London Borough of Hillingdon Pension Fund Annual Report 2016/17

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CHAIRMAN'S FOREWORD

By the end of 2016/17 the Fund had grown to a record level of just under £957 million and for the three years to March 2017 the Fund returned an annualised 9.96% overall. Membership of the scheme also continued to increase with an increase of 4% over the previous year. The scheme is however maturing with new contributions level with monies paid out in benefits. As a result, the cashflow of the Fund will continue to be a key focus for Committee over the coming months.

Monitoring the Fund's investments has kept Committee busy over the last 12 months, particularly looking at opportunities to invest via the London Collective Investment Vehicle (CIV). Last year we reported that the Council took the decision to join with the other 32 London Boroughs to form the CIV. The CIV was formally established as an Authorised Contractual Scheme (ACS) and is the vehicle through which all of the Fund's assets will be pooled, although it is expected to take 10 to 15 years to achieve this goal. Over this year, in addition to the investment in the London CIV Ruffer Fund, we also transitioned all passive holdings to the Legal & General Fund, managed via the CIV, generating significant fee savings for the Fund. As 31 March 2017 41% of the Fund's assets were held with the CIV. We have taken active participation in the development of the London CIV this past year with membership on the joint committee and on the Investment advisory committee.

The local Pension Board is now well established, having been in operation for two years. The key work of the Pension Board to date has related to improving Fund governance through refreshing and drafting policy documentation and in ensuring compliance with the Pension Regulator's code of practice. Pension Board have undertaken some significant pieces of work since inception including: development of a policy to Report Breaches of the Law; development of a refreshed Communication Strategy; supporting the development and introduction of an Administration Strategy; a review of an initial self assessment against Pension regulator's compliance checklist and agreement of actions for improvement; and maintaining a watching brief on the transition of Pensions Administration from Capita Employee Benefits to Surrey County Council.

In November, the new administration arrangements came into effect. Day-to-day administration is now undertaken by the pension team at Surrey County Council with whom we have a collaborative working arrangement. The transfer from Capita was a major project and it will take some time for the new arrangements to bed in and to reduce the backlog of work they transferred. However, early performance has been encouraging.

Cllr Philip Corthorne
Chairman Pensions Committee

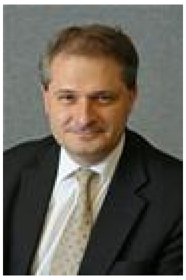
FUND GOVERNANCE and STATUTORY INFORMATION

FUND GOVERNANCE

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

Pension Committee

The Pension Committee consists of five Councillor Members. During 2016/17 these were:



Councillor
Philip Corthorne
(Chairman)

Councillor
Michael Markham
(Vice-Chairman)

Councillor
Peter Davis

Councillor
Tony Eginton
(Labour Lead)

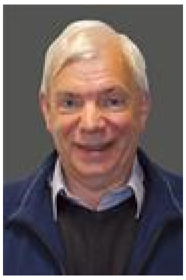
Councillor
Beulah East

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

Local Pension Board

The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee meets on a quarterly basis. The members of the Board during 2016/17 were:

Employer Representatives:

		
Councillor David Simmonds (Chairman)	Councillor Alan Chapman (Vice-Chairman)	Councillor John Morse

Scheme Member Representatives:

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

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

Corporate Director of Finance

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

FUND MANAGEMENT and ADVISORS

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

Officers Responsible for the Fund

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

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

Scheme Administration

Administration of the scheme was contracted out to Capita Employee Benefits (CEB) until 31st October 2016. From 1st November 2017, Surrey County Council provide the pensions administration under delegated authority for the London Borough of Hillingdon. Surrey 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 2016/17 the Fund used the following external managers:

Fund Manager
Adam Street Partners
AEW UK
GMO Investments (Defunded February 2017)
JP Morgan Asset Management
Kempen International Investments (Defunded June 16)
Legal & General Investment Management (Funded October 2016)
London CIV (Funded June 2016)
LGT Capital Partners
M&G Investments (Direct Investment)
Macquarie Investment
Newton Investment Management
Permira LLP
Ruffer LLP (Assets Transferred to management under London CIV June 2016)
State Street Global Advisors (Defunded October 2016)
UBS Global Asset Management

Advisors to the Fund

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

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

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

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

Aon Hewitt
25 Marsh Street
BRISTOL
BS1 4AQ

Legal Services

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

Auditor

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

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

Banker

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

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

AVC Provider

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

Prudential AVC Customer Services
Prudential
CRAIGFORTH
FK9 9UE

OVERVIEW OF THE SCHEME

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The scheme move 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 as applying during the financial year 2016/17 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 which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

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

REGULATIONS

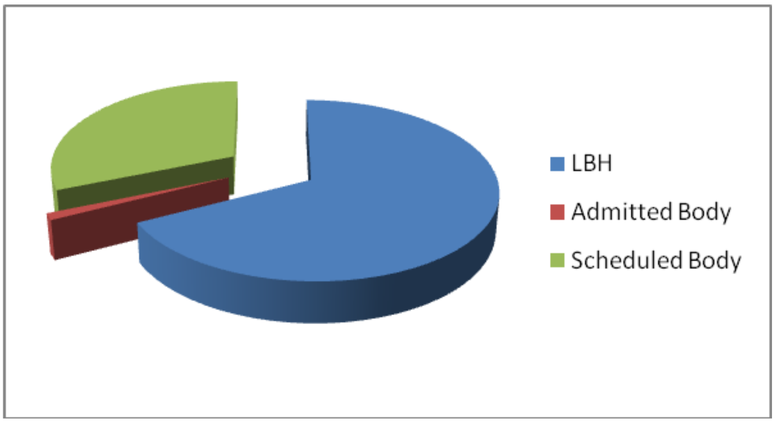
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

FUND MEMBERSHIP

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

Active Membership

As at 31 March 2017 there were 8,684 members actively contributing to the Fund. The diagram below shows a breakdown by employer type:

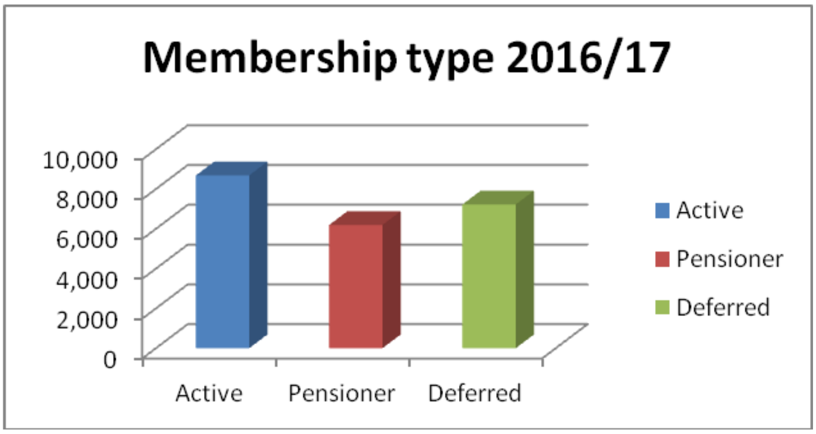


General Scheme membership

Membership of the scheme is split between

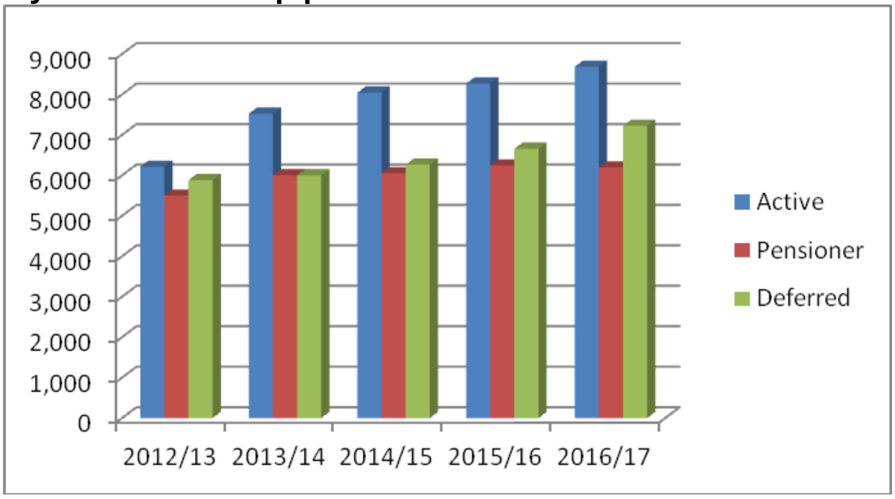
- Active members - those still contributing to the scheme;
- Deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme; and
- Pensioner members - who are both former active members now drawing their benefits and dependents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

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



As can be seen from the following chart, active membership continued to grow over the last financial year. Active membership increased by 417 and overall scheme membership increased year-on-year by 4% to 22,103 scheme members. The membership profile over the last five years is shown below:

5 year membership profile

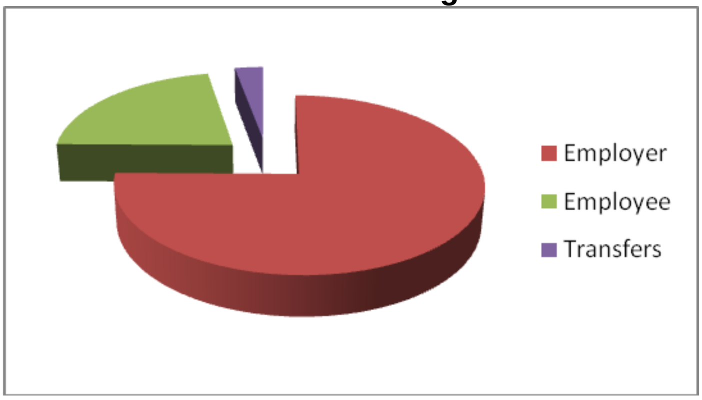


CONTRIBUTIONS

Total contributions (including transfers) into the Fund during 2016/17 amounted to £42.7m compared to £42.0m for the previous year. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund actuary and the rates that applied during 2016/17 were set from the 2013 valuation.

The chart below shows the split between employee and employer contributions and transfers. Employers contributed 75% of total contributions during 2016/17.

Contributions received during 2016/17



The current employer contribution rates and the total contributions paid by each Employer in 2016/17 are shown in the table below.

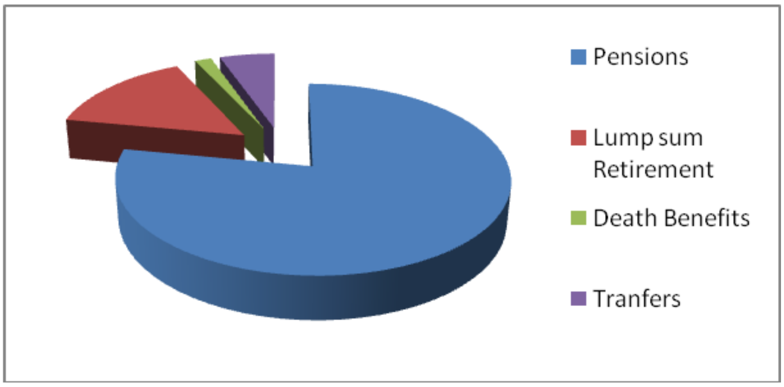
Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	23,466,357.17	21.1
Barnhill Academy	Scheduled Body	280,409.68	23.4
Belmore Academy	Scheduled Body	163,852.36	22.8
Bishop Ramsey Academy	Scheduled Body	285,594.52	26.3
Bishopshalt Academy	Scheduled Body	306,635.48	29.6
Charville Academy	Scheduled Body	223,312.76	35.7
Coteford Academy	Scheduled Body	122,188.71	27.4
Cowley St. Laurence School	Scheduled Body	137,851.53	24.8
Cranford Park Academy	Scheduled Body	266,123.40	28
Douay Martyrs Academy	Scheduled Body	246,241.09	30.3
Eden Academy	Scheduled Body	179,990.69	25.1
Global Academy	Scheduled Body	15,421.48	17.3
Grangewood School	Scheduled body	287,326.29	25.1
Guru Nanak Academy	Scheduled Body	299,972.02	21.2
Harefield Academy	Scheduled Body	210,292.66	19
Heathrow Aviation	Scheduled Body	49,750.22	22.1
Haydon Academy	Scheduled Body	341,671.18	22.2
Hillingdon Primary School	Scheduled Body	178,321.74	22.5
John Locke Academy	Scheduled Body	51,242.52	17.7
Lake Farm School	Scheduled Body	79,410.51	18.1
Laurel Lane Academy	Scheduled Body	118,568.13	24.8
London Housing Consortium	Scheduled Body	214,757.21	21.1
Moorcroft School	Scheduled Body	212,440.31	25.1
Nanaksar Primary School	Scheduled Body	32,708.65	15.3
Northwood Academy	Scheduled Body	100,091.89	21.7
Park Federation	Scheduled Body	69,283.56	18.1
Pentland Field School	Scheduled Body	207,831.93	25.1
Pinkwell School	Scheduled Body	226,360.97	24.3
QED - Queensmead School	Scheduled Body	19,321.38	21.8
Queensmead Academy	Scheduled Body	259,189.68	24.3
Rosedale Hewens Academy	Scheduled Body	277,105.88	24.5
Ruislip High School	Scheduled Body	218,986.81	21.5
Ryefield Primary School	Scheduled Body	166,969.15	21.1
Skills HUB	Scheduled Body	116,614.87	36.9
St. Matthews Primary School	Scheduled Body	124,791.02	24.8
St. Martins primary School	Scheduled Body	28,595.90	24.8
Stockley Academy	Scheduled Body	160,121.93	19.4
Swakeleys Academy	Scheduled Body	200,601.71	24
Uxbridge College	Scheduled Body	915,450.15	17.8
Uxbridge Academy	Scheduled Body	281,081.51	21.5
Vyners Academy	Scheduled Body	236,939.06	28.7
Willows Academy	Scheduled Body	36,796.19	27.3
Wood End Academy	Scheduled Body	236,904.27	24.5
Young Peoples Academy	Scheduled Body	92,254.85	28.6
Bellrock	Admitted Body	38,182.92	29
Braybourne Facilities	Admitted Body	6,698.18	29.3
Churchill (was Mitie Cleaning)	Admitted Body	22,923.56	21
Cucina - Haydon Academy	Admitted Body	38,773.23	28.4
Greenwich Leisure	Admitted Body	88,414.44	16.8

Hayward facilities	Admitted Body	3,421.36	34.2
Heathrow Travel Care	Admitted Body	28,334.96	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	43,090.53	19.1
Kingdom Security	Admitted Body	13,398.88	26
Mitie Facilities Management	Admitted Body	25,416.62	21
Taylor Shaw	Admitted Body	35,171.14	24.7
Taylor Shaw (Caterlink)	Admitted Body	1,882.65	16.9
Taylor Shaw (Caterplus)	Admitted Body	18,153.03	31.1
Total		**32,109,594.52**	

BENEFITS

The benefits paid out from the Fund comprise annual pensions, lump sum retirement payments, death benefits and transfers to other funds. Total benefits paid out during 2016/17 amounted to £41.6m, a decrease of £0.9m compared to the previous year.

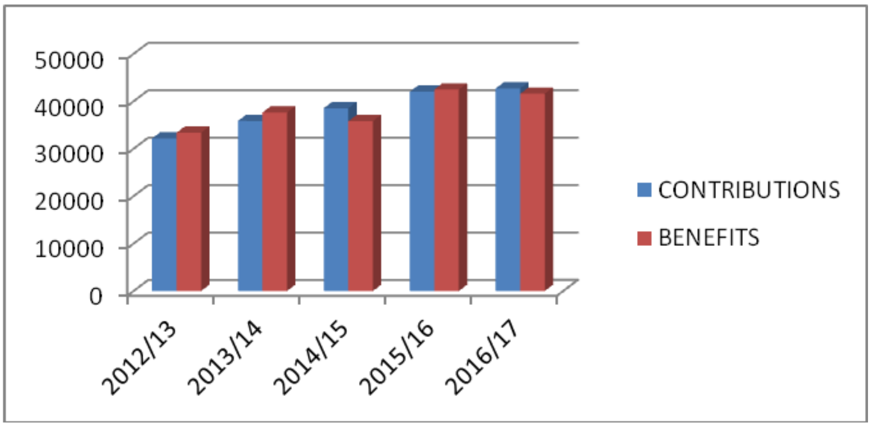
Benefits paid during 2016/17



CASHFLOW

Looking at the comparison between contributions received and benefits paid out over the last five years, it can be seen that while contributions received have continued to grow, benefits payments have also continued to grow, with varying differences over the years. Over the last year figure there was £1.1m more received in contributions than paid out in benefits.

Contributions Received against Benefits Paid



Management Expenses

Management expenses for 2016/17 were £8.4 million, an increase of £2.0 million compared to 2015/16. The majority if this increase is attributable to the big increase in market valuation of investment assets, which form the basis of investment fund management charges incurred by the fund. In 2016/17 the market value of investments appreciated by £138 million, thus incurring greater management fees.

Whilst the positive cash-flow in member dealings is currently favourable to the fund, cash-flow may become an increasing concern for the Committee in the next few years.

Existing strategies are in place to address these concerns, in form of a very defensive investment portfolio, including a number of income generating investments that will reduce the necessity to sell investments should there be a sustained cash-flow shortfall. The ongoing strategy will continue to focus on generating income to meet cash-flow requirements.

PERFORMANCE REVIEWS and REPORT of the FUND ACTUARY

INVESTMENT REVIEW

Market background for the year ended 31 March 2017

Economic Summary

The financial year has seen two political events which have more than surprised the markets. In June 2016 the UK voted to leave the European Union and then five months later, Donald Trump was elected the 45th President of the United States.

The former saw an instant fall in sterling and UK equity indices tumble. The Bank of England took immediate action to settle the markets by reducing interest rates and increasing quantitative easing. Following the initial reaction, UK equities steadily improved, making gains over the year; whilst economic growth figures continued to be positive, challenging the forecasts of the economists. The fall in sterling benefited exports and reinforced the service sector as tourists took advantage of their improved buying power. However inflation began to rise as the increased price of imports started to take hold. The Bank of England has said that it intends to look through any short-term inflationary pressure due to currency and hopes to hold interest rates at their historic lows in order to bolster the economy.

In November 2016 President Trump took office and with his promise of protectionism, the impact on economies around the world may still be profound. In the short-term however, markets have again been positive with investors seeing Trump's pro-business agenda favourably and inflows into US assets. His policy of lower taxes and higher public spending could see a sustained rise in US bond yields and with large bond maturities requiring refinancing, this will only add to the upward pressure.

Within Europe, economic growth as a whole was strong with recovering results being announced and equity returns reflecting this position. However with several government votes taking place and the populist agenda gaining ground, political upheaval may prove an obstacle to the region's continued improving position.

Key asset class information

In general, despite the political shocks, equity markets have delivered solid returns throughout the year. Global equities delivered annual returns of 26.11% with the FTSE All share (UK) providing returns of 21.95% and FTSE North America 34.97%. Other regions also had positive results with Europe (ex UK) up 28.31%, whilst Asia Pacific and Emerging Market indices showed gains of 34.68% and 35.58% respectively.

Other asset classes also showed gains throughout the year, albeit at subdued levels comported to equities, with the LB Hillingdon Fixed Income benchmark delivering 4.61% and Property benchmark showing 3.69%.

If one follows the consensus of a generally improving world economy, equities could continue to deliver positive returns, despite their current high valuation and headwinds through Brexit, European and Trump uncertainties. With increased borrowing requirements, yields on UK and US government bonds are likely to increase which may prove a difficult environment for bond traders. The biggest test for the UK economy will be its negotiations and exit from the EU, which is fraught with uncertainly and unchartered challenges.

Investment Strategy

The setting and maintenance of the Fund's investment strategy is undertaken through the work of the Pensions Committee. The main consideration when devising an investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependants, both now and in the future. These benefits, which form the liabilities of the Fund, are very long term in nature. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities, property, private equity and other alternative investments which are expected to deliver higher returns over the longer term.

Fund Managers

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

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

London CIV is a collective investment vehicle set up by all London boroughs in line with DCLG directive to pool investment assets of local authority pension funds strive to reduce cost of managing assets through economies of scale. As part of the process, the fund's mandate with Ruffer was transferred in July 2016 to be managed by the London CIV as a consolidated mandate with Ruffer, where the Council benefits from reduced fees. The plan is for all fund assets to be migrated into management by LCIV in the future and further reduce fund management costs. Ruffer is an Absolute Return manager and the Manager has two goals: not to lose money on a rolling 12 month basis and to grow funds at a rate higher than would be achieved by depositing in cash. The asset allocation is driven by two selections: those investments likely to deliver the required growth over the longer term (‘Greed’ assets) and those which should rise in response to conditions under which the Greed assets lose value (‘Fear’ assets). Historically Fear and Greed weightings have been broadly comparable.

LGIM - The manager was appointed in October 2016 to replace SSgA through partnership with the LCIV benefiting from lower negotiated fees to manage passive assets. Its aim is to capture benchmark returns by replicating the indices backing the assets.

M&G - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. As at the end of March 2017, all three invested funds were fully drawn down. The pension fund has already received more than the value of cash invested in the M&G Companies Fund, including promised returns on investment. Some returns have also been received from investments in the Debt opportunities fund, whilst the Debt Opportunities fund II has only just been fully invested in the financial year under review. Repayment of invested cash in all three funds should accelerate over the next year as they mature.

Macquarie - The mandate spans four regional funds – Europe, China, India and the US. Macquarie tends to pursue large scale projects often directly operating the assets invariably in partnership with local asset owners, wealthy individuals.
Since Inception of the portfolio, progress has been steady with allocation to all four funds are about 75% - 90% drawn-down. Returns on investments with this manager are expected to start coming back in the next year.

Newton was appointed in January 2013 with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable in excess of contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate any assets. The manager seeks to achieve increasing annual distributions together with long-term capital growth from investing predominantly in global securities. At purchase, stocks must have a yield at least 25% above the prevailing market yield. From the eligible subset, stocks are selected along a range of thematic lines e.g. those that should benefit from deleveraging within the broader economy. The manager adopts an unconstrained approach to stock selection which results in variances against the world equity index over shorter time periods. The fund has increased the total investments managed by Newton from consolidating the global equities income manage into one, disinvesting from Kempen in June 2016.

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

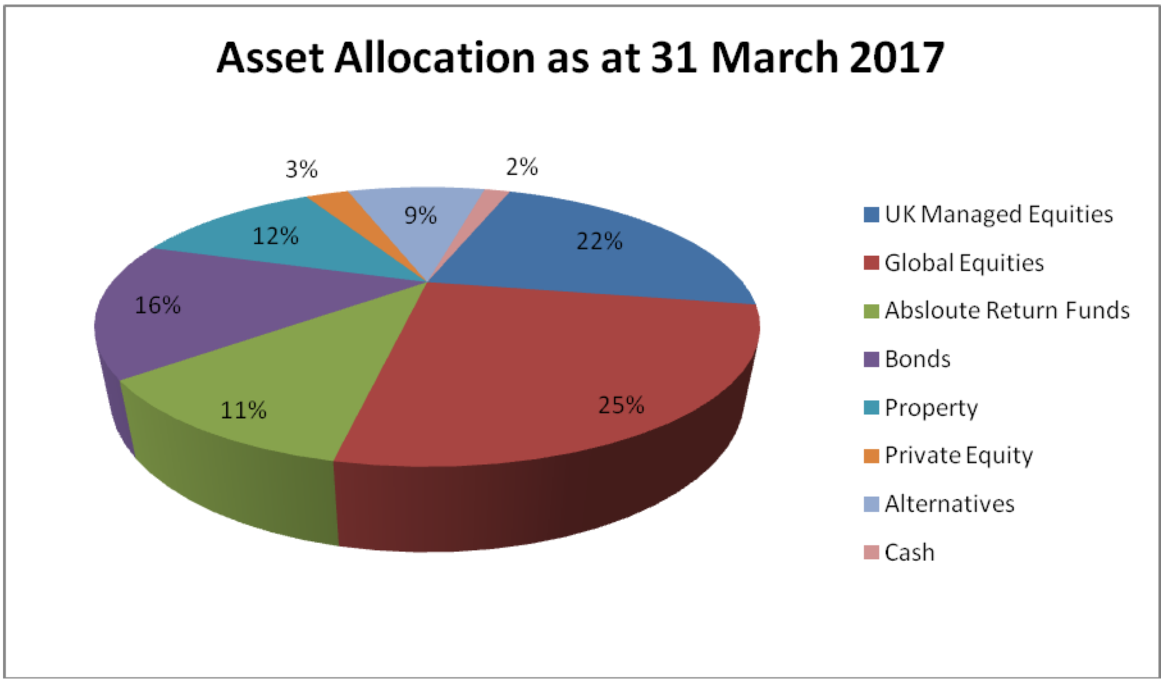
Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 2.9% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification. The majority of the investments are being returned and should be wound down over the next three to five years. There are currently no plans to make further commitments to this asset class by the Pension Committee, but the decision could be reviewed if it meets the future strategic direction of the fund.

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

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

Fund Value and Asset allocation

At 31 March 2017 the total value of the pension fund investment assets and liabilities was £955,190k. The following diagram identifies the allocation by asset class:



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity investments during the year. The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2017.

INVESTMENT MANAGER	as at 31 March 2017		as at 31 March 2016	
	£'000	%	£'000	%
Adams Street	17,532	1.84	19,195	2.37
AEW UK	47,565	4.98	36,094	4.46
GMO	0	0.00	62,041	7.67
JP Morgan	54,622	5.72	36,603	4.53
Kempen	0	0	87,317	10.81
LGIM	287,498	30.10	0	0.00
LGT	9,596	1.00	10,887	1.35
M&G	22,447	2.35	39,150	4.84
London CIV	104,454	10.94	0	0.00
Macquarie	27,002	2.83	19,805	2.45
Newton	137,948	14.44	30,395	3.76
Permira	38,233	4.00	20,634	2.55
Ruffer	0	0	92,546	11.44
State Street (SSgA)	0	0	179,997	22.26
UBS Equities	130,119	13.62	97,271	12.03
UBS Property	68,499	7.17	71,112	8.79
Other	9,675	1.01	5,603	0.69
Total	**955,190**	**100.0**	**808,650**	**100.00**

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

The largest five holdings in the fund as at 31 March 2017 were:

Top 5 Holdings	Market Value as at 31 March 2017 £000s	Percentage of Fund Value
BNY MELLON FD MNGR NEWTON GLOBAL INC X NET ACC	137,948	14.44%
LONDON LGPS CIV LT RF ABSOLUTE RETURN A GBP DI	104,454	10.94%
Legal & General Investments UK EQUITY INDEX (OFC)	87,081	9.12%
JPMORGAN ASSET MGM GLOBAL BOND OPPORTUNITIES X	54,622	5.72%
AEW UK Investment Management LLP AEW UK Core Property Fund A	47,565	4.98%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2017 £000s	Percentage of Fund Value
Royal Dutch Shell 'B'ord Eur0.07	9,858	1.03%
Bp Ord Usd0.25	9,669	1.01%
Hsbc Hldgs Ord Usd0.50(Uk Reg)	7,382	0.77%
Barclays Plc Ord Gbp0.25	6,673	0.70%
Glaxosmithkline Ord Gbp0.25	6,342	0.66%
Lloyds Banking Gp Ord Gbp0.1	5,891	0.62%
3i Group Ord Gbp0.738636	5,306	0.56%
Glencore Plc Ord Usd0.01	4,946	0.52%
Bae Systems Ord Gbp0.025	4,325	0.45%
Rio Tinto Ord Gbp0.10	4,154	0.43%

Investment Performance

Over the financial year under review, the fund grew by 18.46% ahead of the benchmark figure of 16.65%. For a 3 year period to 31 March 2017, the fund has outperformed with a return, exceeding the benchmark by 0.57% pa.

Performance by asset class

Performance	1 Year			3 Year		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equities	22.96	26.11	(2.50)	9.27	10.92	(1.49)
Overseas Equities	19.94	32.94	(9.78)	9.96	16.23	(5.40)
Bonds	9.59	4.61	4.76	7.01	4.37	2.53
Index Linked Gilts	22.56	20.86	1.41	14.35	13.39	0.85
Private Equity	16.16	37.05	(15.24)	15.97	20.49	(3.75)
Property	1.82	3.69	(1.80)	11.64	10.18	1.33
Infrastructure	23.07	3.65	18.74	18.51	3.65	14.34
Private Credit	21.02	4.65	15.65	8.23	4.65	3.42
Total Portfolio	**18.46**	**16.65**	**1.55**	**9.96**	**9.34**	**0.57**

Performance by manager

Performance	1 Year			3 Year			Since Inception		
Manager	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
Adams Street	20.58	37.05	(12.01)	20.18	20.49	(0.26)	6.58	-	-
AEW UK	5.78	5.15	0.59	-	-	-	10.96	10.02	0.86
JP Morgan	8.15	3.66	4.33	3.69	3.66	0.03	4.16	3.67	0.47
London CIV	12.48	0.65	11.76	7.32	0.66	6.61	6.48	0.87	5.56
LGIM	-	-	-	-	-	-	5.31	5.18	0.13
LGIM II	-	-	-	-	-	-	1.88	1.88	0.00
LGT Capital	22.80	37.05	(10.40)	18.13	20.49	(0.26)	10.52	-	-
Macquarie	22.41	3.65	18.11	18.28	3.65	14.12	3.96	3.70	0.25
M&G	18.62	4.65	13.35	10.04	4.65	5.15	7.20	4.71	2.38
Newton	25.83	35.16	(6.91)	17.43	18.54	(0.94)	15.30	17.10	(1.54)
Permira	9.58	4.65	4.71	-	-	-	10.02	4.61	5.18
UBS Equities	32.89	21.95	8.97	8.60	7.69	0.85	10.31	8.94	1.26
UBS Property	2.51	3.69	(1.14)	12.18	10.18	1.82	3.61	3.40	0.20
Total Portfolio	**18.46**	**16.65**	**1.55**	**9.96**	**9.34**	**0.57**	**7.23**	**7.07**	**0.15**

Note: Excess returns calculated using relative methodology.

Over the year, on investment performance, there was a relative excess return of 1.55% The biggest contributors to the excess return were Macquarie and M&G with 18.11% and 13.35% outperformance, whilst the biggest detractors were Adams Street and LGT with (12.01)% and (10.40%) underperformance. Overall, three year and since inception performance figures were 0.57% and 0.15% respectively above the set benchmarks.

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.

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 which 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. 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.

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.

Exercise of voting rights

Fund Manager	Meetings Voted	Resolutions	Votes With Management	Votes Against Management	Abstentions
UBS	8,718	83,901	75,607	8,294	-
Newton	607	1,983	1,219	728	36
LGIM	915	44,332	39,205	5,127	-

REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund ("the Fund")
Actuarial Statement for 2016/17

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 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. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen

Catherine McFadyen FFA

For and on behalf of Hymans Robertson LLP
31 May 2017

Hymans Robertson LLP, 20 Waterloos Street, Glasgow, G2 6BD

SCHEME ADMINISTRATION REPORT

Administrators

Administration of the scheme is undertaken under delegated authority by the Pensions Team at Surrey County Council, who took over the administration from Capita Employee Benefits with effect from 1st November 2016. 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. However, due a backlog of work transferred from Capita Employee Benefits, formal performance monitoring did not commence until 1 April 2017.

Early Retirement

The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2012/13	2013/14	2014/15	2015/16	2016/17
Redundancy or Efficiency	23	50	23	19	63
Ill Health	6	3	8	6	5
Total	**29**	**53**	**31**	**25**	**68**

Complaints

The Council’s complaints procedure is available to any person who wishes to make a suggestion or complaint about the service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Corporate Pensions Manager.

RISK MANAGEMENT

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

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

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

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

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

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

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the 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.

FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

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

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('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 2017 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
27 September 2017

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that these accounts were considered and approved by Pensions Committee at the meeting held on 25 September 2017.

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

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

We have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement and the related notes.

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the 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 2016-17.

We also read the other information contained in the pension fund annual report and consider the implications for my 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;
- Fund Governance and Statutory Information;
- Performance Reviews and the Report of the Fund Actuary;
- Policy Statements
-

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.

Opinion

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 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Tim Sadler (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
28 September 2017.

Pension Fund Accounts

FUND ACCOUNT

	Note	31 March 2017 £000's	31 March 2016 £000's
Contributions	*4*	41,466	39,268
Transfers In from other pension funds	*5*	1,241	2,744
		42,707	**42,012**
Less: Benefits	*6*	(39,353)	(39,776)
Less: Payments to and on account of leavers	*7*	(2,243)	(2,700)
		(41,596)	**(42,476)**
Net additions/(withdrawals) from dealings with members		**1,111**	**(464)**
Less: Management expenses	*8*	(8,385)	(6,353)
Net additions/(withdrawals) including fund management expenses		**(7,274)**	**(6,817)**
Return on investments			
Investment income	*9*	16,004	15,511
Profit and losses on disposal of investments and changes in market value of investments	*16B*	137,690	(707)
Net return on investments		**153,694**	**14,804**
Net Increase in the fund during the year		**146,420**	**7,987**
Net Assets at start of year		**810,287**	**802,300**
Net Assets at end of year		**956,707**	**810,287**

NET ASSETS STATEMENT

		31 March 2017 £000's	31 March 2016 £000's
Investment Assets	*10*	955,190	808,967
Investment Liabilities	*11*	0	(317)
Total net investments		**955,190**	**808,650**
Current Assets	*12*	2,198	2,073
Current Liabilities	*13*	(681)	(436)
Net assets of the fund available to fund benefits at the end of the reporting period		**956,707**	**810,287**

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 19.

Paul Whaymand
Corporate Director of Finance
27 September 2017

Notes to Pension Fund Accounts

1. DESCRIPTION OF THE FUND

a) General

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

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

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

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

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

Admitted Bodies:

Belrock (new 2016/17)
Braybourne Facilities (new 2016/17)
Churchill
Cucina (new 2016/17)
Greenwich Leisure
Hayward Services (new 2016/17)
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Kingdom Security (new 2016/17)
Mitie Facilities Management
Servest Group Ltd
Taylor Shaw (Caterlink, Caterplus & Genuine Dining)

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
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

Harefield Academy
Haydon Academy
Heathrow Aviation Engineering
LBDS Frays Academy Trust
- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium
Orchard Hill College Academy Trust
- Skills HUB (formerly Hillingdon Tuition Centre)
- Young Peoples Academy (formerly Chantry School)

Park Federation Trust
- Cranford Park Academy
- Lake Farm Park Federation
- Wood End Academy

QED Academy Trust
- Coteford Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust
- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School
Ryefield Primary School
Vyners Academy
Stockley Academy
Swakeleys Academy
Uxbridge Academy
Uxbridge College
Willows Academy

Notes to Pension Fund Accounts

As at 31 March 2017 there were 8,684 active members contributing to the fund, with 6,194 members in receipt of benefit and 7,225 members entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2017	31 March 2016
Number of employers with active members	53	43
Number of employees in scheme		
London Borough of Hillingdon	5,862	5,307
Other employers	2,822	2,960
Total	**8,684**	**8,267**
Number of Pensioners		
London Borough of Hillingdon	5,314	5,461
Other employers	880	783
Total	**6,194**	**6,244**
Deferred Pensioners		
London Borough of Hillingdon	6,279	4,600
Other employers	946	2,058
Total	**7,225**	**6,658**

c) Funding

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

d) Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, GMO Investments (defunded October 2016), JP Morgan Asset Management, Kempen International Investments (defunded June 2016), Legal & General Investment Management (appointed October 2016), LGT Capital Partners, London CIV (Appointed June 2016), Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP (assets transferred to London CIV June 2016), State Street Global Advisors (defunded October 2016) 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 2016/17:

Pensions Committee

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

Pensions Board

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

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 2017.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2017).

Notes to Pension Fund Accounts

3. ACCOUNTING POLICIES

a) Valuation of assets
- Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used.
- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

All assets are disclosed in the financial statements at their fair value.

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

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

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

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

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

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

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

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

j) Cash 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 2017 was £114,851k (£109,712k at 31 March 2016).

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

Notes to Pension Fund Accounts

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 £27,128k. 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 2017. 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 £27,002k. 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 £22,447k. 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 £38,233k. 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.

Notes to Pension Fund Accounts

4. CONTRIBUTIONS

By category	31 March 2017 £000's	31 March 2016 £000's
Employees	9,356	9,382
Employers Contributions:		
Normal	27,134	25,118
Deficit Funding	4,976	4,768
	41,466	**39,268**

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.

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	30,535	29,082
Scheduled Bodies	10,459	9,768
Admitted Bodies	472	418
	41,466	**39,268**

Note: Contributions disclosure notes format is different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated

5. TRANSFERS IN

	31 March 2017 £000's	31 March 2016 £000's
Individual transfers in from other schemes	1,241	2,744

6. BENEFITS

By category	31 March 2017 £000's	31 March 2016 £000's
Pensions	(32,435)	(31,597)
Commutations and Lump Sum Retirement Benefits	(6,236)	(7,598)
Lump Sum Death Benefits	(682)	(581)
	(39,353)	**(39,776)**

By authority	31 March 2017 £000's	31 March 2016 £000's
LB Hillingdon	(37,561)	(38,969)
Scheduled Bodies	(1,443)	(701)
Admitted Bodies	(349)	(106)
	(39,353)	**(39,776)**

Notes to Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2017 £000's	31 March 2016 £000's
Refunds to members leaving service	(81)	(97)
Individual transfers out to other schemes	(2,162)	(2,603)
	(2,243)	**(2,700)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2017 as follows:

	31 March 2017 £000's	31 March 2016 £000's
Administrative Costs	(902)	(570)
Investment Management Expenses*	(6,761)	(5,445)
Oversight and Governance	(722)	(338)
	(8,385)	**(6,353)**

Note: Investment management and Oversight and Governances expenses for 2016 restated due to re-categorisation of £107k custody fees from oversight & governance to Investment management fees

* Further detailed Breakdown of Investment Management Expenses

	31 March 2017 £000's	31 March 2016 £000's
Management Fees	5,359	4,807
Performance Related Fees	917	279
Custody Fees	96	108
Transaction Costs	389	251
	6,761	**5,445**

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management expenses 2016.

8A. OTHER FUND ACCOUNT DISCLOSURES

External Audit Costs

	31 March 2017 £000's	31 March 2016 £000's
Payable in Respect of External Audit	21	21
	21	**21**

9. INVESTMENT INCOME

	31 March 2017 £000's	31 March 2016 £000's
Income from Equities	5,071	5,224
Income from Bonds	37	290
Private Equity Income	4,209	6,147
Pooled Property Investments	4,774	4,458
Pooled Investments- Unit trusts and other managed funds	2,669	666
Interest on cash deposits	63	94
Other (for example from stock lending or underwriting)	(819)	(1,368)
	16,004	**15,511**

Note: Investment income categories are different to that published in 2015/16 and in line with the CIPFA Code changes, the 2015/16 figures have been restated to provide comparative table of figures.

Notes to Pension Fund Accounts

10. INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Investment Assets		
Bonds	0	34,898
Equities	123,992	123,599
Pooled investments	672,256	495,752
Pooled property investments	114,894	106,360
Private equity	27,128	30,082
Other Investment balances		
Cash deposits	16,276	17,296
Investment income due	644	980
Total investment assets	**955,190**	**808,967**
Investment liabilities		
Derivative contracts:		
Forward currency contracts	0	(317)
Total investment liabilities	**0**	**(317)**
Net investment assets	**955,190**	**808,650**

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2016/17	Value 1 April 2016 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2017 £000's
Bonds	34,898	4,704	(40,461)	859	0
Equities	123,599	139,652	(167,581)	28,322	123,992
Pooled Investments	495,752	721,833	(645,615)	100,286	672,256
Pooled Property Investments	106,360	11,904	(4,825)	1,455	114,894
Private Equity	30,082	865	(5,287)	1,468	27,128
	790,691	**878,958**	**(863,769)**	**132,390**	**938,270**
Forward Foreign Exchange	**(317)**	4,367	(3,152)	(898)	0
	790,374	**883,325**	**(866,921)**	**131,492**	**938,270**
Other investment balances					
Cash Deposits	**17,296**			256	16,276
Investment Income Due	**980**				644
Adjustments to Market Value Changes				5,942	
Total Investment Assets	**808,650**			**137,690**	**955,190**

2015/16 Restated	Value 1 April 2015 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2016 £000's
Bonds	64,834	6,087	(37,691)	1,668	34,898
Equities	136,322	25,428	(24,919)	(13,232)	123,599
Pooled Investments	449,990	100,335	(53,162)	(1,411)	495,752
Pooled Property Investments	84,768	15,081	(3,187)	9,698	106,360
Private Equity	35,275	1,201	(4,878)	(1,516)	30,082
	771,189	**148,132**	**(123,837)**	**(4,793)**	**790,691**
Forward Foreign Exchange	(745)	3,519	(1,608)	(1,483)	(317)
	770,444	**151,651**	**(125,445)**	**(6,276)**	790,374
Other investment balances					
Cash Deposits	28,867			**432**	17,296
Investment Income Due	913				980
Adjustments to Market Value Changes	745			**5,137**	0
Total Investment Assets	**800,969**			**(707)**	**808,650**

Purchases and sales of derivatives are recognised in Note 14A above as follows: Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated.

Notes to Pension Fund Accounts

10B. ANALYSIS OF INVESTMENTS

	31 March 2017 £000's	31 March 2016 £000's
Bonds		
UK		
Public sector quoted	0	18,026
Overseas		
Public sector quoted	0	16,872
	0	**34,898**
Equities		
UK		
Quoted	123,992	98,337
Overseas		
Quoted	0	25,262
	123,992	**123,599**
Pooled funds - additional analysis		
UK		
Fixed income unit trust	54,622	36,603
Unit trusts	242,454	45,134
Unitised insurance policies	287,498	179,997
Limited liability partnerships	87,682	79,590
Overseas		
Unit trusts	0	154,378
	672,256	**495,702**
Pooled property Investments	114,894	106,369
Private equity	27,128	30,123
Cash deposits	16,276	17,296
Investment income due	644	980
	158,942	**154,768**
Total investment assets	**955,190**	**808,967**
Investment liabilities		
Derivatives	0	(317)
Total investment liabilities	0	(317)
Net investment assets	**955,190**	**808,650**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2017 £000's	%	Market Value 31 March 2016 £000's	%
Adams Street Partners	17,532	2	19,195	2
AEW UK	47,565	5	36,094	4
GMO	0	0	62,041	8
JP Morgan Asset Management	54,622	6	36,603	5
Kempen International Investments	0	0	87,317	11
Legal & General Investment Management	287,498	30	0	0
LGT Capital Partners	9,596	1	10,887	1
London CIV - Ruffer	104,440	11	0	0
M&G Investments	22,447	2	39,150	5
Macquarie Infrastructure	27,002	3	19,805	2
Newton Asset Management	137,948	14	30,395	4
Permira Credit Solutions	38,233	4	20,634	3
Ruffer LLP	0	0	92,546	11
State Street Global Advisors	0	0	179,997	22
UBS Global Asset Management (Equities)	130,119	14	97,271	12
UBS Global Asset Management (Property)	68,499	7	71,112	9
Other*	9,689	1	5,603	1
Total	**955,190**	**100**	**808,650**	**100**

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

Notes to Pension Fund Accounts

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 £21,444K (31 March 2016: £17,138K). 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 £23,412K (31 March 2016: £18,492k) representing 109% 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. INVESTMENT LIABILITIES

	31 March 2017 £000's	31 March 2016 £000's
Forward foreign exchange unrealised loss	0	(317)
	0	**(317)**

12. CURRENT ASSETS

Analysis of debtors	31 March 2017 £000's	31 March 2016 £000's
Employers' contributions due	68	364
Employees' contributions due	19	100
Debtor: Other local authorities (LB Hillingdon)	0	30
Cash balances	2,111	1,579
	2,198	**2,073**

13. CURRENT LIABILITIES

Analysis of creditors	31 March 2017 £000's	31 March 2016 £000's
Creditor: Other local authorities (LB Hillingdon)	(227)	0
Other entities	(454)	(436)
	(681)	**(436)**

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

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2017 £000's	Market Value 31 March 2016 £000's
Prudential	5,975	5,937
	5,975	**5,937**

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, £220k 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.

15. 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.

Notes to Pension Fund 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 2017. 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 17 (other price risks).

	Valuation range (+/-)	Market Value 31 March 2017 £000's	Value on Increase £000's	Value on Decrease £000's
Pooled investments - Limited Liability Partnerships (Infrastructure)	10%	27,002	29,702	24,302
Pooled investments - Limited Liability Partnerships (Private Credit)	10%	60,680	66,748	54,612
Private equity & venture Capital	5%	27,128	28,484	25,772
Ventuire Capital	5%	41	43	39
Total		**114,851**	**124,978**	**104,724**

15A: 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.

Notes to Pension Fund Accounts

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 2017	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial Assets at Fair Value through Profit and Loss	124,016	699,403	114,851	938,270
Loans and Receivables	16,920	0	0	16,920
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net investment Assets	**140,936**	**699,403**	**114,851**	**955,190**

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Financial Assets at Fair Value through Profit and Loss	158,519	522,460	109,712	790,691
Loans and Receivables	18,276	0	0	18,276
Financial Liabilities at Fair Value through Profit and Loss	(317)	0	0	(317)
Net investment Assets	**176,478**	**522,460**	**109,712**	**808,650**

15B. RESTATEMENT OF VALUATION HIERARCHIES

The following managers' assets for 2015-16 have been re-categorised from level 1 to level 2: Newton Asset Management- £30,396k, Kempen International- £87,317k, State Street Asset Management- £179,997k, GMO Investments- £62,041k and JP Morgan Asset Management- £36,603k.

15C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2016	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2017
	£000's	£000's	£000's	£000's	£000's	£000's
Private Equity - Adams Street Partners , LGT Capital Partners & UBS	30,082	865	(5,287)	624	844	27,128
Private Finance - M&G	39,150	0	(23,266)	1,225	5,338	22,447
Infrastructure - Maquarie	19,805	5,276	(1,659)	3,350	230	27,002
Venture Capital - UBS	41	0	0	0	0	41
Direct Lending - Permira	20,634	17,279	(126)	320	126	38,233
	109,712	**23,420**	**(30,338)**	**5,519**	**6,538**	**114,851**
Other investment balances	0				0	0
Total Investment Assets	**109,712**				**6,538**	**114,851**

There were no transfers in or out of level 3 assets in 2016/17

Notes to Pension Fund Accounts

15D. 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 cashflows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

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

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

Description of Valuation Process

Private Equity

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

Notes to Pension Fund Accounts

Private Finance: M&G

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

Direct Lending: Permira

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

Third party evidence to support pricing (such as 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 cashflow (DCF) analysis.

DCF-Based Market Valuation Process
Financial Model

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

Update for Economic, Operational and Financial Assumptions

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

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

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

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put 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

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.

16. FINANCIAL INSTRUMENTS

16A: 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.

				Restated		
	Designated as fair value through P&L	**Loans & receivables**	**Total**	**Designated as fair value through P&L**	**Loans & receivables**	**Total**
	31 March 2017 £000's	**31 March 2017 £000's**	**31 March 2017 £000's**	**31 March 2016 £000's**	**31 March 2016 £000's**	**31 March 2016 £000's**
Financial Assets						
Bonds	0	0	0	34,898	0	34,898
Equities	123,992	0	123,992	123,599	0	123,599
Pooled Investments	672,256	0	672,256	495,702	0	495,702
Pooled property investments	114,894	0	114,894	106,369	0	106,369
Private Equity	27,128	0	27,128	30,123	0	30,123
Cash	0	16,276	16,276	0	17,296	17,296
Other Investment balances	0	644	644	0	980	980
	938,270	**16,920**	**955,190**	**790,691**	**18,276**	**808,967**
Financial Liabilities						
Derivative Contracts	0	0	0	(317)	0	(317)
	0	**0**	**0**	**(317)**	**0**	**(317)**
Total	**938,270**	**16,920**	**955,190**	**790,374**	**18,276**	**808,650**

Note: Investment assets categories disclosures are different to that published in 2015/16 and in line with the CIPFA Code, the 2015/16 figures have been restated to provide comparative table of figures.

Notes to Pension Fund Accounts

16B. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2017 £000's	31 March 2016 £000's
Financial Assets		
Designated at Fair Value through profit and loss	137,690	(390)
Financial Liabilities		
Fair Value through profit and loss	0	(317)
	137,690	**(707)**

17. 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 movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential market movements (+/-)
UK bonds	5.20%
Overseas bonds	5.20%
UK equities	9.60%
Overseas equities	8.70%
Pooled property investments	3.40%
Other pooled investments	9.60%
Derivatives	0.00%
Private equity	6.20%

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.

Notes to Pension Fund Accounts

Had the market price of the fund investments increased/decreased in line with the above, 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 2017 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
UK bonds	0	5.20%	0	0
Overseas bonds	0	5.20%	0	0
UK equities	123,992	9.60%	135,895	112,089
Overseas equities	0	8.70%	0	0
Pooled property investments	114,894	3.40%	118,800	110,988
Other pooled investments	672,256	9.60%	736,793	607,719
Derivatives	0	0.00%	0	0
Private equity	27,128	6.20%	28,810	25,446
Total	**938,270**		**1,020,297**	**856,243**

	Restated			
Asset type	**Value as at 31 March 2016 £000's**	**Percentage Change %**	**Value on Increase £000's**	**Value on Decrease £000's**
UK bonds	18,026	4.57%	18,850	17,202
Overseas bonds	16,871	4.57%	17,642	16,100
UK equities	98,337	10.56%	108,721	87,953
Overseas equities	25,262	8.01%	27,285	23,239
Pooled property investments	106,369	3.00%	109,560	103,178
Other pooled investments	495,703	10.56%	548,049	443,357
Derivatives	0	0.00%	0	0
Private equity	30,123	4.86%	31,587	28,659
Total	**790,691**		**861,695**	**719,687**

Note: Investment assets categories are different to that published in 2015/16 in line with the CIPFA Code, as a result the 2015/16 figures have been restated to provide comparative table of figures.

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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 2017 £000's	31 March 2016 £000's
Cash balances	16,276	17,296
Bonds - segregated portfolio	0	72,526
Bonds - pooled funds	148,817	112,128
Total	**165,093**	**201,950**

Notes to Pension Fund Accounts

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 2017	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	16,276	163	16,439	16,113
Bonds - pooled funds	148,817	1,488	150,305	147,329
Total change in assets available	**165,093**	**1,651**	**166,744**	**163,442**

	Value as at 31 March 2016	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to income rate risks	**£000's**	**£000's**	**£000's**	**£000's**
Cash balances	17,296	173	17,469	17,123
Bonds - segregated portfolio	72,526	725	73,251	71,801
Bonds - pooled funds	112,128	1,121	113,249	111,007
Total change in assets available	**201,950**	**2,020**	**203,970**	**199,931**

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 2017 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 2017 and as at the previous period ending 31 March 2016.

Currency exposure by asset type

	Asset Value 31 March 2017	Asset Value 31 March 2016
	£000's	**£000's**
Overseas Quoted Securities	0	25,262
Overseas Index-Linked Bonds	0	16,871
Overseas Managed Funds	106,344	149,059
Private Equity/Infrastructure	54,130	49,928
	160,474	**241,120**

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 7.90%, based on the data provided by PIRC. A 7.90% 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. A 7.90% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Notes to Pension Fund Accounts

Assets exposed to currency risk	Asset Value 31 March 2017	Potential market movement	Value on increase	Value on decrease
		7.90%		
	£000's		£000's	£000's
Overseas Managed Funds	106,344	8,401	114,745	97,943
Private Equity/Infrastructure	54,130	4,276	58,406	49,854
	160,474	**12,677**	**173,151**	**147,797**

Assets exposed to currency risk	Asset Value 31 March 2016	Potential market movement	Value on increase	Value on decrease
		6.08%		
	£000's	£000's	£000's	£000's
Overseas Quoted Securities	25,262	1,536	26,798	23,726
Overseas Index-Linked Bonds	16,871	1,026	17,897	15,845
Overseas Managed Funds	149,059	9,063	158,122	139,996
Private Equity/Infrastructure	49,928	3,036	52,964	46,892
	241,120	**14,660**	**255,780**	**226,460**

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 BBB+. 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 2017 was £2,111k (31 March 2016: £1,579k) and this was held with the following institutions.

Summary	Rating S&P	Balances as at 31 March 2017 £000's	Rating S&P	Balances as at 31 March 2016 £000's
Money market funds				
Northern Trust Global Sterling Fund A	AAAf S1+	200	AAAf	100
Bank current accounts				
Lloyds	A	1,911	A	402
NatWest (Capita)		0	BBB+	1,077
Total		**2,111**		**1,579**

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 and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,111k). 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 2017 these assets totalled £708,503k, with a further £16,276k 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.

Notes to Pension Fund Accounts

18. 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 201 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 2013, 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 cashflows. 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.

Notes to Pension Fund Accounts

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 last 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

19. 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 2017 % per annum	31 March 2016 % per annum
Inflation /Pensions Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	3.2%
Discount Rate	2.5%	3.5%

An IAS 26 valuation was carried out for the fund as at 31 March 2017 by Hymans Robertson with the following results:

Description	31 March 2017 £000's	31 March 2016 £000's
Present Value of Promised Retirement Benefits	1,522,000	1,225,000
Assets	956,707	810,287
Deficit	565,293	414,713

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

Notes to Pension Fund Accounts

20. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note 4 to the Pension Fund accounts.

No senior officer or Pension Committee member had any interest with any related parties to the pension fund.

Governance

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

Key Management Personnel

Three employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, Deputy Director - Strategic Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2017 £000's	31 March 2016 £000's
Short term benefits	69	61
Post employment benefits	31	105
	100	**166**

This note highlights the funding by the pension fund for key officers and pension benefits of those staff accrued in year.

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 web site: www.hillingdon.gov.uk and included in the Annual Report.

21. BULK TRANSFER

There were no bulk transfers into or out of the fund during the 2016/17 financial year.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2017 totalled £46,472k (£31,122k at 31 March 2016).
These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

23. CONTINGENT ASSETS

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

24. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

POLICY STATEMENTS

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

Investment Strategy Statement

From 1 April 2017, the Fund is required to publish an Investment Strategy Statement (ISS), which replaces the requirement for a Statement of Investment Principles. The ISS will be kept under review and will be updated whenever there is a change in Fund Manager or mandate. The current ISS is available at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2017 following the 2016 valuation. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund.

Communication Strategy

The London Borough of Hillingdon Pension Fund's Communication Strategy was fully revised in 2016/17 and agreed at Pensions Committee in June 2017, and came into effect from 1 July 2017. It can be accessed at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund . The local Pension Board has undertaken an in depth review of governance strategy and an updated document will be taken to Pensions Committee for approval in September 2017.

Risk Management Policy

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

Administration strategy

During 2016 it was agreed by Committee that best practice was to have an Administration Strategy and this was agreed in September 2016. 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.

The strategy is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund

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. Eg £5 received from a £100 debenture is the coupon.

Creditors
Amounts owed by the pension fund.

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

Debtors
Amounts owed to the pension fund.

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

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

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

Dividend

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

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

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

Equity
Stock or any other security representing an ownership interest.

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

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

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

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

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

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

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

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

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

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

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

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

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

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

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

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is 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 which is not traded on an **exchange**

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

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