London Borough of Hillingdon Pension Fund Annual Report 2018/19

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CHAIRMAN'S FOREWORD

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

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

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

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

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

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

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

Cllr Philip Corthorne
Chairman Pensions Committee 2018/19

INTRODUCTION TO THE FUND

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

Hillingdon is the Administering Authority for the Fund. Pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

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

The Pension Scheme during the financial year 2018/19 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

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

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

Contracting Out Status (with effect from 1 April 2002 until 5 April 2016)
The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension that would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, HMRC calculates a Guaranteed Minimum Pension (GMP), which is the minimum pension, which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

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

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

A: OVERALL FUND MANAGEMENT

SCHEME MANAGEMENT AND ADVISERS

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

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

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

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

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

Email: myhelpdeskpensions@surreycc.gov.uk
Telephone: 020 8213 2802
Address: Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston upon Thames, KT1 2DN

Fund Custodian and Performance Monitoring
The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely

with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements. Additionally Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

Northern Trust
50 Bank Street
Canary Wharf
London
E14 5NT

Fund Actuary
The Fund's actuary is Hymans Robertson

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

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

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

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

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

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

In addition, the Fund had an Independent Advisor for 2018/19 - Scott Jamieson.

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

Aon Hewitt
25 Marsh Street
Bristol
BS1 4AQ

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

Auditor
The Fund's external auditor, appointed by the Public Sector Audit Appointments (PSAA), is Ernst & Young.

Ernst & Young LLP
1 More London Place
London
SE1 2AF

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

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

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

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

RISK MANAGEMENT

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

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

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

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

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

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

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

Risk Identification

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

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

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

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

Risk Management

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

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

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

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

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

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pension Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the Fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund’s investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and officer support to the Fund helps to further mitigate these risks.

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

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

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

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

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

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

Controls assurance reports

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

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

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

B: FINANCIAL PERFORMANCE

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

General Scheme membership

Membership of the scheme is split between

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

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

Membership Summary

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

CONTRIBUTIONS

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

Analytical Review of Performance

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

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

Analysis of dealings with members

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

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

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

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

Analysis of Operational Expenses

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

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

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

C: INVESTMENT 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 particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed

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

Fund Value and Asset allocation

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

Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity and alternative investments during the year.

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

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

Asset Category	Opening Value 01 April 2018	Strategic Weighting	Actual Weighting	Closing Value 31 March 2019	Strategic Weighting	Actual Weighting
	£'000	**%**	**%**	**£'000**	**%**	**%**
Equities	460,554	47	46	492,526	44	46
DGF	103,270	12	10	102,701	10	10
Bonds	154,480	12	15	211,512	14	20
Property	129,553	12	13	135,448	12	13
Alternatives:						
Private Equity	20,091	4	2	17,329	2	2
Infrastructure	28,307	3	3	29,133	3	3
Private Credit	66,387	10	7	69,390	10	7
Long Lease Property	0	0	0	0	5	0
Cash	47,460	0	5	8,086	0	1
Total	**1,010,102**	100	100	**1,066,126**	100	100

Asset Allocation Variances

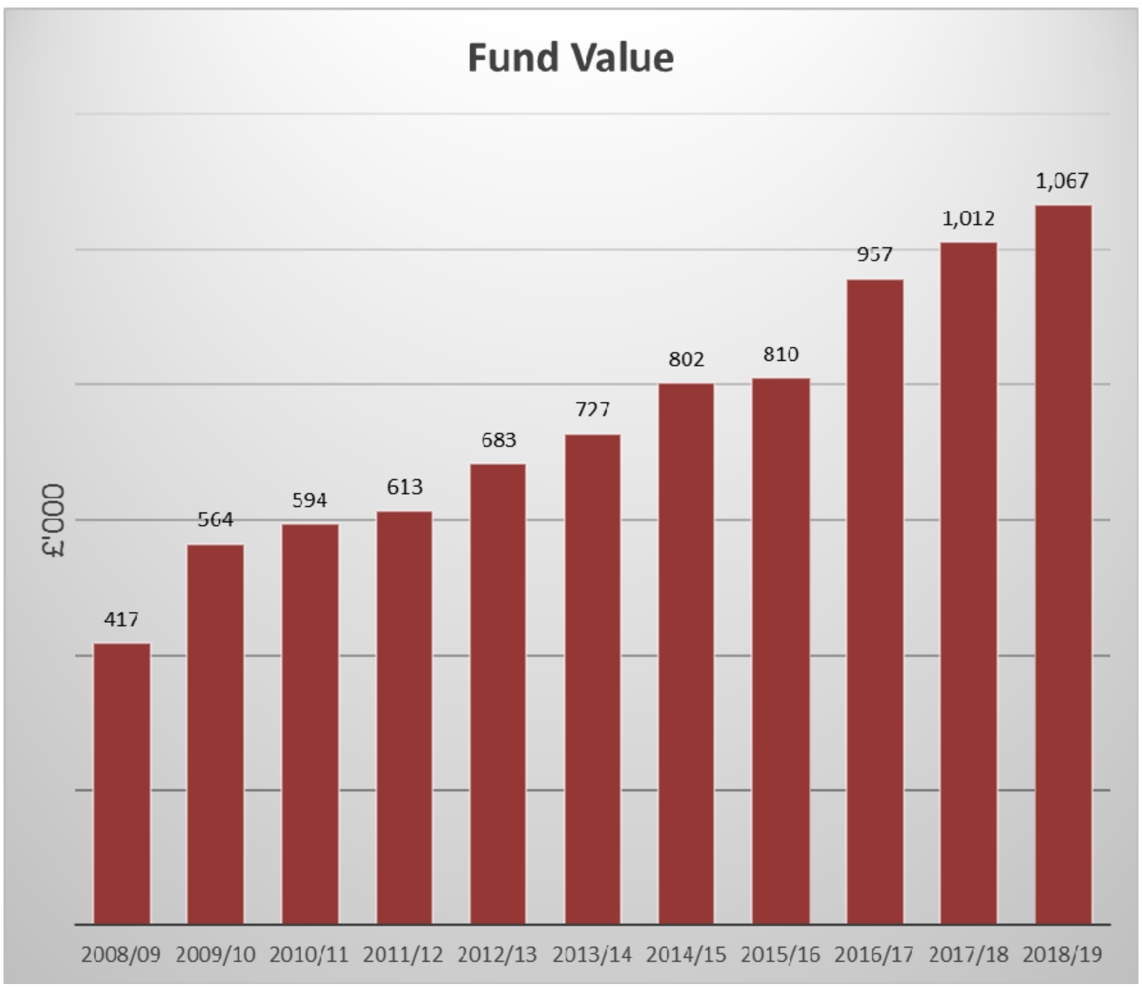
The table above shows a 6% variances between bond strategic and actual weightings compared to its strategic allocation due to the bond portfolio at LGIM being used to temporarily hold earmarked commitments for long lease property which currently shows a zero actual weighting and awaiting draw-down by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

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

Fund Value

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

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



Funding Strategy Statement

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

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;

- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;

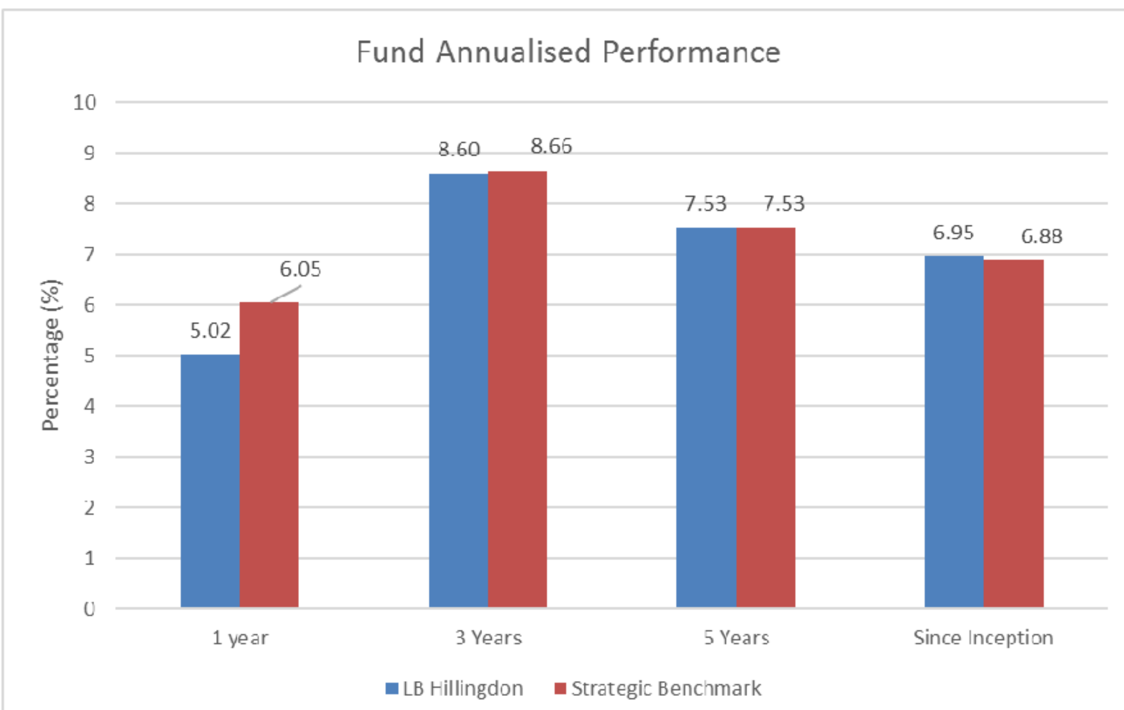
- To take a prudent longer-term view of funding those liabilities

The latest Funding Strategy Statement can 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 2018/19 was 0.96% below the overall benchmark. Across all performance measurement intervals of one, three and five years, the annualised returns were behind the respective benchmarks as shown in the chart below.

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

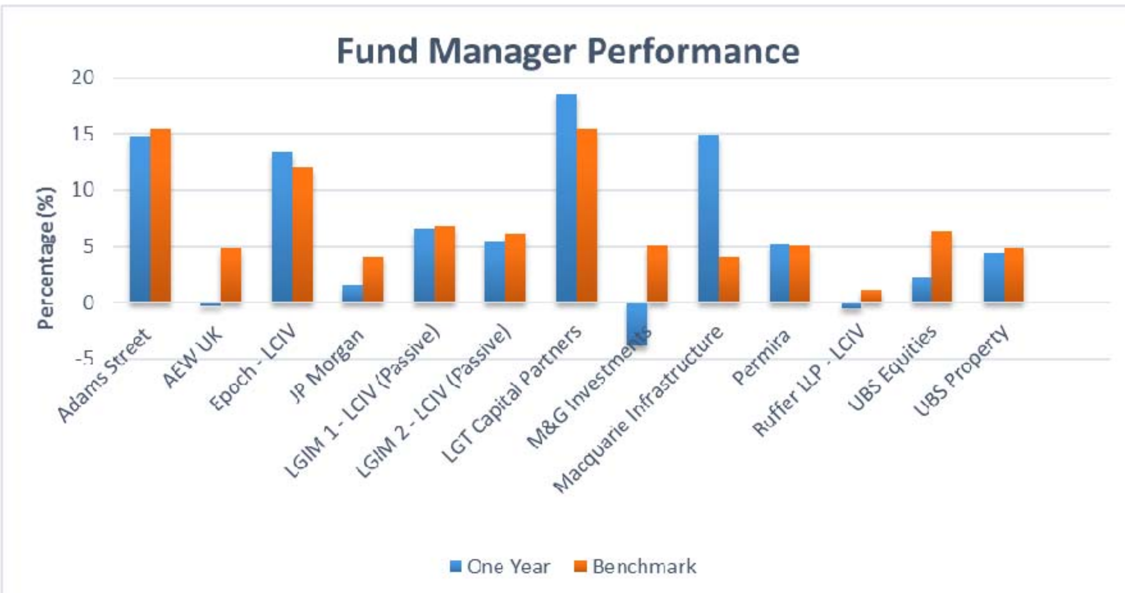


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

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

Investment Managers Performance

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



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

UBS Equities	2.30	6.36
UBS Property	4.43	4.88

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

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

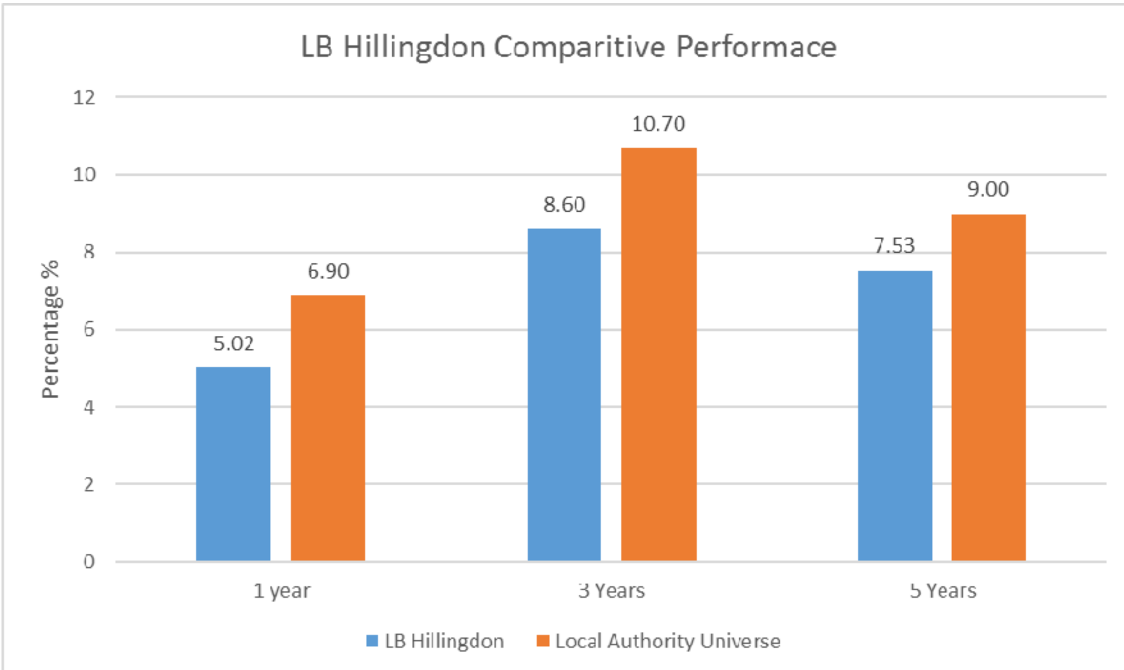
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Both LGIM mandates are passive.

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

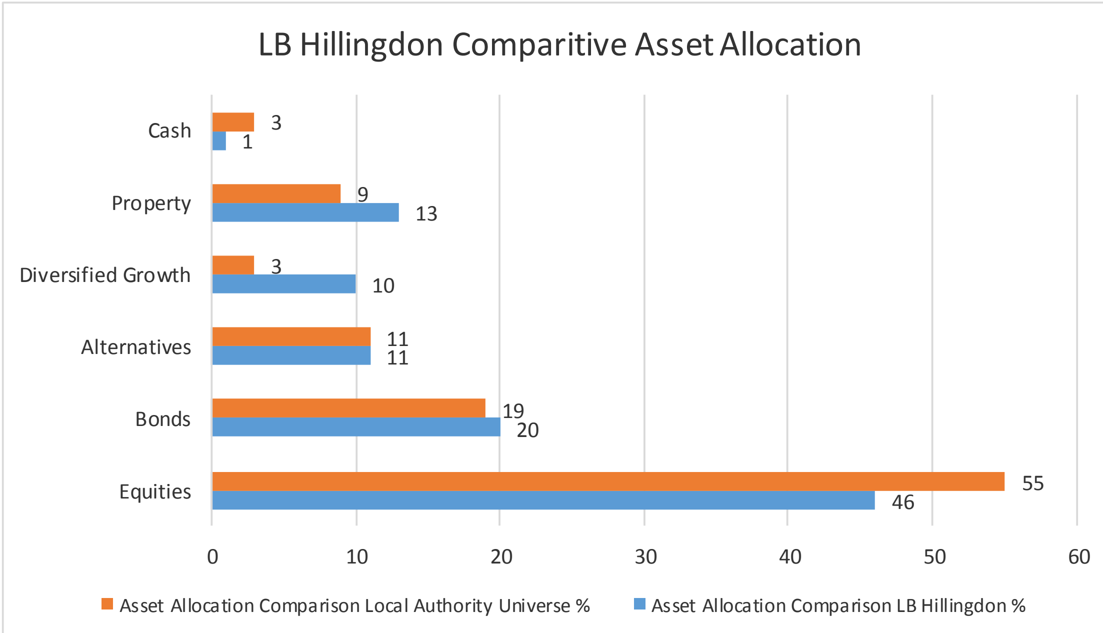
*Pooled Investments with London CIV. Three and five year returns unavailable

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

Comparative Performance



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



Note: Local Authority Universe information courtesy of PIRC

Responsible Investing

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

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

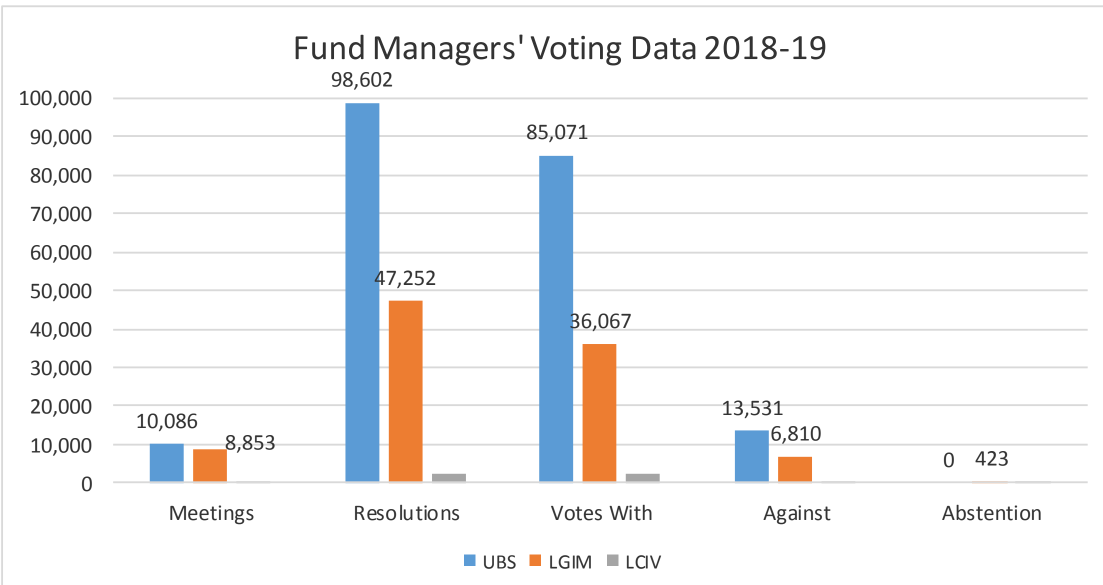
The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes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

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

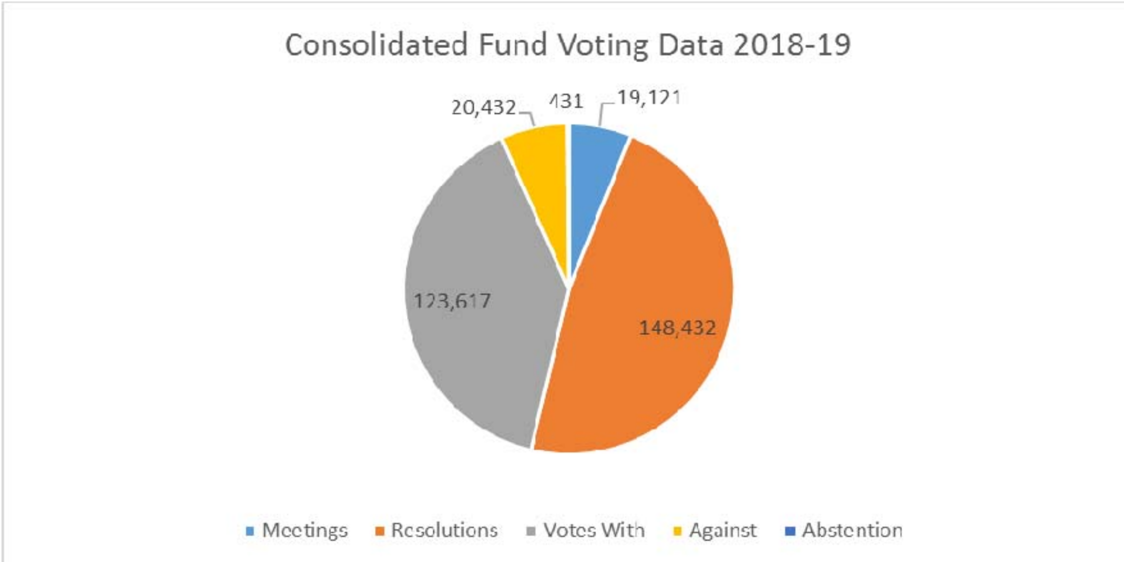
Exercise of voting rights

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

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



The graph above shows a breakdown of voting activities by fund's investment managers during 2018-19 financial year. UBS Asset Management were the most active in terms of voting activities by attending and voting at 10,086 meetings, more than double the activities of all other managers represented in the chart above. All managers voting activity relates to the managers votes to cast for the funds rather than Hillingdon specific shares. The UBS figures relate to their Equity fund which holds a number of companies in addition to those held by Hillingdon as Hillingdon is ex tobacco.



Custody

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

Separation of Responsibilities

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

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

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

D. SCHEME ADMINISTRATION

Service Delivery

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

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

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

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

PERFORMANCE INDICATORS

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

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

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

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

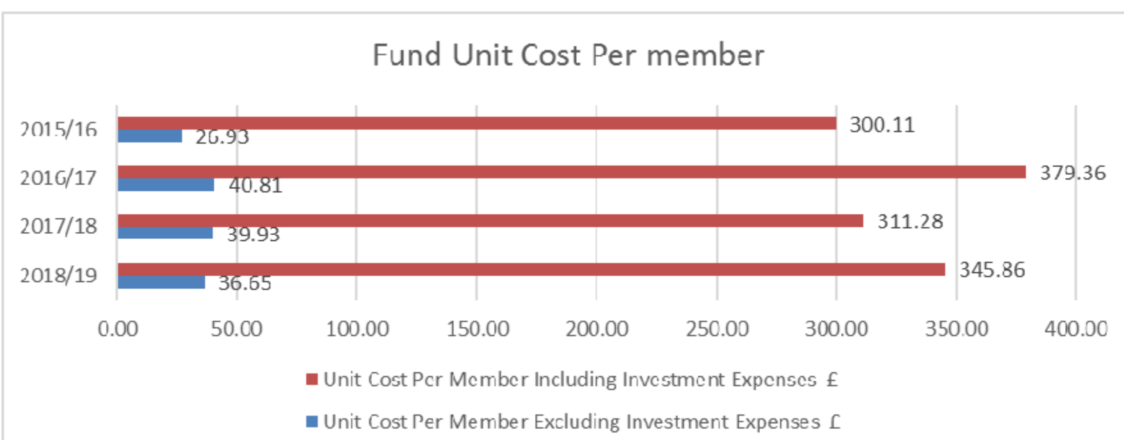
During 2018/19, staffing issues have been addressed with new appointments made to complement the existing work force ensuring improved efficiency and improvement in all areas of performance indicators above.

STAFFING COSTS ANALYSIS

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

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

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

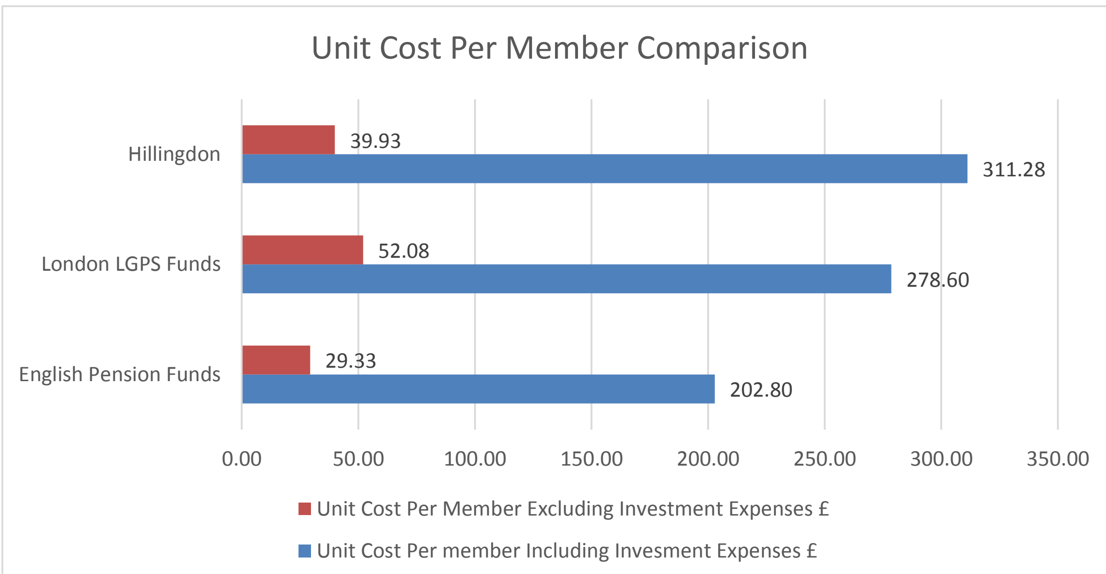


The staffing costs for the fund has increased with membership numbers over the years and the spike in 2016/17 coincided with the change in outsourced administration contract from CAPITA to Surrey County Council run Orbis and the accompanying initial set up and data migration costs contributed largely to the high administration costs recorded during that year.

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

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

Membership costs comparison 2017/18



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

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

MEMBERSHIP

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

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

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

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

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

COMPLAINTS

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

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

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

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

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

Northwood Academy	Scheduled Body	128,093.12	23.8
Park Federation	Scheduled Body	60,638.80	24.8
Park West Academy	Scheduled Body	121,592.53	21.0
Pentland Field School	Scheduled Body	259,936.85	21.7
Pinkwell School	Scheduled Body	276,362.03	26.6
Queensmead Academy	Scheduled Body	262,270.53	21.8
Rosedale Hewens Academy	Scheduled Body	312,818.55	23.9
Ruislip Academy	Scheduled Body	200,669.30	25.9
Ryefield Academy	Scheduled Body	131,551.34	28.9
Skills HUB – Orchard Hill College	Scheduled Body	89,614.20	29.6
St. Matthews Primary School	Scheduled Body	85,833.60	24.9
St. Martins primary School	Scheduled Body	84,855.30	24.9
Swakeleys Academy	Scheduled Body	194,796.89	23.9
Uxbridge College	Scheduled Body	1,845,451.77	23.8
Uxbridge Academy	Scheduled Body	289,343.61	21.5
Vyners Academy	Scheduled Body	233,359.93	25.7
West Primary School	Scheduled Body	157,212.92	25.5
William Byrd Primary School	Scheduled Body	174,902.34	26.6
Willows Academy	Scheduled Body	72,528.86	32.5
Wood End Academy	Scheduled Body	224,135.49	23.0
Young Peoples Academy	Scheduled Body	83,250.17	29.6
Braybourne Facilities	Admitted Body	11,198.21	29.3
Busy Bee	Admitted Body	1,273.84	32.3
Caterlink – Frays Academy	Admitted Body	16,615.54	28.3
Caterplus – Genuine Dining	Admitted Body	16,128.26	22.1
Churchill (was Mitie Cleaning)	Admitted Body	15,189.56	42.1
Cucina - Haydon Academy	Admitted Body	8,743.15	34.4
Cucina – Ruislip Academy	Admitted Body	3,421.65	28.0
Greenwich Leisure	Admitted Body	65,321.54	0.0
Hayward Services – Ruislip	Admitted Body	1,626.61	34.2
Hayward Services - Highfield	Admitted Body	7,200.94	32.4
Hayward Services - Hillingdon	Admitted Body	7,039.75	33.4
Heathrow Travel Care	Admitted Body	43,041.83	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	49,658.18	25.2
Kingdom Security	Admitted Body	11,969.66	23.1
NHS – Michael Sobell House	Admitted Body	10,484.20	31.5
Taylor Shaw	Admitted Body	7,926.25	34.5
Pantry – Whiteheath School	Admitted Body	1,997.84	32.9
Pantry – Frithwood & Hillside Schools	Admitted Body	2,011.28	31.8
Pantry – Yeading School	Admitted Body	2,375.28	32.6
Pabulum – West Drayton Primary School	Admitted Body	8,270.33	34.4
Total		**33,330,889.66**	

Analysis of Fund Membership Data

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

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

E. REPORT OF THE FUND ACTUARY

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

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 25 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is a better than 70% chance that the Fund will return to full funding over 25 years.

Funding Position as at the last formal funding valuation

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

valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £810 million, were sufficient to meet 75% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £269 million.
Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

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

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.
The key financial assumptions adopted for the 2016 valuation were as follows:

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

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

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

*Aged 45 at the 2016 Valuation.

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

Experience over the period since 31 March 2016

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

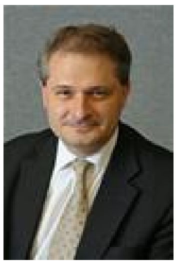
Craig Alexander FFA
For and on behalf of Hymans Robertson LLP
12 April 2019

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

F: GOVERNANCE

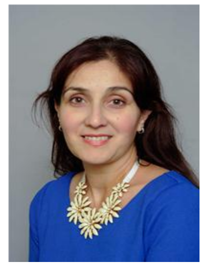
Pension Committee

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



Councillor
Philip Corthorne
(Chairman)

Councillor
Martin Goddard
(Vice-Chairman)



Councillor
Teji Barnes

Councillor
Tony Eginton
(Labour Lead)

Councillor
John Morse

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

Record of Attendance

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

Local Pension Board

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

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

Employer Representatives:
Zak Muneer (from July 2018)
Hayley Seabrook (from July 2018)

Scheme Member Representatives:
Roger Hackett
Venetia Rogers (to December 2018)
Tony Noakes (from January 2019)

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

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

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

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

Knowledge and Skills

The CIPFA Knowledge and Skills framework has been utilised to track training needs of both Pensions Committee and Pensions Board with some addition categories on asset classes and investment topics for Pension Committee members to ensure investment decisions are supported with knowledge in those areas. All members have been asked to complete a review scoring themselves against each topic from 1-5 of knowledge with 5 being highly skilled and 1 being no knowledge.

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

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

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

Training Received in 2018/19

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

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

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

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

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

ANNUAL REPORT TO PENSIONS COMMITTEE

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

REASON FOR ITEM

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

INFORMATION

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

2. The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:

    - Secure compliance with the regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
    - To ensure the effective and efficient administration of the Scheme.

3. London Borough of Hillingdon Council ratified the establishment of the Board on 6th November 2014 to commence with effect from 1st April 2015. Council at its meeting 02 November 2017 agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two scheme member representatives.

Membership and Attendance at Meetings

4. The membership of the local Pension Board is:

    Employer Representatives:
    - Hayley Seabrook (Hillingdon Council)
    - Zak Muneer (LHC)

    Scheme Member Representatives:

- Venetia Rogers
- Roger Hackett

5. Attendance at meetings has been high with all members in attendance where positions have been filled.

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

Training

7. Relevant external training opportunities are made available to Board Members and have been well supported, in particular with regular attendance at quarterly local board specific training sessions held by CIPFA. Pension Board members also utilise internal training opportunities by attending Pension Committee where a training item starts each meeting.

8. Using CIPFA's Training Needs analysis, specific training needs have been identified, and will continue to be identified, and will be built into future training. The new members plan to complete their frameworks within the next quarter.

Work of the Local Pension Board

9. Meetings are held shortly after each Pensions Committee. Since the annual report in September 2017, there was one meeting held under the old board structure in October 2017 and three since the structural changes in November 18; April 18, September 18 and November 18.

10. Each meeting undertakes a review of the most recent Pensions Committee reports and decisions, raising any issues for clarification with officers. To date there have been no issues referred back to Pensions Committee. All committee papers are shared with Board Members who are encouraged to attend committee meetings to fully understand the reports.

11. Terms of Reference for the Board:

    i. The Pensions Board will be chaired by a member chosen by the group
    ii. The frequency of the Pensions Board will be determined by the Board.
    iii. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
    iv. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;

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

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

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

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

•

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

G: FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ('the Code').

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

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

   The Corporate Director of Finance has also:

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

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31st March 2019 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE

Pension Committee Certificate for the Approval of the Pension Fund Accounts

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

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

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

Pension Fund Account

PENSION FUND ACCOUNT

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

NET ASSETS STATEMENT

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

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

Andrew Evans
Deputy Director Corporate Finance
31 July 2019

Notes to the Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

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

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

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

Admitted Bodies:	
Braybourne Facilities	Pabulum – *West Drayton Academy* (Start date April 2018)
Bishop Ramsey Cleaners	Busy Bee Cleaning – *Skills Hub* (Start date August 2018)
Caterlink	Heathrow Travel Care
Frays Academy	Hillingdon & Ealing Citizens Advice
Caterplus	Kingdom Security
Churchill Services - Mitie & McMillan Cleaning	Mitie Facilities Management
Cucina	NHS - Michael Sobel House
Haydon Academy	The Pantry
Ruislip High School	*Whiteheath Infant*
Greenwich Leisure	*Warrender School*
Hayward Services	*Frithwood School*
Ruislip Academy	*Hillside School*
Highfield Primary	Taylor Shaw
Hillingdon Primary	*Haydon Academy*
Scheduled Bodies:	
Middlesex Partnership Trust	London Housing Consortium
Barnhill Academy	Orchard Hill College Academy Trust
Belmore Academy	*Skills HUB (formerly Hillingdon Tuition Centre)*

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
Central Payroll
Young Peoples Academy
Park Federation Trust
Central Payroll
Cranford Park Academy
Lake Farm Park Federation
Wood End Academy
West Drayton Academy
QED Academy Trust
Coteford Academy
Queensmead Academy
Northwood Academy
Rosedale Hewens Academy Trust
Rosedale Primary & College
Hewens Primary & College
Brookside Primary School
Vanguard Learning Trust
Ruislip High School
Ryefield Primary School
Vyners Academy
Stockley Academy
Swakeleys Academy
Uxbridge Academy
William Byrd School
Willows Academy

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

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

c. Funding

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

d. Investments

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

e. Governance

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

Pensions Committee

Cllr Phillip Corthorne (Chairman)
Cllr Martin Goddard (Vice-Chairman)
Cllr Teji Barnes
Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

2. BASIS OF PREPARATION

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

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

3. ACCOUNTING POLICIES

a. Valuation of assets

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

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

- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used.

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

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

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

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

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

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

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

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

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

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

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

Critical Judgements and Uncertainties

l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2019 was £115,893k (£114,879k at 31 March 2018).

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £17,329k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2018. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £29,133k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £7,956k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £61,434k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivty analysis to the method of assumptions used for year ended 31 March 2019 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 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	137
0.5% p.a. increase in the Salary Increase Rate	1%	22
0.5% p.a. decrease in the Real Discount Rate	10%	169

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

4. CONTRIBUTIONS

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

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

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

5. TRANSFERS IN

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

6. BENEFITS

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

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

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

8. MANAGEMENT EXPENSES

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

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

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

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

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

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

8C. EXTERNAL AUDIT COSTS

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

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

9. INVESTMENT INCOME

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

10. INVESTMENTS

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

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

10B. ANALYSIS OF INVESTMENTS

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

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

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

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

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

10D. STOCK LENDING

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

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

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

11. CURRENT ASSETS

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

12. CURRENT LIABILITIES

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

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

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

14. FAIR VALUE - BASIS OF VALUATION

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

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

Sensitivity of assets valued at level 3

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

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

14A. FAIR VALUE HIERARCHY

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

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

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

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

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

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

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

14B. RESTATEMENT OF VALUATION HIERARCHIES

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

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

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

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

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

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

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

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

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

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

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

Description of Valuation Process

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

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

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

Direct Lending: Permira

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

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

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

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

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

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

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

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

Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

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

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

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

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

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

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

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

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

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

Risk and Risk Management

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

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

Market risk

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

Other price risk

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

Other price risk - Sensitivity Analysis

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

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

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

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

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

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

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

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

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest Rate Risk Sensitivity Analysis
The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

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

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

Currency Risk - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates. The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2019 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2019 and as at the previous period ending 31 March 2018.

Currency exposure by asset type

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

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

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

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

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

The pension fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The pension fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

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

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

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

The pension fund holds a working cash balance in its own bank accounts with Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£1,339k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2019 these assets totalled £805,876k, with a further £10,672k held in cash in the Custody accounts at Northern Trust.

Refinancing risk

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

17. FUNDING ARRANGEMENTS

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

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

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

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

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

Contribution rates

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

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

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

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

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

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

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

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

Assumptions

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

Financial Assumptions

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

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

Demographic Assumptions

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

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

Notes to the Pension Fund Account

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

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

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

*****_Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation_

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

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

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

19. RELATED PARTY TRANSACTIONS

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

Governance

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

Key Management Personnel

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

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

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

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

20. BULK TRANSFER

There were no bulk transfers in 2018-19. There was a bulk transfer of £31,049k into the fund from Harrow College as a result of a merger with Uxbridge College during the 2017-18 financial year.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

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

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

22. CONTINGENT ASSETS

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

23. POST BALANCE SHEET EVENTS

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

H. ASSET POOLS (LCIV)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pooled assets

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

Post pool reporting

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

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

LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

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

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

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

Ongoing Investment Management Fees

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

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

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

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

Asset Allocation and Performance

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

Savings

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

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

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

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

London Borough of Hillingdon Pension Fund

Administration Strategy

1 November 2016

Administration Strategy

Introduction and Background

This is the statement outlining the Pension Administration Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with the Fund's administrators, employers in the Fund, Local Pension Board members and other interested stakeholders.

The aims of the Pension Administration Strategy are to:

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

London Borough of Hillingdon (the "Administering Authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken through a formal delegation agreement by the Pensions Administration team at Surrey County Council. The Surrey team and the Officers in Hillingdon work together to provide a seamless service to scheme employers and members.

This Pension Administration Strategy does not supersede any formal agreements between the Administering Authority and the administrators or between the Administering Authority and the employers. However, is it intended to complement such arrangements and provide greater clarity in relation to each party's role and responsibilities.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 1 November 2016. The Statement sets out the expected levels of administration performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

Implementation

This Strategy outlines the level of service the Administering Authority aims to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some changes in the existing ways of working. This Strategy is being implemented during a period which continues to present a number of challenges, not least:

- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension

- continuing pressure on resources and budgets for employers and the Administering Authority.

During 2017/18 further improvements are planned to help deliver this Strategy including:

- Allowing scheme members access their own record online.

This Strategy will be effective from 1 November 2016 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Service pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings of the Administering Authority, and also where employers in the Fund fail to provide correct or timely information to the Administering Authority. Should this happen, the Administering Authority would recharge any costs back to employers as set out later in this strategy.

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

Aims and Objectives

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a ‘can do’ approach.

In addition, there are specific aims and objectives in relation to administration responsibilities as set out below.

Administration Aims and Objectives

The purpose of this strategy statement is to set out the quality and performance standards expected of London Borough of Hillingdon in its role as Administering Authority and employer, as well as all other employers within the Fund.

The Administration Strategy has a number of specific objectives, as follows;

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

Delivery of Administration

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration advice from the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken by Surrey County Council supported by a small ‘in-house’ capacity within London Borough of Hillingdon.

The London Borough of Hillingdon will look for opportunities to work collaboratively with other Administering Authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised

further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

Performance Standards – Quality

Local Standards
The legislative and regulatory standards are set out previously. On top of these, the Administering Authority and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer service level agreement and this Administration Strategy Statement
- information to be provided in the required format and/or on the appropriate forms.
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement.

Secure Data Transfer
The Administering Authority and employers follow London Borough of Hillingdon's data security guidelines when sending any personal data. The pension administration function uses a secure email system to send data when required to prevent any sensitive information from being accidentally sent to unauthorised recipients.

One of the key methods of data transfer relating to the Fund's administration is the receipt of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the Administering Authority), employers will use a secure data transfer system, due to be introduced during 2016/17. Any employers not submitting data using this data system, once it is made available to them, may risk compromising data security.

Oversight of Compliance and Quality
Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register. However, there are ways in which the Administering Authority is subject to elements of scrutiny or oversight:

Audit

The Fund is subject to a regular annual audit of its processes and internal controls. The Administering Authority and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator

The Public Service Pensions Act 2013 introduced greater oversight of LGPS Funds. As a result the Local Pension Board of the London Borough of Hillingdon Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made from any of these entities will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Performance Standards – Timeliness and Accuracy

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, local performance standards have been agreed which cover all aspects of the administration of the London Borough of Hillingdon Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' service level agreement.

Although all the locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below. These elements are measured against:

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")
3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

Generally the LBHPF element target will be a sub-section of the overall process, and hence will have a shorter target timescale than that being measured by the legal and fund targets. This is because the legal and fund targets will generally include periods of time when the Administering Authority is waiting for information to be provided by an employer or scheme member. The LBHPF element target then measures the period of time it takes the administrators to carry out their element of work once that information has been received.

For the avoidance of doubt "accuracy" in this Strategy is defined as when the administrators have received information, for example from an employer, with;

- no gaps in the required areas ***and***
- with no information which is either contradictory or which needs to be queried.

Process maps to explain the flow of information from Schools to the Administrator are in the final stages of development and will be included as Appendix C shortly.

Key Performance Indicators

Process	Legal Requirement	LBHPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled[1]	Within 20 working days of receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) [2]	Within 20 working days of receipt of all relevant information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request [1]	Within 20 working days of receipt of all relevant information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) [3] or within a reasonable period (cash transfer sum) [4]	Within 20 working days of receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age [1] 2 months from date of retirement if before Normal Pension Age [1]	Within 15 working days of receipt of all relevant information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months [1]	Individual request within 10 working days of receipt of all relevant information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request [1]	Within 10 working days of receipt of all relevant information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

Improving Employer Performance (where necessary)

This Strategy is focussed on good partnership working between the Administering Authority and the Fund's employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Corporate Pensions Manager will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, the steps the Administering Authority will take in dealing with the situation in the first instance are set out below:

- The Corporate Pensions Manager will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance
- The Corporate Pensions Manager will meet with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The Corporate Pensions Manager will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed
- A copy of this communication will be sent to the Corporate Director of Finance or other senior officer at that employer.
- The Corporate Pensions Manager will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Director of Finance (or alternative senior officer) at that employer.
- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the Corporate Pensions Manager will escalate the matter to the London Borough of Hillingdon Deputy Director Strategic Finance who will determine the next steps that should be taken. This may include (but is not limited to):
    - Meetings with more senior officers at the employer
    - Escalating to the London Borough of Hillingdon Pensions Committee and/or Pension Board
    - Reporting to the Pensions Regulator or Scheme Advisory Board.

Circumstances where the Administering Authority may levy costs associated with the Employers' poor performance

The Administering Authority will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Administering Authority will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost
- The amount the Administering Authority has determined the employer should pay
- The basis on which this amount was calculated, and
- The provisions of the pension administration strategy relevant to the decision to give notice.

London Borough of Hillingdon, as the Administering Authority, will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However:

- in instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater that the amount of that fine will be recharged to that employer.
- whether or not interest will be charged on late contributions will be stated within the Administering Authority's separate policy on discretionary provisions.
- in exceptional circumstances, particularly where the improvement plan as outlined in the last section of this statement is not being adhered to, the Pensions Committee may determine that any other additional costs will be recharged. In these circumstances the Pensions Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pensions Committee when this matter is being considered.

Measuring whether the Administration Objectives are met

The Administering Authority will monitor performance in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Administering Authority will monitor success against its administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months. Key target service standards (highlighted in table above) achieved in 95% of cases*. Issues included in formal improvement notices issued to employers resolved in accordance with plan. .
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	Mainly positive results in audit and other means of oversight/scrutiny. Key target service standards (highlighted in table above) achieved in 95% of cases*.
Maintain accurate records and ensure data is protected and has authorised use only.	Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months No breaches of data security protocols Mainly positive results in audit and other means of oversight/scrutiny

*Employers are expected to meet their targets in 95% of cases.

An overview of performance against these objectives and in particular against target standards for turnaround times will be reported within the Fund's annual report and accounts and also reported on regularly to the Pensions Committee and Pension Board.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan. This will be reported to the Fund's Pensions Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Corporate Pensions Manager and other officers will work with the Pensions Committee and the Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems
- Failure of employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefits, which in turn could lead to complaints
- Failure to administer scheme in line with regulations and policies, including due to delays in enhancement to software or regulation guidance (e.g. transfers).
- Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Unable to deliver a service to pension members due to system unavailability or failure
- Failure to maintain employer database leading to information not being sent to correct person

Approval and Review

This draft Strategy Statement was approved for consultation with stakeholders on 15 June 2016 by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 21 September, to become effective from 1 November 2016.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS Regulations or other relevant Regulations or Scheme Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employers, the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on the Administering Authority's website at: http://www.hillingdon.gov.uk/pensions.

Further Information

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

Ken Chisholm, Corporate Pensions Manager
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

e-mail - kchisholm@hillingdon.gov.uk
Telephone - 01895 250847

Appendix A

Administration Legal Requirements within the LGPS

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

Employer Responsibilities:

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is **entitled** to any benefit under the scheme) as soon as is reasonably practicable*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year**, the following information in relation to any person who has been an active member of the scheme in the previous year:
    - name and gender
    - date of birth and national insurance number
    - a unique reference number relating to each employment in which the employee has been an active member
    - in respect of each individual employment during that year:
        - the dates during which they were a member of the scheme
        - the normal pensionable pay received and employee contributions paid
        - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
        - the normal employer contributions paid
        - any additional employee or employer contributions paid
        - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)***

**And at the latest within 1 month of the need for a decision*
***Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the Service Level Agreement in order to meet statutory deadlines on benefit statements*
****Note that, in practice, employers in the London Borough of Hillingdon Pension Fund may use the same person to consider stage 1 IDRP complaints as used by the Administering Authority*

Administering Authority Responsibilities:

- To decide the **amount** of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
    i. the setting of performance targets;
    ii. the making of agreements about levels of performance and associated matters; or
    iii. such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer's unsatisfactory performance in carrying out its functions under the LGPS Regulations when measured against the desired levels of performance.
- The publication by the Administering Authority of annual reports dealing with—
    i. the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and

ii. such other matters arising from its pension administration strategy as it considers appropriate

- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

Regulation 59(2)e allows an Administering Authority to recover additional costs from an employer where they are directly related to the poor performance of that employer. Where this situation arises the Administering Authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult its relevant employers and such other persons as it considers appropriate.

Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

Appendix B

Detailed Performance Standards

New Appointments	
Employer's responsibility	**Target Service Standard**
To ensure that pensions information is included as part of the appointment process of new staff	
To provide each new employee with basic scheme information	Within one month of joining

New Scheme Members	
Employer's responsibility	**Target Service Standard**
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the Administering Authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the Administering Authority	3 working days from date of first deduction of contributions
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 20 working days from receipt of all relevant information
To apply for any transfer value details from a previous fund or scheme	Within 10 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	Within 20 working days from receiving all information

Changes in circumstances	
Employer's responsibility	**Target Service Standard**
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Notify the Administering Authority of all other relevant changes in the circumstances of employees	15 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election
Administering Authority's Responsibility	
To accurately record and update member	Within 10 working days from

records on the pension administration system	receiving all information
To send a Notification of Change (or equivalent) if legally required	Within 20 working days from receiving all information

Retirement Estimates (including ill-health)	
Employer's responsibility	**Target Service Standard**
Provide pay (and other membership) details when a member requests an early retirement estimate	Within 8 working days
Administering Authority's Responsibility	
Providing quotations on request for retirements	Within 10 working days from receipt of all relevant information

Actual Retirements (including ill-health)	
Employer's responsibility	**Target Service Standard**
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 15 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	Within 8 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	Within 15 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	Within 10 working days from receipt of all relevant information

Ill-Health Retirements (additional responsibilities)	
Employer's responsibility	**Target Service Standard**
Appoint a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications, and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate information to allow the Fund to recalculate benefits if necessary	5 working days of results of review

Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	Within 5 working days of results of review

Members leaving before retirement	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	Within 8 working days from member's most recent pay date
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	Within 20 working days from receipt of all relevant information
Provide a refund of contributions where requested	Within 20 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	Within 20 working days from receipt of all relevant information

Death Benefits	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the death of a member and provide details of next of kin where available	3 working days of being notified
Administering Authority's Responsibility	
Write to next of kin or other contact requesting information following the death of a scheme member	Within 5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	Within 10 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	Within 10 working days from receipt of all relevant information

Transfers	
Administering Authority's Responsibility	
Obtain transfer details for transfer in, and calculate and provide quotation to member	Within 20 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	Within 10 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	Within 20 working days from receipt of all relevant information
Provide details of transfer value for transfer out, on request	Within 20 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	Within 10 working days

Additional Benefits (APCs and AVCs)	
Employer's responsibility	**Target Service Standard**
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
Administering Authority's Responsibility	
To provide information on APCs / AVCs on request to members and employers.	Within 10 working days from request

Various Financial Obligations	
Employer's responsibility	**Target Service Standard**
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19th day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Administering Authority's Responsibility	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	Within 10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	No longer than 2 working days before payment of revised pension

Annual Return, Valuation and Annual Benefit Statements	
Employer's responsibility	**Target Service Standard**
Provide the Fund with year-end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
Administering Authority's Responsibility	
Process employer year end contribution returns	By 31 July each year
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulation timescales
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	Within 10 working days from publication of report

General	
Employer's responsibility	**Target Service Standard**
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to Administering Authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract
Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Administering Authority's Responsibility	
Arrange for the setting up of an admission agreement where required	As soon as possible following receipt of information and prior to the start of any contract
Publish (on-line) and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance
Provision of other responses to general enquiries from scheme members and employers	Within 10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

Pension Payments	
Administering Authority's Responsibility	**Target Service Standard**
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £10 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	Within 10 working days from receipt of return
Respond to pensioner queries in writing	Within 10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

Appendix C

To follow

London Borough of Hillingdon Pension Fund

Funding Strategy Statement

March 2017

Contents

Funding Strategy Statement

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Hillingdon Pension Fund ("the Fund"), which is administered by London Borough of Hillingdon, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It will be effective from 23 March 2017.

1.2 What is the London Borough of Hillingdon Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Hillingdon Fund, in effect the LGPS for the London Borough of Hillingdon area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stabilitiy of employers contributions, and
- transparency of processes.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see Funding strategy and links to Investment strategy Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members’ retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund’s funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact pensions@hillingdon.gov.uk .

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

it may take longer to reach their funding target, all other things being equal. Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary. Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies (TAB)	
Sub-type	**Local Authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**Standard**	**Pass-Through**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, as per letting authority
Primary rate approach	(see Appendix D – D.2)						The contribution rate set for pass-through arrangements let by the London Borough of Hillingdon is 26% of pay. This rate may change at the absolute discretion of the London Borough of Hillingdon and the Admin. Authority.
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	As per letting authority.
Maximum time horizon – Note (c)	25 years	20 years	20 years	20 years	FWL	Outstanding contract term or FWL, whichever is shorter	As per letting authority
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll	None
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. However, secondary rate reductions may be permitted by the Admin. Authority.		Preferred approach: contributions kept at primary rate. However, secondary rate reductions may be permitted by the Admin. Authority.		Set secondary contributions to target 100% funding level by contract end date.	As per letting authority

Probability of achieving target – Note (e)	At least 70% subject to management of downside risk.	75%	75%	75%	75%	75%	N/A
Phasing of contribution changes	Covered by stabilisation arrangement	3 years subject to Administering Authority Discretion - Note (e)	None - Note (e)	None -Note (e)	None - Note (e)	None – Note (e)	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis will be due from the TAB. The Letting Authority will be liable for future deficits and contributions arising after the cessation date.	Participation is assumed to expire at the end of the contract. The Letting Authority will be liable for any cessation debt, future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Employer	Year Ending 31 March 2018	Year Ending 31 March 2019	Year Ending 31 March 2020	Thereafter
London Borough of Hillingdon	No increase	No increase	+1% of pay	Max increase +1% in any year Max decrease of -1% in any year

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular policy (iv) will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

The Fund also allows the adoption of a simple pass through approach to lettings/outsourcings in some situations. This refers to an arrangement where the letting employer retains responsibility for liabilities on all of the service earned by members (both transferring past service and service accrued during the contract period) and the contractor is only liable to pay an agreed contribution plan and there is no potential termination payment. Additionally the contractor has no defined benefit pension liability in the LGPS, only a responsibility to pay the agreed contributions. Therefore, the contractor should have no need to prepare a defined benefit pension disclosure for their accounts in respect of LGPS liabilities in the Fund. The contribution rate payable by the contractor will be calculated by the Fund actuary prior to the start of the contract.

Whilst the contractor will not be liable for defined benefit pension liabilities, they will be responsible for additional pension costs arising through factors that would be within its own control. These typically relate to strains arising due to: excessive salary growth; early payment of benefit on unreduced terms; and augmentation of benefit. All risk sharing arrangements will be fully documented in the services contract.

The Admission Agreement may ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor will typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to the contract commencement; and
- redundancy and early retirement decisions.

The London Borough of Hillingdon has a standard pass-through contribution rate of 26% of pay for contracts let by London Borough of Hillingdon. This rate applies to contracts which cover less than 300 staff and is available at the absolute discretion of the London Borough of Hillingdon.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Schools, under the control of the Council, are generally pooled with their funding Council. This does not apply to Academies or specialist or independent schools.

Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies may have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer could be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged. There is then no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy has ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the investment performance quarterly and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers in January for comment;

b) Comments will be requested within 30 days;

c) No comments were received during the consultation period the FSS and the document was finalised for agreement at Pensions Committee on 22 March 2017, following which it will be published.

A3 How is the FSS published?

The FSS is published on the website at http://horizon.hillingdon.gov.uk/article/14880/Local-Government-Pension-Scheme and copies are made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://horizon.hillingdon.gov.uk/article/14880/Local-Government-Pension-Scheme.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

financial;

demographic;

regulatory; and

governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or	The Administering Authority maintains close contact

Risk	Summary of Control Mechanisms
is not heeded, or proves to be insufficient in some way	with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% per annum at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar view on life expectancy as was taken at the previous valuation.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay

	for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is

particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

London Borough of Hillingdon Pension Fund

Investment Strategy Statement

April 2017

HILLINGDON
LONDON

www.hillingdon.gov.uk

INTRODUCTION

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

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring.

The Regulations require all Administering Authorities to take “proper advice” when formulating and applying its investment strategy. In preparing this document and in managing the overall investment strategy the Pensions Committee has taken advice from KPMG LLP, the Fund's investment adviser and Scott Jamieson, the Fund's independent advisor.

The purpose of this document is to set out the Investment Strategy for the Fund, including outlining the objectives of the Fund for investment decisions and setting the limit and range of the investment value in any investment or class of investments. The Fund can then be monitored against how compliant it is with this strategy.

INVESTMENT OBJECTIVES

The Fund’s primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective, this Investment Strategy Statement looks to:

- Maximise returns from investment
- Manage risk within acceptable levels
- Ensure appropriate liquidity
- Contribute towards 100% Funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets
- Take proper advice

Consistent with the 2016 triennial revaluation of the Fund, the agreed investment aim is to generate, over time, a rate of return that is at least 3.6% p.a. over gilt yield and to achieve this, the Fund will invest in a wide variety of investments to reduce portfolio risk and reduce volatility.

ASSET ALLOCATION

Asset allocation of the Fund is determined by the administering authority acting on professional advice in the best long term interest of scheme beneficiaries, while looking to maintain overall target return. The Pensions Committee review asset

allocation and performance against achieving the target return regularly at quarterly meetings. A full formal review will be undertaken every three years following publication of the triennial revaluation results.
The Fund will only invest in asset classes that are deemed to be suitable investments and so must meet the following criteria:

- investments that are well understood by the Committee;
- investments which are consistent with the Fund's risk and return objectives;
- investments which make a significant contribution to the portfolio by improving overall return and risk characteristics; and
- a wide range of assets will be selected to increase diversification.

The Fund's current asset allocation includes seven asset classes that combine to form the policy portfolio. Each asset class is selected to have different exposures to economic factors (GDP growth and inflation); to combine different geographies; and span different currencies. In assessing suitability, the Pension Committee considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund's liabilities and managing risk.

These seven asset classes are the building blocks used to create the policy portfolio. The Pension Committee determined benchmark weights to each asset class which it believes to be best suited to meeting the long term objectives of the Fund. Committee also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The agreed benchmark weight and tolerances are shown in the table below. The weights will be maintained within the ranges if the scheme can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities, investments will not be "forced" and the fund will be under or over allocated to any asset class.

Asset Class	**Benchmark Weight ***	**Range**
Equities	47.00%	35%-60%
Private Equity	4.00%	0%-5%
Bonds	12.00%	0%-20%
Private Credit	10.00%	0%-15%
Property	12.00%	0%-15%
Infrastructure	3.00%	0%-10%
DGF/Absolute Return	12.00%	0%-25%

* Benchmark weight reflects agreed changes to asset allocation as at Pension Committee September 2016

Each asset class has its own specific investment objective and within each asset lass there are further diversification controls. The mandates are managed by various Fund managers and the London CIV (LCIV), to whom the Fund has delegated investment management and implementation duties in line with LGPS asset pooling.

Equities: UK/Global

The Fund invests in Equities through both active and passive management. For active UK Equities the objective is to outperform the FTSE All share ex tobacco (UK) Benchmark. For active Global Equities the Funds objective is seek defensive assets with a focus on income generation as well as growth; the aim is to outperform the MSCI All Country World benchmark. Net dividends will continue to be reinvested until the funds cash flow changes. Passive Equities are held to keep investment manager fees low and to contribute to the return objective by tracking the relevant benchmarks. All equity investments are made via segregated or pooled Fund mandates and where appropriate sub Funds are available investments will be held within the London CIV.

Bonds

The Fund invests in nominal and inflation-linked government and investment grade corporate bonds to improve the resilience of the portfolio. Exposure includes securities issued by the UK Government, given their similarities within the Scheme's liabilities. To enhance yield, the Fund may maintain investments in credit securities issued by UK and global companies. This asset class is managed through both passive and active mandates. When active management is selected the manager will aim to maximise risk adjusted returns across a full market cycle.

Diversified Growth Fund (DGF) / Absolute Return

Diversified Growth Funds are included in the asset allocation to seek to preserve capital first then grow the Funds at a rate higher than cash.

Private Equity

The Fund is invested in Private Equity with the objective to outperform the MSCI World benchmark. Private Equity is an illiquid asset class; harvesting illiquidity premia is an attractive means of enhancing aggregate returns.

Infrastructure

The Fund has committed to investing in infrastructure as the duration of this class of assets matches the long-term nature of the Funds liabilities. The Funds existing holding in Infrastructure looks to gain cost-effective, diversified exposure to global infrastructure assets. Further investment in infrastructure will be added, if available, with the aim of generating predictable, index-linked cash flows; this reduces the inflation risk of the portfolio and adds diversification

Private Credit

The Fund invests in Private credit to seek income and benefit from the long term nature of the Fund. The existing allocation seeks to generate value from direct lending via the secondary market and also exploit specific opportunistic investments. This allocation is directly invested in external pooled Funds and provides a contractual income to the fund.

Property

The Fund holds an allocation in UK Property to support the overall aim to generate a return in excess of the IPD benchmark while earning predicable cash flows.

POOLING OF ASSETS

The Fund is committed to pooling of assets and the London Borough of Hillingdon as Administering Authority of the London Borough of Hillingdon Pension Fund formally agreed to join the London Collective Investment Vehicle (CIV) on 25 February 2016 and were on-boarded on 1 March 2016. Through the LCIV the Fund will benefit from economies of scale, by pooling assets with other Funds, enabling the LCIV to negotiate lower investment and implementation fees across the board on various asset classes.

London CIV

The London CIV was formed as a voluntary collaborative venture by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015 and launched its first sub Fund in December 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund. The London CIV was created in line with the government directive aimed at reducing investment costs across the board for all LGPS Funds pooling assets of 89 administering authorities into 6 "wealth Funds".

Since its initial launch, the London CIV has opened 6 sub Funds within the global Equities and multi asset absolute return space and is in the process of opening further sub-Funds covering liquid asset classes. Less liquid asset classes will follow. The London CIV structure and associated business plan is consistent with the criteria contained within the November 2015 Investment Reform and Criteria guidance.

The London CIV will ultimately be responsible for managing all the Fund’s assets. The Fund has begun transitioning assets into the London CIV transferring assets with a value of £102m or 11% of the portfolio in June 2016 to the London CIV Ruffer Diversified Growth Fund. In addition to the Funds held directly on the London CIV platform the Fund transferred £215 or 24% of its assets to LGIM as passive funds in October 2016 to benefit from work carried out by the London CIV to reduce fees through economies of scale. These passive funds will be retained outside of the London CIV operating model for the time being, in accordance with government guidance on the retention of life funds outside pools, although the London CIV will monitor the passive funds as part of the broader pool. The Fund will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund's investment strategy.

The Fund currently holds £225m or 25% of its assets in illiquid assets. The cost of exiting these strategies early would have a negative financial impact on the Fund as the costs of transitioning outweigh any potential gains. These will be held as legacy assets until they mature and proceeds will be re-invested through the Pool, if it has appropriate strategies available, or until the Fund changes asset allocation and decides to disinvest. The Fund's illiquid assets currently held include Private Equity, Private Credit and Property.

Pool Governance

The legal ownership of assets held within the LCIV is with the depository which is currently Northern Trust, with the beneficial ownership of the assets remaining with the Fund; the LCIV is the Fund manager.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Sectoral Joint Committee, comprising nominated Member representatives from each investing Fund within the pool; including the Chairman of the London Borough of Hillingdon Pensions Committee, Councillor Corthorne. In addition there is an Investment Advisory Committee (“IAC”) formed of nominated officers from the investing Boroughs. The London Borough of Hillingdon Fund is currently represented on the IAC.

At a company level for London CIV the Board of Directors is responsible for decision making, which includes the decisions to appoint and remove investment managers. The share structure of London CIV involves each member body being shareholders who all retain equal shares in the ownership and voting making the company accountable to its shareholders. In addition the Company has a highly respected Non-Executive Board, meeting the requirements for strong governance arrangements to be in place.

INVESTMENT IMPLEMENTATION

The implementation of all investments is delegated to the Corporate Director of Finance, supported by a team of officers. The officers are assisted in the implementation of the investment strategies by the Fund's appointed investment advisors. All investment decisions will firstly look to implementation into a sub Fund held within the London CIV.

INVESTMENT GOVERNANCE

The Pensions Committee sets the objectives, risk tolerances and sets the required rate of return in conjunction with the scheme’s actuary. Once the parameters are established, the Committee determine the strategic asset allocation that it believes has the highest probability of succeeding, taking into account proper advice from the Fund's investment advisors.

The Pensions Committee meet quarterly to discuss investment decisions and review Fund performance, in addition to receiving a training discussion item at each meeting to ensure effective governance of the Fund investments.

In April 2015, a Local Pensions Board was created to ensure further governance over the administration of the Fund and decision making processes. The Local Pensions Board reviews compliance and Pensions Committee decisions to ensure the Fund complies with the code of practice on the governance and administration as issued by the Pension Regulator.

PERFORMANCE MEASUREMENT

The Pension Committee reviews the performance of the investment managers and assets on a quarterly basis discussing performance, market conditions and asset allocation and making appropriate decisions where necessary. They review the report from Northern Trust, the Fund's custodian who provides an independent monitoring service and reports from officers and advisors on performance review meetings with Fund Managers. In addition, the performance of the pooling arrangements is monitored via regular reporting and updates from the London CIV. Local benchmarking information is received from PIRC to review performance against other LGPS schemes.

RISK MANAGEMENT

The Fund has a Risk Management Policy which can be found on the Council's website at http://www.hillingdon.gov.uk/article/6492/Pension-fund. The Risk Management Policy details the risk management strategy for the Fund, which explains:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Fund 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 at a strategic and operational level.

The Fund recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in light of the risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority on behalf of the Fund will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively

to change;

- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided; and
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

Risk Management is a sound management technique that is an essential part of stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

The Pensions Committee analyse the level of risk and the drivers of risk and monitor and review the investment strategy and investment performance on an ongoing basis and take mitigating action where required. This may include rebalancing the allocation of assets when set benchmark weighting of asset classes exceeds tolerance thresholds

The Committee has established a strategic asset allocation benchmark for the Fund. They assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities, monitoring the delivery of benchmark returns relative to liabilities on a regular basis.

The Pensions Committee provides a practical constraint on the Funds investments deviating greatly from the intended approach by adopting a specific asset allocation benchmark and by monitoring the underlying asset class weights relative to this benchmark on a regular basis.

The investment strategy is suitable diversified, with the balance of different asset classes and investment managers mitigating the impact at an aggregate level of underperformance of an individual manager. Diversification is a very important risk management tool. The scheme seeks to maintain a diversified exposure via a wide range of asset classes, geographies, and currencies.

ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG) POLICY

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. In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers.

The Fund expects its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

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

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Exercising the rights of Ownership and Voting

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. The Fund's investments through the London CIV are covered by the voting policy as agreed by the Pensions Sectoral Joint Committee advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

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. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. 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 impacting 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.

Going forwards, the Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council's website. The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the seven principles is also published on the website.

London Borough of Hillingdon

Administering Authority for the
London Borough of Hillingdon Pension Fund

COMMUNICATIONS STRATEGY

July 2017

COMMUNICATIONS STRATEGY

Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the London Borough of Hillingdon Pension Fund (“the Fund”) and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

London Borough of Hillingdon (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). Operationally, the administration of the Fund is undertaken by Surrey County Council under a delegation agreement and the team at Surrey and Hillingdon Council staff work together to provide a seamless service to scheme employers and members, and as such effective communication *between* the two organisations is vitally important. This policy focuses on effective communication between the Fund (i.e. the Council and Surrey County Council as administrator) and its external stakeholders.

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored.

Implementation

This Strategy outlines the type of communications the administering authority would like to provide to scheme members and employers. It includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

The London Borough of Hillingdon Pension Fund's administration was moved from the outsourced administrator Capita Employee benefits to a delegation agreement with Surrey County Council in November 2016, which was a significant project. As part of improving our service to scheme members we are looking at a number of projects which will improve communications and help meet the aims and objectives of this Strategy. These include:

- a review of the Fund's website, and what information will be available on the Surrey website;
- a review of the information provided to members by Surrey;
- implementing self-service web functionality to scheme members and employers.

This Strategy will be effective from 1 July 2017 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

<u>Statements of policy concerning communications with members and Scheme employers</u>
61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

(a) members;
(b) representatives of members;
(c) prospective members; and
(d) Scheme employers.

(2) In particular the statement must set out its policy on —

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

Our Aims and Objectives

Mission Statement
The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent focused, reputable and credible service to all stakeholders.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a ‘can do’ approach.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

Communication Aims and Objectives
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information to educate members to help them to make informed decisions about their benefits.
- Communicate in a clear, concise manner.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders.
- Look for efficiencies in delivering communications, including through greater use of technology and partnership working, with the view that digital communications is the preferred long term communications solution.
- Annual review of the effectiveness of communications and shape future communications appropriately.

Ultimately, achieving these objectives should result in fewer member and employer queries, which will help all stakeholders whilst maintaining and improving the efficient running of the Scheme.

Delivery of Communications

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration the thoughts of the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the communications of the Fund are undertaken partially by Surrey and partly 'in-house' within London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

How we Communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and London Borough of Hillingdon recognises that communicating in a clear informative style is vital in achieving this aim.

Who we Communicate with
London Borough of Hillingdon recognises that there are several distinct stakeholder groups, such as:

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the next section.

Diversity of Communication
The London Borough of Hillingdon Pension Fund's information is also available in alternative formats for example, Braille or large print on request. The London Borough of Hillingdon Pension Fund always aims to use the most appropriate communication medium(s) for the audience receiving the information. However, the London Borough of Hillingdon acknowledges that digital communications is the preferred long term communications solution.

Methods of Communication
a) With Scheme Members and Prospective Scheme Members

Effective communication reminds, or alerts, employees to the value of the LGPS which negates misleading media information and aids recruitment, retention and the motivation of the workforce.

Website
All members have access to the Fund's website http://www.hillingdon.gov.uk/pensions which contains information about the Fund and the LGPS, and members are able to download scheme literature and forms. The website also links to the Surrey website https://mypension.surreycc.gov.uk/ which provides a self-service facility for them to update their personal details online (including their expression of wish for any death grant that may become payable), calculate their own pension projections and check their membership history.

Annual Benefit Statements
These statements are distributed annually to all active and deferred scheme members and are currently distributed to home addresses. From 2018 these will be made available online rather than posted to home addresses

Newsletters
The Fund issues a periodic newsletter to contributing members, bringing to their attention information such as changes to scheme rules. The Fund also sends an annual newsletter to its pensioners. This is sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits. The newsletter to contributing members is distributed electronically and the pensioner's notification is sent to home addresses

Telephone and email
All members have the opportunity to telephone, fax or email the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as appropriate) for information in addition to the other lines of communication open to them.

Literature
The London Borough of Hillingdon Fund makes pension-related literature available to scheme members, including:

- A New Joiner Option Form which is the responsibility of employers to issue to all new members upon joining the London Borough of Hillingdon Pension Fund.
- A retirement pack sent to all members about to retire from the London Borough of Hillingdon Pension Fund.
- A welcome letter which is sent to all members joining the scheme to confirm their membership and provide information about the option to transfer in benefits and pay additional contributions if they wish.

Pensions Taxation Correspondence
Where appropriate, letters are distributed to all members who are affected by the Annual Allowance or the Lifetime Allowance, explaining changes to taxation rules and how this may affect their pension savings.

Annual Report
The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, and governance. It is available on the Fund's website.

b) With Employers

Effective communication between an administering authority and its Fund employers reduces errors, improves efficiency and leads to good working relationships. The main means of communication with employers are outlined below.

Employer key contact officers and meetings
We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the administering authority aware of the contact details for that person.

The Fund, where appropriate, will contact, and where relevant, meet with the employer key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the administering authority. Meetings will be arranged if necessary (particularly if specific issues around the performance of the employer arise).

Individual Employer Meetings
Employers have the opportunity to meet with members of staff from the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as

appropriate) to discuss any issues with regard to the Local Government Pension Scheme. These meetings take place as and when they are required.

Administration Strategy
Introduced in April 2016, the administration strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It is available on the Fund's website.

Website
The London Borough of Hillingdon Pension Fund website http://www.hillingdon.gov.uk/pensions includes a range of information relating to the scheme benefits and also management of the London Borough of Hillingdon Pension Fund. Employers are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated. The London Borough of Hillingdon Pension Fund can also update employers via the website on urgent LGPS issues. Greater self-service functionality will be introduced for employers on the website during 2017/18 including the ability for employers to set up new joiner records online and calculate early retirement projections in respect of their employees.

Email Updates
We will often communicate with employers using an email distribution list of all employers. This is how we highlight general updates about the LGPS. This email distribution list is also used to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions.

Employer specific events
The Pension Administration Section will also be happy to attend any employer specific events to assist employers understand their responsibilities.

c) With Pension Committee and Pension Board members:

Effective communication ensures that Pension Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members:

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the intranet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Committee / Pension Board members, together with the meeting minutes, are available on the Democratic Service pages of the Council's website.

d) With Fund Staff:

Effective communication ensures that both Hillingdon and Surrey staff are confident and prepared to undertake their role, as follows:

Pension Manager
The London Borough of Hillingdon and Surrey County Council Pension Managers maintain open-door policies and are available to staff both within and outside the Pensions Teams. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.

Team Meetings
Office and/or Team meetings are held on a monthly basis to discuss operational issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. Any items arising from such meetings are escalated to the relevant Pension Manager and raised at Senior Management Team Meetings if required.

Intranet
Each member of staff has access to the relevant Fund's intranet so that it can be used as an information resource.

E-mail
All staff have access to the e-mail facility.

Internet
All staff have authority to access the internet to assist them in their role within Pension Services.

Induction and training
All new members of staff undergo an induction procedure to acquaint them with the operational running of the Pension Fund. Subsequently, all pension staff also receive both in-house and external training to enable them to administer the scheme effectively, answer member queries, and offer a good customer service and also to assist in their personal development.

Appraisal and Assessment
Staff at all levels in the Pension Team have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

e) Communicating with other bodies:

There are a number of other interested parties with whom we communicate as required, including:

The Department for Communities and Local Government (DCLG)
We have regular contact with DCLG as Responsible Authority of the LGPS, participating and responding to consultations as required.

Scheme Advisory Board
The national Scheme Advisory Board was established following the Public Services Pensions Act 2013 to provide advice to administering authorities and local pension

boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the Scheme Advisory Board as appropriate.

The Pensions Regulator
The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. We therefore liaise with the Regulator as required, and ensure that the London Borough of Hillingdon Fund is compliant with the Pensions Regulator's Code of Practice.

Trade Unions
We work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions.

Employer Representatives
We work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Board.

Pension Fund Investment Managers, Advisers and Actuaries
We have regular meetings with;

- the Fund Managers who invest funds on behalf of the Fund
- Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
- the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

Pension Fund Custodian
The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.

AVC Provider
Additional Voluntary Contributions (AVC) are a way for members to top up their pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Fund's preferred AVC provider is Prudential.

Pensions and Lifetime Savings Association (PLSA)
The Fund is a member of PLSA (formerly NAPF), which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

Regional Forums
The London Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

Requests for Information (FOI)

Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

Consultations

There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hillingdon Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Corporate Pension Manager will work together with the Lead Pensions Manager at Surrey and with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

Preparation and Review

This Strategy Statement was approved in June 2017 by the London Borough of Hillingdon Pension Committee. It is effective from 1 July 2017.

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: http://www.hillingdon.gov.uk/pensions.

Further Information

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy should be sent to:

Ken Chisholm, Corporate Pensions Manager
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

E-mail - kchisholm@hillingdon.gov.uk
Telephone - 01895 250847

M: EXTERNAL AUDIT OPINION

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

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts on 2nd August and the date of this statement.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of:

- Chairman's Foreword
- Overall Fund Management
- Financial Performance
- Investment Policy and Performance Report
- Scheme Administration
- Report of the Fund Actuary
- Governance
- Fund Account, Net Assets Statement and Notes
- Asset Pools
- Pensions Administration Strategy
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Suresh Patel (Key Audit Partner) *30 October 2019*
Ernst & Young LLP (Local Auditor)
London

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

Broker

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

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

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

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

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

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

Creditors
Amounts owed by the pension fund.

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

Debtors
Amounts owed to the pension fund.

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

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

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

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

Dividend

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

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

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

Equity
Stock or any other security representing an ownership interest.

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

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

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

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

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

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

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

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

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

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

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transition
To move from one set of investment managers to another

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

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

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

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

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

London Borough of Hillingdon

Pension Fund

Governance Policy and Compliance Statement

Governance Policy and Compliance Statement– Administering Authority

London Borough of Hillingdon is the Administering Authority of the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives

The London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund on behalf of its stakeholders which include (at time of drafting):

- around 22,100 current and former members of the Fund, and their dependants
- over 40 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.

London Borough of Hillingdon Council

Pension Committee

Corporate Director of Finance | **Local Pension Board**

Delegated Officers | **London Collective Investment vehicle**

Terms of Reference for the Pensions Committee

The Pensions Committee's principal aim is to carry out the functions of the London Borough of Hillingdon as the Scheme Manager and Administering Authority for the London Borough of Hillingdon Pension Fund in accordance with Local Government Pension Scheme regulations and any other relevant legislation.

In its role as the administering authority, the London Borough of Hillingdon owes fiduciary duties to the employers and members of the London Borough of Hillingdon Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

The Pensions Committee operates under the following terms of reference:

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.

2. To review the Investment Strategy Statement and amend it when necessary.

3. To agree benchmarks and performance targets for the investment of the Fund’s assets and review periodically.

4. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.

5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.

6. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.

7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.

8. To review the appointment of specialist advisors and service providers and make new appointments as necessary.

9. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.

11. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.

12. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.

13. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.

14. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

Membership of the Pensions Committee

Councillor membership of the Committee will be 5, will be politically balanced and have voting rights. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

Meetings

The Council shall fix the day of meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they see fit. The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website: http://www.hillingdon.gov.uk

The Committee's full terms of reference can also be found on the Council's website.

Scheme of Delegation

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Corporate Director of Finance in the case of the Pension Fund. The Corporate Director of Finance is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Corporate Director of Finance in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Corporate Director of Finance and responsible officer for the pension Fund. The scheme of delegation is reviewed regularly by the Council.

London CIV

The London CIV was formed as by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Sectoral Joint Committee, comprising nominated Member representatives from each investing Fund within the pool. In addition there is an Investment Advisory Committee ("IAC") formed of nominated officers from the investing Boroughs.

As an FCA Authorised Contractual Scheme, the CIV is required to publish a prospectus which details how the CIV will operate including the valuation, pricing and administration of the Scheme.

London CIV - Pensions CIV Sectoral Joint Committee

The Pensions CIV Sectoral Joint Committee was established in accordance with recommendations made to London Councils Leaders Committee on 11 February 2014 and operates under the London Councils governance arrangements. Each London Local Authority participating in the London CIV appoint a representative to the Pensions CIV Joint Committee. The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for participating authorities to consider and provide guidance on the direction and performance of the CIV. In addition members shall meet at least once each year at an AGM of the ACS Operator in their capacity as representing shareholders of the ACS Operator. If decisions are required on specialist matters where the committee do not have expertise advisers will be arranged at attend the committee meetings. Committee meeting are called in accordance with London Councils' Standing Orders which covers procedures, quorum and voting.

London CIV - Investment Advisory Committee (IAC)

The IAC is responsible in supporting the Joint Committee in the investment decision making process and to liaise with the Fund Operator on the CIV in defining Shareholders' investment needs. It was formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities. The IAC is involved in reviewing the needs of the London local authority Pension Funds in terms of investment strategies and investment mandates for the CIV and it supports the review of investment managers and performance reports from the ACS Operator. Membership of the IAC is reviewed annually based on nominations and the committee is required to review the effectiveness of the committee annually.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of London Borough of Hillingdon does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The London Borough of Hillingdon Pension Board was established by London Borough of Hillingdon on 1st April 2015 and the full terms of reference of the Board can be found on the Fund's website hillingdon.gov.uk/pensions. The key points are summarised below:

Role of the Pension Board

The Pensions Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee effectively and efficiently complies 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 on the governance and administration of public service pension schemes issued by the Pension Regulator.

Membership of the Pension Board

The membership of the Board must be equally split between employer and scheme member representatives with relevant experience and the capacity to represent. Council has determined that membership shall be:

- 3 employer representatives - elected Members, appointed on the basis of political balance and appointed annually by Council. No elected Member may sit on both the Pensions Committee and the Pensions Board.

- 3 employee/scheme member representatives - selected at interview by the Chairman and one other Member of the Pensions Committee and a Senior Officer, on the basis of capacity and/or experience. Term of Office to be indefinite

Meetings

The Pension Board meets quarterly in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board is treated in the same way as a Committee of the London Borough of Hillingdon and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pensions Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website: hillingdon.gov.uk/pensions.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the Investment Strategy Statement are as follows:

- Investment objectives.
- Asset allocation
- Pooling of assets
- Investment implementation
- Investment governance
- Performance management
- Risk Management
- Environment, Social and Governance (ESG) policy

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

London Borough of Hillingdon has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Conflicts of Interest

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Corporate Director of Finance to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website: hillingdon.gov.uk/pensions.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website: hillingdon.gov.uk/pensions.

Discretions Policies

Under the LGPS regulations, the Administering Authority has a level of discretion in relation to a number of areas, and maintains a policy document detailing how it will exercise these discretions. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and London Borough of Hillingdon's Employing Authority Discretions can be found on the website: http://www.hillingdon.gov.uk

Pension Administration Strategy

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: hillingdon.gov.uk/pensions. This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Monitoring Governance of the London Borough of Hillingdon Pension fund

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Pension Board prepares and publishes an annual report. • In line with the Regulations this document will be filed with the DCLG.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• Pension Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and register is in place. • Ongoing consideration of key risks at Pensions Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

Key Risks

The key risks to the delivery of this Strategy are outlined below. Pensions Committee members will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pensions Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pensions Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members and/or key officers.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hillingdon Pensions Committee meeting on 26 September 2017 following consultation with all the participating employers in the Fund and London Borough of Hillingdon union representatives. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

Any enquiries in relation to the Fund's governance or the principles or content of this Strategy, or for further information on the Fund, contact:

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Governance Best Practice – Compliance Statement

Appendix A – London Borough of Hillingdon Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE & REPRESENTATION		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant	
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Non-compliant	Prior to establishment of the local Pensions Board, both employees and Unions were represented on Pensions Committee. However, they now sit on Pensions Board.
B. REPRESENTATION		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Non-compliant	Council took the decision to only have Council Members as voting members on Committee. Meetings are open to all to attend, but main representation comes through Pensions Board.

Best Practice	Compliant or not?	Explanatory Note
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	N/A	
C. SELECTION AND ROLE OF LAY MEMBERS		
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Fully compliant	
b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Fully compliant	
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully Compliant	
E. TRAINING / FACILITY TIME / EXPENSES		
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant	
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully Compliant	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partially compliant	No annual training plan as training is developed according to need and workplan. A training log is maintained.

Best Practice	Compliant or not?	Explanatory Note
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	Fully compliant	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	N/A	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant	Pensions Board
G. ACCESS		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant	
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	Through Pensions Board
I. PUBLICITY		
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant	

Appendix B

Delegation of Functions to Officers by Pensions Committee – June 2017

Key:
PC – Pensions Committee CDF – Corporate Director of Finance FA – Fund Actuary
Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's Investment Strategy Statement including specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation	CDF (having regard to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by CDF
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDF (having regard to ongoing advice of advisers and subject to ratification by PC)	High level monitoring at PC with more detailed monitoring by advisers

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Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	CDF and the Head of HR	Copy of policy to be circulated to PC members once approved.

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Function delegated to PC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDF, subject to agreement with Chairman	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Overall responsibility the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	CDF	Regular reports provided to PC
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDF, subject to agreement with Chairman	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

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[1] CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

Stewardship Code

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

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

	and governance issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights is delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does currently publish available summary voting data by manager as part of the quarterly report to Pension Committee. The fund has a stock lending arrangement with Northern Trust as part of its investment strategy. Up to 25% of value of shares/bonds held in segregated portfolios are permitted to be loaned out as part of the arrangement and secured on collateral value of minimum 109% of the assets out on loan. 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. The arrangement also allows the fund to recall any asset out on loan if required for shareholder engagement purposes without any punitive measures.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report. A table detailing the statistical analysis of the fund's managers voting patterns is published as part of the annual report.

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