- Cyber security assurance, controls and response
- Review of Policy documents to ensure they are kept up-to-date
- Monitoring the performance of the Pensions Administration by Surrey County Council.

Future Work of the Board

In addition to the high-level items shown in the workplan later in this report the Board will have a keen eye on the following areas.

Cyber Security has been high on the Board's agenda through 2020 and this will continue through 2021. The outcome of the recent 'scorecard' benchmarking exercise is eagerly awaited. Analysis should show if there are any perceived weaknesses and where remedial action may be required. A cyber data mapping toolkit is currently being developed by a third party and a commitment has been made to acquire this software to help understand pension fund data flows.

The Pensions Regulator has recently announced their 'Pensions Pledge' campaign in which the pensions industry is being called upon, to publicly pledge to combat scams. The Board will be keen to see this explored further by the Fund with the aim of making the pledge.

The Board has been monitoring the Good Governance Project and the recent publication of phase 3 of the report. The Board will be considering this report to assess its implications and how those affected by the proposed changes should be preparing for this new governance framework.

The Pensions Regulator (tPR) has asked Boards to particularly focus on Data Accuracy. The transition to the new administrator includes ambitious plans to have a comprehensive Data Improvement Plan for 2022 and seeks to meet tPR targets. The Board will be monitoring and reviewing the arrangements being put in place to achieve this.

3 Details of any Conflicts of Interest

The SAB guidance recommends that the Board reports details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed.

Declaration of interest remains on the Agenda at the start of each meeting and in addition to the register of interest Pension Board members have been requested to renew their declaration of interest form in line with best practice.

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest. Training has also been scheduled in February 2020.

4 Areas of Concern or Risk

Regulatory changes – The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include: McCloud Judgement; Goodwin Judgement; GMP reconciliation, and Exit Cap. The Board is also aware of the added complexity and pressures of managing these changes in the current COVID-19 environment.

The Board will continue to monitor and seek assurance from Officers that the changes can be effectively delivered in compliance with the regulatory deadlines.

Transfer of Administration Services – In 2020 the Pensions Committee agreed to transfer the pensions administration service currently provided by Surrey CC to Hampshire CC.

The Board recognises that this is a major risk area involving the transfer of large amounts of sensitive membership data. The Board will be keen that compliance with the relevant GDPR, and cyber security processes are met and that there is minimal disruption to the provision of pension administration services during the transition.

The Pensions Board in supporting this project has been vigorous in probing and seeking assurance that a robust plan is in place to minimise the risks.

The Board will continue to monitor this project in the coming year to ensure that compliance especially in the areas of GDPR, cyber security and continuity of service quality.

5 Training

Regular training has been made available to the Board and is a standing item on the quarterly work programme. As a result of the move to virtual meetings, training has been delivered separately from the meetings.

Board members challenged themselves in 2021 to complete the TPR public sector toolkit. The schedule below outlines the training undertaken by the Board

Areas of Training	Date	Zak Muneer	Hayley Seabrook	Roger Hackett	Tony Noakes
Regulatory Update Training	20-Jan-21		Y	Y	Y
Conflicts of Interest Training	FEB-21			Y	
CIPFA LPB Spring Seminar	15-Feb-21		Y	Y	
ISIO - Investment Strategy Training (joint)	21-Oct-20		Y	Y	Y
TPR + AON Cyber Risk in LGPS	19-Nov-20			Y	

The future training programme for the Board has been set out below. Board members have been requested to refresh the knowledge and skills assessment to assist officers to develop a targeted training programme.

Areas of Training	Date
Regulatory Update Training	20-Jan-21
Conflicts of Interest Training	Feb 21
Cipfa LPB Spring Seminar	15-Feb-20
Sustainable investment Challenges for LGPS	25-Feb-21
ESG Training (jointly with Commitree)	Mar-21

6 Work Plan

The workplan below sets out the tasks undertaken by the Board during 2020

Meetings	Specific topics
26 February 2020	• Training - Accounts and Audit Regulations (relating to internal controls and proper accounting practice) • Funding Strategy Statement review • tPR Checklist – **Full Independent review of compliance** • Administering Authority Discretions policy • Review of Pension Committee Reports
24 April 2020**	• Training - Conflict of Interest assurance providers • Communication Policy Review • tPR Checklist review & focus areas TBC • Training Update Report • Review of Pension Committee Reports
9 September 2020	• Training – Conflicts of Interest (to be done separately) • Cyber Security Update

	• Governance and Compliance update • tPR Checklist review & focus areas • Training Update Report • Internal Controls Report • Breaches Log Report • Review of Pension Committee Reports
25 November 2020	• Cyber Security Update • Data Score improvement plan • tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Review of Pension Committee Reports

**April 2020 meeting was cancelled due to COVID-19 restrictions

The Future workplan of the Board is set out below.

Meetings	**Specific topics**
17 February 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Annual Report of the Board • Breaches Log • Internal controls and cyber security

	• Review of Pension Committee Reports
21 April 2021	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Review of Pension Committee Reports
28 July 2021 (TBC)	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Review of Pension Committee Reports
27 October 2021 (TBC)	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Review of Pension Committee Reports
05 January 2022 (TBC)	• tPR Checklist review & focus areas • Training Update Report • Administration Report • Breaches Log • Review of Pension Committee Reports

7 Expenses

The Board incurred expenses of £1,420 in relation to its operations in 2020. (This does not include the standard gov

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 2020/21 ('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 2021 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
29 September 2021

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that the draft Pension Fund accounts were considered by Pensions Committee at meetings held on 29-09-2021.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 29 September 2021.

Cllr Martin Goddard
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)
29 September 2021

PENSION FUND ACCOUNT

	Note	31 March 2021 £'000	31 March 2020 £'000
Contributions	*4*	48,681	47,305
Transfers In from other pension funds	*5*	4,803	1,746
		53,484	**49,051**
Less: Benefits	*6*	(47,211)	(47,188)
Less: Payments to and on account of leavers	*7*	(3,541)	(6,870)
		(50,752)	**(54,058)**
Net additions/(withdrawals) from dealings with members		**2,732**	**(5,007)**
Less: Management expenses	*8*	(10,749)	(9,882)
Net additions/(withdrawals) including fund management expenses		**(8,017)**	**(14,889)**
Return on investments			
Investment income	*9*	13,667	23,101
Profit and losses on disposal of investments and changes in market value of investments	*10A*	170,519	(86,092)
Taxes On Income		(22)	(48)
Net return on investments		**184,164**	**(63,039)**
Net Increase/(Decrease) in the fund		**176,147**	**(77,928)**
Net Assets at start of year		**989,055**	**1,066,983**
Net Assets at end of year		**1,165,202**	**989,055**

NET ASSETS STATEMENT

		31 March 2021 £'000	31 March 2020 £'000
Investment Assets	*10*	1,161,568	986,131
Investment Liabilities	*10*	0	(17)
Total net investments		**1,161,568**	**986,114**
Current Assets	*11*	4,323	3,574
Current Liabilities	*12*	(689)	(633)
Net assets of the fund available to fund benefits at		**1,165,202**	**989,055**

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
Corporate Director of Finance
29 September 2021

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 yearly 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

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

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

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
- Skills HUB

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

London Borough of Hillingdon Pension Fund	31 March 2021	31 March 2020
Number of employers with active members	61	66
Number of employees in scheme		
London Borough of Hillingdon	4,972	4,839
Other employers	2,796	2,596
Total	**7,768**	**7,435**
Number of Pensioners		
London Borough of Hillingdon	6,187	6,082
Other employers	674	600
Total	**6,861**	**6,682**
Deferred Pensioners		
London Borough of Hillingdon	7,566	7,941
Other employers	2,659	2,630
Total	**10,225**	**10,571**

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 2021. 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 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% of pensionable pay, as per the 2019 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 is one direct investment 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 2020-21) and governance is overseen by the Pensions Board (Four meetings in 2020-21). Pensions Committee and Pensions Board consisted of the following members in 2020/21:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (Vice-Chairman)
Cllr Raymond Graham
Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Scheme Member Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative) Until Feb 2021
Hayley Seabrook (Employer Representative)
Shane Woodhatch (Employer Representative) From Feb 2021

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 2020/21, 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 accrual 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 2021.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2021). 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 accrual 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 accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2020/21, £41k of such fees is based on estimates (2019/20: £76k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

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 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 2021 was £294,037k (£275,145k at 31 March 2020).

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.

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 fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, primarily at 31 December 2020, 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 £13,369k. 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 2021. 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 2021 valuations will be broadly based on a general outlook continued recovery COVID-19 related economic impact of 2019/20.	The total infrastructure alternative investments in the financial statements are £34,327k. 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 is not be impacted by Covid-19.	The total private finance investments in the financial statements are £1,248k. 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. Investments have recovered and stabilised, thus returning to growth. Subsequently, only 5% of investment portfolio is now classified as high risk from COVID-19. Deal activity has also recovered to pre-pandemic levels.	The total Private Debt investments in the financial statements are £59,005k. 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 2021 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19, unlike 31 March 2020.	The total Pooled property investments in the financial statement is £188,926k. 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 unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions 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 2021 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 2021 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.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	157
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	8%	146

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 2021 £'000	31 March 2020 £'000
Employees	10,231	10,109
Employers Contributions:		
Normal	32,737	30,333
Deficit Funding	5,713	6,863
	48,681	**47,305**

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 2021 £'000	31 March 2020 £'000
LB Hillingdon	34,759	33,793
Scheduled Bodies	13,528	13,174
Admitted Bodies	394	338
	48,681	**47,305**

5. TRANSFERS IN

	31 March 2021 £'000	31 March 2020 £'000
Individual transfers in from other schemes	4,803	1,746
	4,803	**1,746**

6. BENEFITS

By category	31 March 2021 £'000	31 March 2020 £'000
Pensions	(39,955)	(38,846)
Commutations and Lump Sum Retirement Benefits	(6,478)	(7,330)
Lump Sum Death Benefits	(778)	(1,012)
	(47,211)	**(47,188)**

By authority	31 March 2021 £'000	31 March 2020 £'000
LB Hillingdon	(43,708)	(42,567)
Scheduled Bodies	(3,177)	(4,246)
Admitted Bodies	(326)	(375)
	(47,211)	**(47,188)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2021 £'000	31 March 2020 £'000
Refunds to members leaving service	(82)	(103)
Individual transfers out to other schemes	(3,459)	(6,767)
	(3,541)	**(6,870)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2021 as follows:

	31 March 2021 £'000	31 March 2020 £'000
Administrative Costs	(963)	(825)
Investment Management Expenses	(9,548)	(8,767)
Oversight and Governance	(238)	(290)
	(10,749)	**(9,882)**

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2020/2021	£'000	£'000	£'000	£'000
	Total	**Management Expenses**	**Performance Fees**	**Transaction Costs**
Equities	(94)	(88)	0	(6)
Pooled Investments	(5,971)	(2,827)	(1,242)	(1,902)
Pooled Property Investments	(2,323)	(1,307)	(104)	(912)
Private Equity	(1,099)	(241)	(797)	(61)
	(9,487)	**(4,463)**	**(2,143)**	**(2,881)**
Custody Fees	(61)			
Total	**(9,548)**			

2019/2020	£'000	£'000	£'000	£'000
	Total	**Management Expenses**	**Performance Fees**	**Transaction Costs**
Equities	(533)	(421)	0	(112)
Pooled Investments	(5,180)	(3,248)	(614)	(1,318)
Pooled Property Investments	(2,711)	(2,063)	(140)	(508)
Private Equity	(284)	(200)	(26)	(58)
	(8,708)	**(5,932)**	**(780)**	**(1,996)**
Custody Fees	(59)			
Total	**(8,767)**			

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2021 £'000	31 March 2020 £'000
Equities	(6)	(112)
Pooled Investments	(1,902)	(1,318)
Pooled Property Investments	(912)	(508)
Private Equity	(61)	(58)
	(2,881)	**(1,996)**

8C. EXTERNAL AUDIT COSTS

	31 March 2021 £'000	31 March 2020 £'000
Payable in Respect of External Audit	(40)	(22)
	(40)	**(22)**

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

9. INVESTMENT INCOME

	31 March 2021 £'000	31 March 2020 £'000
Income from Equities	1,398	5,810
Pooled Property Investments	2,108	6,452
Pooled Investments- Unit trusts and other managed funds	10,061	10,362
Interest on cash deposits	18	119
Other (for example from stock lending or underwriting)	82	358
	13,667	**23,101**

10. INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
Investment Assets		
Equities	42	84,471
Pooled investments	943,976	706,512
Pooled property investments	188,926	165,448
Private equity	13,369	13,614
Other Investment balances		
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
Total investment assets	**1,161,568**	**986,131**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	0	(17)
Total investment liabilities	**0**	**(17)**
Net investment assets	**1,161,568**	**986,114**

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2020/21	Value 1 April 2020 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
	970,045	**234,709**	**(220,827)**	**162,386**	**1,146,313**
Other investment balances					
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
Total Investment Assets	**986,131**			**170,519**	**1,161,568**

2019/20	Value 1 April 2019 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'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	0	0	207	15,520
Investment Income Due	1,183	0	0	0	502
Outstanding Sales	0	0	0	0	64
Adjustments to Market Value Changes	0	0	0	7,011	0
Total Investment Assets	**1,066,215**			**(86,092)**	**986,131**

10B. ANALYSIS OF INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
Equities		
UK		
Quoted	42	84,471
	42	**84,471**
Pooled funds - additional analysis		
Fixed income unit trust	261,498	230,844
Diversified Growth Funds	50,833	55,573
Infrastructure Funds	34,327	27,265
Global Equity	537,065	324,053
Limited liability partnerships	60,253	68,777
	943,976	**706,512**
Other Investments		
Pooled property Investments	188,926	165,448
Private equity	13,369	13,614
	202,295	**179,062**
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
	15,255	**16,086**
Total investment assets	**1,161,568**	**986,131**
Investment liabilities		
Purchase Settlements Outstanding	0	(17)
Total investment liabilities	0	(17)
Net investment assets	**1,161,568**	**986,114**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2021 £'000	%	Market Value 31 March 2020 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	668,045	58	384,373	39
London CIV Asset Pool	127,945	11	184,884	19
	795,990	69	569,257	58
Investments Managed Outside of London CIV Asset Pool				
Adams Street Partners	10,103	1	9,909	1
AEW UK	60,712	5	50,774	5
JP Morgan Asset Management	116,580	10	89,137	9
LGT Capital Partners	3,266	0	3,705	0
M&G Investments	1,248	0	4,674	0
Macquarie Infrastructure	20,862	2	26,699	3
Permira Credit Solutions	59,005	5	64,103	7
UBS Global Asset Management (Equities)	119	0	86,948	9
UBS Global Asset Management (Property)	78,990	7	67,517	7
Other*	14,693	1	13,391	1
	365,578	31	416,857	42
Total	**1,161,568**	**100**	**986,114**	**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 £29k (31 March 2020: £3,572k). 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 £30k (31 March 2020: £3,804k) 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 2021 £'000	31 March 2020 £'000
Debtors		
Employers' contributions due	63	51
Employees' contributions due	16	13
Cash balances	4,244	3,510
	4,323	**3,574**

12. CURRENT LIABILITIES

	31 March 2021 £'000	31 March 2020 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(172)
Other entities	(517)	(461)
	(689)	**(633)**

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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, in 2019/20 and AVC Fund value was £5,249k. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

Due to technical and administrative problems encountered by Prudential, the appointed AVC provider, updated fund value and contributions received for 2020/21 are yet to be made available.

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 2021.
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 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	34,327	37,760	30,894
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	60,253	66,278	54,228
Pooled Property - UBS, AEW & LGIM c	10%	188,926	207,819	170,033
Private Equity - d	5%	13,369	14,037	12,701
Venture Capital	5%	41	43	39
Total		**296,916**	**325,937**	**267,895**

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) The assumed movement is based fluctuations in market prices for comparable assets, real estate market Illiquidity and counterparty default.

d) 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 2021	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				
Equities	42	0	0	42
Pooled Investments	0	849,355	94,621	943,976
Pooled Property Investments	0	0	188,926	188,926
Private Equity	0	0	13,369	13,369
	42	**849,355**	**296,916**	**1,146,313**
Financial Liabilities at Fair Value through Profit and Loss				
Total	**42**	**849,355**	**296,916**	**1,146,313**

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				
Equities	84,471	0	0	84,471
Pooled Investments	0	610,429	96,083	706,512
Pooled Property Investments	0	0	165,448	165,448
Private Equity	0	0	13,614	13,614
Amount Receivable from Sales	64	0	0	64
	84,535	**610,429**	**275,145**	**970,109**
Financial Liabilities at Fair Value through Profit and Loss				
Payable for Investment Purchases	(17)	0	0	(17)
Total	**84,518**	**610,429**	**275,145**	**970,092**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2020/21.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2020	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,614	0	11	(3,916)	706	2,954	13,369
Private Finance - M&G	4,674	0	0	(2,322)	(1,196)	92	1,248
Infrastructure - Maquarie & LCIV	27,265	0	13,166	(8,088)	(2,728)	4,712	34,327
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	165,448	0	14,970	(181)	8,824	(135)	188,926
Direct Lending - Permira	64,103	0	0	(5,816)	718	0	59,005
Total Level 3 Assets	**275,145**	**0**	**28,147**	**(20,323)**	**6,324**	**7,623**	**296,916**

There were no transfers into level 3 assets in 2020/21.

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 & LGIM LPI
Fair value is primarily derived using recent market transactions on arm's length terms, where available.

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 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 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 & LGIM LPI
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."

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

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 & LGIM LPI
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. These are:
i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

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 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000
Financial Assets								
Equities	42	0	0	42	84,471	0	0	84,471
Pooled Investments	943,976	0	0	943,976	706,512	0	0	706,512
Pooled property investments	188,926	0	0	188,926	165,448	0	0	165,448
Private Equity	13,369	0	0	13,369	13,614	0	0	13,614
Cash	0	15,166	0	15,166	0	15,520	0	15,520
Other Investment balances	0	89	0	89	0	566	0	566
	1,146,313	**15,255**	**0**	**1,161,568**	**970,045**	**16,086**	**0**	**986,131**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	0	0	0	0	(17)	(17)
	0	**0**	**0**	**0**	**0**	**0**	**(17)**	**(17)**
Total	**1,146,313**	**15,255**	**0**	**1,161,568**	**970,045**	**16,086**	**(17)**	**986,114**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	31 March 2021 £000's	31 March 2020 £000's
Designated at Fair Value through profit and loss	170,519	(86,093)
	170,519	**(86,093)**

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 2021 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	587,857	14.80%	674,860	500,854
UK Equity	42	14.80%	48	36
Bonds	261,498	5.70%	276,403	246,593
Alternatives	107,990	4.20%	112,526	103,454
Property	188,926	5.00%	198,372	179,480
Total	**1,146,313**		**1,262,209**	**1,030,417**

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

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.

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 2021 and 31 March 2020 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 120 basis points (1.2%) 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 2021	Potential movement on 1.2% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,166	182	15,348	14,984
Bonds - pooled funds	261,498	3,138	264,636	258,360
Total change in assets available	**276,664**	**3,320**	**279,984**	**273,344**

	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**

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 2021, 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 2021 and as at the previous period ending 31 March 2020.

Currency exposure by asset type

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 6.60%, based on the data provided by PIRC. A 6.60% 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 6.60% 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 2021**	**Potential market movement**	**Value on increase**	**Value on decrease**
		6.60%		
	£'000	**£'000**	**£'000**	**£'000**
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	521,073	**34,391**	**555,464**	**486,683**

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**
Pooled 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**

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, except for 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 Natwest Bank, 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 2021 was £19,410k (31 March 2020: £19,030k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2021 £'000	Rating S&P	Balances as at 31 March 2020 £'000
Money market funds				
Northern Trust	AAAf S1+	15,366	AAAf S1+	15,720
Bank current accounts				
NatWest (Lloyds as at 31 March 2020)	A	4,044	A+	3,310
Total		**19,410**		**19,030**

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 NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£4,044k). 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 2021 these assets totalled £849,390k, with a further £15,366k 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 taxpayer 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 has been reviewed following the Government's loss of the right to appeal the McCloud and other similar court cases. A proposed remedy to compensate all members of the fund has been issued by the LGPS Scheme Advisory Board (SAB).

LGPS SAB Secretariat have instructed us to prepare figures based on a worst-case scenario for the potential legal remedy, as follows:
a. Underpin to apply to all members of all ages
b. Underpin to apply to all members (including those who joined between 2012 and 2014, and those who joined after 2014)
c. Underpin to be assessed at the earlier of retirement or 2008 Scheme Normal Retirement Age (even if that is after 2022)
d. Underpin to apply to members entitled to immediate benefits on leaving, but not those who leave service without any entitlement to an immediate pension

Implementation of the ruling by all employers is now been co-ordinated by scheme administrators and relevant information required will be sourced from all employers via a standard template and then processed to remedy the situation for those affected.

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. The longevity assumptions result in the following typical future life expectancies from age 65. 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 2021 to comply with the accounting standard. The financial markets at the accounting date will have considered 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 2021 % per annum	31 March 2020 % per annum
Inflation /Pensions Increase Rate	2.9%	1.9%
Salary Increase Rate	3.2%	2.2%
Discount Rate	2.0%	2.3%

An IAS 19 valuation was carried out for the Fund as at 31 March 2021 by Hymans Robertson with the following results:

Description	31 March 2021 £m	31 March 2020 £m
Present Value of Promised Retirement Benefits	2,039	1,569
Active Members	770	503
Deferred Members	572	422
Pensioners	697	644

******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 2021 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 2021 (and 31 March 2020) 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 2021. 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 2021**	**31 March 2020**
	£m	**£m**
Present Value of Promised Retirement Benefits	(2039)	(1569)
Fair Value of Scheme Assets (bid value)	1162	989
Net Liability	**(877)**	**(580)**

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 2020/21) 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 impact of the Coronavirus pandemic on investment assets from 2019/20 has been reversed due to increased fund value from market gains through 2020/21. The fund, in conjunction with the its investment advisers, during 2020/21, reviewed the fund's portfolio and put in place a robust investment strategy geared towards withstanding and reducing market volatility. Investment strategy review is now an ongoing process and the portfolio is positioned to relatively react quickly to market volatility if necessary.

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. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund’s assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as at 31st March 2021 determined that there was no material risk to the Fund of employers defaulting on their contributions. 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 two members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

Key Management Personnel
Three 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, the Deputy Director, Corporate Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2021 £'000	31 March 2020 £'000
Short term benefits	50	64
Post employment benefits	145	78
	195	**142**

NB: Increased Post-employment benefits figure for 2020-21 is attributable to reorganisation and addition of Deputy Director, Corporate Finance to the Pension Fund management structure.

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the MHCLG 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 2020-21.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2021 totalled £50,576k (£65,687k at 31 March 2020).

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.

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

Events taking place after the 31st March 2021 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

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 2020/21 the London CIV had the following sub funds available for Hillingdon to invest.

Fund Name	Manager	Launch Date
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 LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
LCIV Sustainable Equity Exclusion Fund	RBC Global Asset Management (UK) Limited	11-Mar-20
Emerging Market Equities		
LCIV Emerging Market Equity Fund	JP Morgan Asset Management	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 MAC Fund	CQS	31-May-18
LCIV Global Bond Fund	Pimco	30-Nov-18
Infrastructure		
LCIV Infrastructure Fund	Stepstone Infrastructure and Real Assets	31-Oct-19

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 £569m at 31 March 2020 accounting for 58% of total assets of the Pension Fund. Holdings within the pool were within Ruffer (Multi Asset, Absolute Return Fund), Epoch (Global Equity Income Fund) and Stepstone (Infrastructure Fund) on the LCIV platform and LGIM Passive mandate.

As at the 31 March 2021 the London CIV had the following sub funds available for Hillingdon to invest

Fund Name	Manager	Launch Date
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
LCIV Sustainable Equity Exclusion Fund	RBC Global Asset Management (UK) Limited	11-Mar 2020
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 £796m at 31 March 2021, accounting for almost 68.5% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) Epoch (Global Equity), Stepstone (Infrastructure) on the LCIV platform and LGIM Passive.

Pooled assets

Sub Fund	Value £'000 31/03/2020	Opening Proportion %	Value £'000 31/03/2021	Closing Proportion %
LCIV EP Income Equity Fund	128,745	13.06	63,647	5.48
LCIV RF Absolute Return Fund	55,573	5.63	50,833	4.37
LCIV Stepstone Infrastructure Fund	567	0.06	13,465	1.16
LGIM Passive Equities	195,267	19.80	473,376	40.75
LGIM Passive Bonds	141,707	14.37	144,920	12.48
LGIM LPI Property	47,399	4.81	49,749	4.28
	569,258	**57.7**	**795,990**	**68.52**

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	2019/20	2020/21	Cumulative to date
Set Up Costs	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Development Charge	0	0	75	65	65	85	290
Annual Service Charge including establishment of pool	50	25	25	25	25	25	175
Share Capital Costs	150	0	0	0	0	0	150
Transition Costs	0	32	132	0	0	0	164
Fee Savings	0	-84	-167	-181	-115	-96	-643
Net (Savings)/Cost Realised	**200**	**-27**	**65**	**-91**	**-25**	**14**	**136**

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 2020/21 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. considering both fees and performance) on the value of Fund assets.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	
	£'000	**£'000s**	**£'000**	**£'000**	**£'000s**	**£'000**	**£'000**
Management Fees							
Ad Valorem	24	1,047	1,071	3,277	0	3,277	**4,348**
Performance	0	0	0	2,142	0	2,142	**2,142**
Transaction Costs	0	888	888	1,993	0	1,993	**2,881**
Custody	0	6	6	61	0	61	**67**
Other	110	0	110	1,201	0	1,201	**1,311**
Total £'000	**134**	**1,941**	**2,075**	**7,473**	**0**	**7,473**	**10,749**

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 2020/21 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 2020/21.

Asset Allocation and Performance 2020/21

Asset Allocation and Performance						
Asset Category	**Opening Value**		**Closing Value**		**Performance 1 Year**	
					Gross	**Net**
	£'000	**%**	**£'000**	**%**	**%**	**%**
Asset Pool Managed Investments						
Active listed Equity	128,745	13	63,647	5	27.30	27.30
Passive listed Equity	195,267	20	473,377	41	33.52	33.52
Passive Listed Fixed Income	141,707	14	144,920	13	2.27	2.27
Multi-asset funds/diversified growth funds	55,573	6	50,833	4	20.90	20.90
Passive LPI Property	47,399	5	49,749	4	4.96	4.96
Total	**568,691**	**58**	**782,526**	**67**		
Non-asset pool managed investments						
Active listed Equity	84,471	9	42	0	N/A	N/A
Active listed Fixed Income	89,137	9	116,580	10	13.61	13.61
Private Debt	5,236	1	1,248	0	-36.45	-36.45
Private Debt	65,017	7	59,005	5	2.80	2.80
Property	50,774	5	60,712	5	19.57	19.57
Property	67,274	7	78,463	7	1.12	1.12
Unlisted Equity	11,244	1	10,144	1	16.73	16.73
Unlisted Equity	3,672	0	3,266	0	8.24	8.24
Infrastructure	26,883	3	20,862	2	7.61	7.61
Infrastructure	567	0	13,465	1	-1.66	-1.66
Cash	16,068	2	15,255	2		
Total	**420,343**	**42**	**379,042**	**33**		

Savings

	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
Price Variance	83,609	167,422	181,063	113,505	96,045.54

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 reduction in fee savings in 2020/21 compared to 2019/20 is mainly due to reduced fund value of actively managed pooled funds over the period. The above savings do not consider additional charges serviced on the fund because 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.

M: EXTERNAL AUDIT OPINION

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

Opinion

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.